



## **Effect of Transformational Leadership on Organisational Performance of Top 100 SMEs in Nairobi, Kenya**

**Joseph N. Gachira & Dr. Caroline Ntara**

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# Effect of Transformational Leadership on Organisational Performance of Top 100 SMEs in Nairobi, Kenya

<sup>1</sup>\*Joseph N. Gachira & <sup>2</sup>Dr. Caroline Ntara

<sup>1</sup>Postgraduate student, KCA University, Kenya

<sup>2</sup>Lecturer, KCA University, Kenya

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## Abstract

The study examined the impact of transformational leadership on the performance of SMEs in Nairobi. It explored four characteristics of transformational leadership: idealized influence, inspirational motivation, intellectual stimulation, and individualized consideration. Grounded in various Transformational Leadership Theory, the research used a descriptive survey design, focusing on ten SMEs, selected as category winners in the KPMG top 100 SMEs in Kenya for 2022. Data was collected through structured questionnaires, both online and with research assistants, and analysed using SPSS version 20.0, employing descriptive and inferential statistics. The results showed a positive relationship between these leadership traits and SME performance. Intellectual stimulation, idealized influence, and inspirational motivation significantly impacted performance, emphasizing the importance of innovation, role modelling, trust, and team inspiration. Individualized consideration also enhanced performance by addressing employee needs. The study highlighted the crucial role of transformational leadership in improving SME performance in Nairobi, recommending promotion of intellectual stimulation, ethical behavior, clear vision communication, and personalized support to boost organizational success.

**Keywords:** *Transformational Leadership, Idealized Influence, Inspirational Motivation, Intellectual Stimulation, Individualized Consideration, Organisational Performance, SMEs*

## 1. Background of the Study

SMEs are very important for the economic growth. They help create jobs, drive innovation, and decrease poverty. According to Gamba and Komo (2014), a country's economic growth depends on how well small and medium-sized enterprises (SMEs) to generate new employment opportunities, maximize profits, leverage the diverse skills of entrepreneurs, enhance their bargaining power, improve financial accessibility, foster social capital, encourage investment, facilitate market access, and contribute to poverty eradication. The development of SMEs is a crucial goal, as they play a pivotal role in fostering job creation and driving economic growth.

Transformational leadership is a way of leading where the leaders encourage and motivate their followers to do really well. These leaders encourage individuals to grow personally, promote a common goal, and demonstrate charming and motivational actions. Transformational leadership is when a leader changes and improves a company by creating a new vision, which causes the organization's culture to grow and develop. Researchers like Bass and Bass (2008) and Thorpe et al. suggested that in today's business world, it is important for leaders to be able to effectively lead their teams. This means that leaders should have a good understanding of the challenges they face and be able to meet the needs of their employees in order to motivate them to achieve the company's goals. Research in this field has consistently emphasized the significance of effective leadership. For instance, Saleh et al. (2018) asserted that strong leadership at the top management level is a dominant practice that facilitates high organizational performance.

In the study of management and organizational dynamics, the concept of transformational leadership has received a great deal of attention. In 1978, James MacGregor Burns presented it, and in the 1980s, Bernard Bass refined it. Leaders with this manner excite and inspire their teams to do extraordinary things (Bass & Riggio, 2006). Transformative leadership is characterized by four unique characteristics: idealized influence, inspiring motivation, intellectual stimulation, and personalized concern (Bass & Riggio, 2006). Follower behavior and output may be profoundly altered by leaders' attention to each of these factors.

Organizational performance is the analysis of the organization as compared to its goals and objectives. It is the outcomes achieved in meeting internal and external goals of the organization. Agarwal, Goyal, and Singh (2021) defined organizational performance as the ability of a firm to generate profits, sustain competitive advantage, and deliver value to stakeholders. Customer satisfaction, staff morale, and market share were all cited as examples of non-financial indicators that should be taken into account alongside financial ones when evaluating an organization's success. Alam (2011) argues that effectiveness in the workplace depends on four interrelated factors. Customer happiness and product effectiveness come first among these customer-centric measures of success. Second, market and financial metrics include sales, profit, market share, cash-to-cash cycle time, and earnings per share. Employee happiness and the effectiveness of human resources come in at number three. Time to market, innovation, and the ability to adapt both production and the supply chain are all components of organizational performance. There are three extremely original stages in performance management: quality planning, performance evaluation, and enhanced performance.

Small and medium-sized businesses in Kenya are very important for the country's economy to grow and improve. Small and medium-sized businesses in Kenya are companies that have between 10 and 99 employees. This includes both official and unofficial businesses (Kippra, 2018). The Public Finance Management Bill (2019) suggests that a medium-sized enterprise is a company with a workforce of 51 to 250 people and earns less than Sh100 million in revenue. SMEs in Kenya are considered the backbone of the economy, contributing significantly to employment generation, innovation, poverty reduction, and overall economic prosperity (World Bank, 2019). Small and Medium-sized Enterprises play a big role in providing jobs in Kenya. They have around 14.9 million workers, about 83% of all employees in the country. Small and medium-sized enterprises play an important role in boosting Kenya's overall economy. They make up about 28% to 35% of the country's total money made in a year (KNBS, 2016).

## 1.1 Statement of the problem

SMEs in Nairobi, Kenya, operate within a dynamic and highly competitive business environment, characterized by resource constraints, market complexities, and rapid technological advancements. Considering these unique characteristics, it is crucial to investigate how transformational leadership behaviors manifest and influence organizational performance within the specific context of Nairobi's SME sector (Makanya et al., 2021). Despite the significant role that SMEs play in Kenya's economic landscape, contributing about 40% to the country's GDP and employing approximately 75% of the workforce, many still face challenges that inhibit their growth and long-term sustainability. One key area of concern is organizational performance, which is crucial for the survival and success of SMEs in the highly competitive business environment (Nyaga et al., 2023). Yet, there is a limited understanding of how transformational leadership specifically impacts the top 100 SMEs in Nairobi, which are considered the *crème de la crème* of small and medium-sized enterprises in the region (Okello et al. 2022). The problem, therefore, lies in the gap between the potential benefits of transformational leadership and the actual implementation and results in these top-performing SMEs. This lack of knowledge hinders the adoption of effective leadership practices, affecting not just the businesses themselves but also the broader economic development goals of the region.

Research has consistently highlighted the importance of strong leadership in determining the success of businesses, especially small and medium-sized enterprises. Good leadership is essential for the growth and development of these organizations (Madanchian et al., 2016; Al Khajeh, 2018; Bhargavi & Yaseen, 2016). However, despite its acknowledged significance, there is a gap in understanding how transformational leadership impacts SMEs in Nairobi, Kenya, a region facing unique challenges like limited access to capital and bureaucratic hindrances (KNBS, 2016; KUB, 2021). Studies like those by Okello et al. (2022) and Nyaga et al. (2023) call for empirical research to explore the relationship between transformational leadership and organizational performance in SMEs, specifically in developing economies like Kenya.

This study aimed to fill this knowledge gap by examining the effect of transformational leadership on the organizational performance of SMEs in Nairobi. Most SME founders in this region lack formal education in management or leadership and are further burdened by challenges amplified by events like the COVID-19 pandemic (Amankwah-Amoah et al., 2020; Kasi Insights, 2021; Sawaeana & Alib, 2020). Investigating how transformational leadership influences these businesses could provide valuable insights into improving their resilience and performance. By focusing on the unique context of Nairobi, this study sought to contribute to both academic discourse and practical applications, helping SMEs navigate the complexities of their environment more effectively.

## 1.2 Research Objectives

The primary purpose of this research was to examine how transformational leadership affects the organizational performance of small and medium-sized enterprises in Nairobi, Kenya.

The specific objectives was:

- i) To find out how Intellectual Stimulation from top management influences organizational performance of top 100 SMEs in Nairobi, Kenya.

- ii) To establish how the leaders' Idealized influence affects the performance of the top 100 SMEs in Nairobi, Kenya.
- iii) To determine how a leader's Inspirational motivation affects the organizational performance of the top 100 SMEs in Nairobi, Kenya.
- iv) To find out how leaders' Individualized attention affects the organizational performance of top 100 SMEs in Nairobi, Kenya.

### 1.3 Research Hypotheses

The study tested the following hypothesis:

**H<sub>01</sub>:**The leader's intellectual stimulation has no significant effect on the organizational performance of the top 100 SMEs in Nairobi Kenya.

**H<sub>02</sub>:**The leader's idealized influence has no significant effect on the organizational performance of the top 100 SMEs in Nairobi Kenya.

**H<sub>03</sub>:**The leader's inspirational motivation has no significant effect on the organizational performance of the top 100 SMEs in Nairobi Kenya.

**H<sub>04</sub>:**The leader's individualized consideration has no significant effect on the organizational performance of the top 100 SMEs in Nairobi Kenya.

## 2. Literature Review

### 2.2 Theoretical Review: Transformational Leadership Theory

In the fields of organizational behavior and management, transformational leadership has received a great deal of attention. In 1978, James MacGregor Burns presented it, and in the 1980s, Bernard Bass refined it. The capacity to inspire and encourage followers to accomplish remarkable achievements is central to the philosophy of transformational leadership (Bass, 1985; Bass & Riggio, 2006). Leaders that display visionary leadership have the capacity to convince and inspire their followers to modify their expectations and viewpoints, so encouraging them to work together to achieve a common goal. Bass (1985) conducted research that built upon Burns' initial work, resulting in what is now known as the Bass Transformational Leadership theory. Bass emphasized that transformational leaders are essentially change leaders who draw heavily from well-known change models to effectively manage transformation within their organizations. According to Bass, leaders who use transformational leadership gain the trust, respect, and admiration of their followers by focusing on four important things: acting as a good role model, inspiring and motivating others, challenging and stimulating their thinking, and showing care and support for each individual.

The influence of transformational leadership goes beyond the immediate metrics of employee performance and organizational profitability; it has long-term implications that can shape the future trajectory of SMEs. Recent research, such as a study by Kim et al. (2023), suggested that transformational leadership minimizes the impact of uncertainty on employee output. This is crucial for SMEs in Nairobi, given the unstable economic conditions and various external challenges such as political instability or global market trends that they often have to navigate. When led by a transformational leader, these enterprises are better positioned to not just weather these challenges but to turn them into opportunities for growth and innovation. The fostering of an environment where employees are encouraged to think creatively can lead to breakthrough

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solutions that offer a competitive edge. In this sense, transformational leadership is not just a leadership style but a strategic asset for SMEs, helping them secure a sustainable and prosperous future.

## **2.3 Empirical Literature Review**

### **2.3.1 Idealized Influence and Organizational Performance**

Ogola, Sikalieh, and Linge (2017) define idealized influence as the capacity to instill trust and admiration in one's leadership among followers, laying the groundwork for widespread adoption of reforms. Research on the link between transformational leadership's idealistic impact and organizational success has been conducted. These analyses provide insight into the effects of idealistic influence on the efficiency of organizations, particularly SMEs. Research on the correlation between idealistic influence and business success has yielded some interesting findings and different viewpoints.

On one hand, Ogola, Sikalieh, and Linge (2017) emphasize that transformational leaders with idealized influence are honored, trusted, and admired by their followers. They serve as role models, exhibit high ethical behavior, and focus on achieving the organization's objectives through their associates' potential. This perspective suggests that idealized influence positively impacts organizational performance by inspiring followers and building confidence in the leader. Similarly, Satyendra (2020) and Li et al. (2021) argue that transformational leaders with idealized influence empower their followers, align their needs with organizational goals, and encourage elevated levels of performance. These scholars contend that such leaders can positively impact overall performance, including in SMEs.

However, there are also divergent opinions in the literature. Zhang et al. (2022) found a positive association between idealized influence and employee performance in SMEs. They argue that leaders who inspire and motivate employees through idealized influence enhance individual and organizational performance. In contrast, Gadirajurrett et al. (2018) focus on mutual trust between leaders and associates as a key factor in team performance. While they acknowledge the importance of trust, they do not explicitly highlight idealized influence as a determining factor.

Furthermore, Kagendo (2018) and Sayyadi (2020) emphasize the importance of inclusive decision-making processes, relationship-oriented leadership, and fostering a sense of consultation for better team and organizational performance. While these perspectives align with aspects of transformational leadership, they do not explicitly discuss idealized influence as the central factor in shaping performance.

### **2.3.2 Inspirational Motivation and Organizational Performance**

Inspirational motivation refers to the leader's ability to inspire and motivate followers to achieve high levels of performance by setting a compelling vision and challenging goals. Nugroho et al. (2020), Cemil et al. (2021), and Satyendra (2020) emphasize the positive impact of inspirational motivation on employee commitment, organizational citizenship behavior, and workplace satisfaction. They argue that transformational leaders who set a compelling vision, offer training and support, and involve employees in decision-making inspire and motivate employees to achieve high levels of performance. These perspectives suggest that inspirational motivation is a critical factor in driving organizational performance.

Similarly, Onditi et al. (2021), Kamau et al. (2020), and Muriuki et al. (2019) found positive correlations between inspirational motivation and various performance indicators in SMEs. These studies highlight the role of inspirational motivation in creating a sense of purpose, commitment, and engagement among employees, leading to improved organizational performance. However, there are divergent opinions in the literature. Muchiri (2018) emphasizes the importance of a widely shared vision in driving organizational excellence and success. This viewpoint suggests that organizational performance relies more on a common sense of direction rather than solely on inspirational motivation. Moreover, Mwititi and Muli (2020) and Gunawan (2020) argue that transformational leaders who effectively communicate a compelling vision and balance the needs of their associates can enhance organizational performance. These perspectives highlight the importance of aligning the leader's vision with the aspirations and interests of the employees.

### **2.3.3 Intellectual Stimulation and Organizational Performance**

Intellectual stimulation involves challenging followers to think critically, question assumptions, and generate new ideas and solutions. Transformational leaders are known to share knowledge, hype novel ideas and encourage employees to think outside the box (Michigan State University, 2022). On one hand, Scott and Peter (2009), Omamo and Awuor (2018), and Magasi (2021) emphasize the positive impact of intellectual stimulation on critical thinking, problem-solving capabilities, innovation, and knowledge sharing within organizations. They argue that transformational leaders who promote intellectual stimulation challenge assumptions, encourage independent thinking, and empower employees to generate new ideas and solutions. These perspectives suggest that intellectual stimulation is a key factor in fostering a culture of learning, innovation, and organizational performance.

Similarly, Youssef-Morgan and Luthans (2019), Lim et al. (2020), and Wang et al. (2021) highlight the role of intellectual stimulation in enhancing employee engagement, job performance, innovation capabilities, and continuous improvement. They argue that transformational leaders who engage in intellectual stimulation activities, such as encouraging creativity, critical thinking, and problem-solving, tend to have more engaged and high-performing teams. These perspectives support the notion that intellectual stimulation positively influences organizational performance, especially in SMEs.

However, there are divergent opinions in the literature. Towler (2019) emphasizes the delegation of decision-making authority as a part of intellectual stimulation. This perspective suggests that empowering employees and fostering independent thinking through delegation can enhance organizational performance. Furthermore, Kagendo (2018) and Muchiri (2018) highlight the relationship between intellectual stimulation, employee performance, and achievement of organizational goals. They argue that when leaders encourage creativity, innovation, and provide growth opportunities, they practice intellectual stimulation, which leads to improved employee performance and organizational outcomes.

### **2.3.4 Individualized Consideration and Organizational Performance**

Individualized Consideration refers to the degree to which a leader recognizes and addresses the unique needs of each follower, taking on the role of a mentor, coach, or guide. Such leaders actively listen to the concerns and requirements of each individual, offering support and showing empathy towards their specific situations and backgrounds. Ray (2020) defines Individual Consideration as the provision of sincere attention to individual team member's emotional state of mind, needs and concerns. A leader who practices individualized consideration looks at

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employees' individuality. Leaders link priorities of every follower with the development of the organization. When people know they are valued, this raises their self-esteem.

McShane and Glinow (2018), Awori (2018), and Zakaria et al. (2017) emphasize the positive impact of individualized consideration on employee performance. They argue that leaders who provide personalized attention, coaching, and mentoring to address the unique needs of employees foster a climate of trust, motivation, and open communication. These perspectives suggest that individualized consideration positively influences employee job performance and contributes to organizational growth.

Similarly, Basnet and Dahal (2021), Singh and Jain (2021), and Rahman et al. (2020) highlight the role of individualized consideration in enhancing organizational performance. They argue that leaders who pay attention to the individual needs and aspirations of employees create a supportive environment that promotes commitment, satisfaction, and high-performance outcomes. These perspectives support the notion that individualized consideration positively impacts both employee and organizational performance.

However, there are divergent opinions in the literature. Kirui (2017) suggests that individualized consideration is most effective when combined with monetary rewards, training, and mentoring initiatives. This viewpoint emphasizes the importance of providing financial incentives and skill development opportunities alongside individualized consideration to enhance employee motivation and performance. Furthermore, Cemil et al. (2021) highlight the role of genuine concern and understanding of employees' work-related challenges and needs in individualized consideration. They argue that transformational leaders who actively seek to understand and address the unique needs of their employees can enhance performance through tailored training and learning opportunities.

## 2.4 Research Gaps in Literature

While there is a growing body of literature exploring the relationship between transformational leadership and organizational performance, there is a noticeable research gap specific to the context of SMEs in Nairobi, Kenya. Limited empirical studies have investigated the direct impact of transformational leadership on the performance of SMEs in this region. Thus, the present study aims to address this research gap by examining the effect of transformational leadership on organizational performance within the specific context of SMEs in Nairobi, Kenya.

Njeri and Ongori (2020) highlighted the importance of studying leadership in SMEs in Kenya and called for more empirical investigations to uncover the relationship between leadership styles and organizational performance. Similarly, Muriithi and Njihia (2021) stressed the need for studies examining the influence of transformational leadership on SMEs' performance outcomes in developing country contexts. Recent studies have primarily focused on transformational leadership in various organizational settings, such as multinational corporations or large-scale enterprises (Bass, 2018; Lowe et al., 2017). Although these studies provide valuable insights into the general relationship between transformational leadership and organizational performance, they may not fully capture the unique dynamics and challenges faced by SMEs in Nairobi, Kenya.



## 2.5 Conceptual Framework

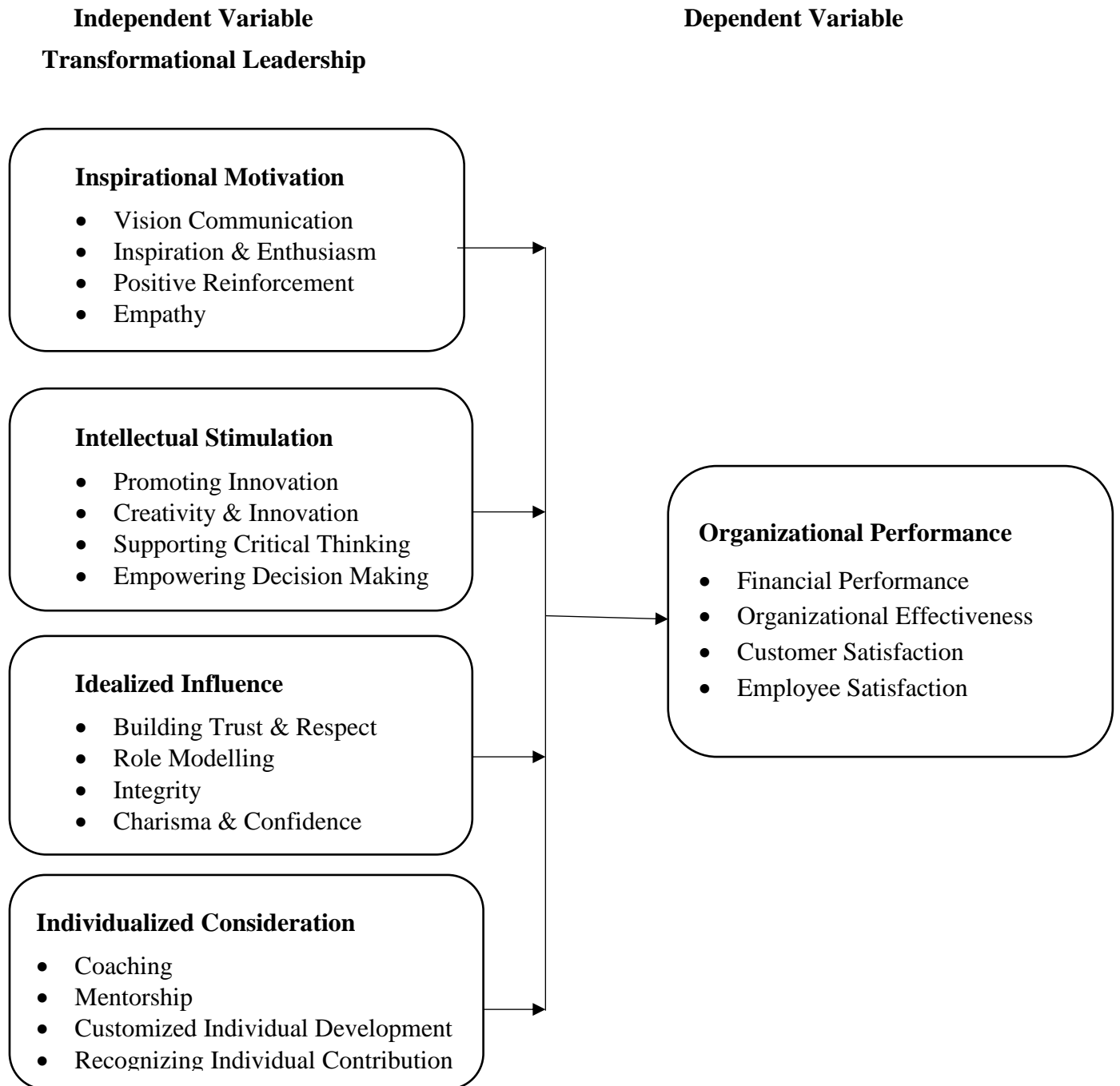


Figure 1: Conceptual Framework

## 3. Research Methodology

### 3.1 Research Design

The study adopted a descriptive research design that describes and analyzes information at a specific point in time. This type of research focuses on collecting numerical data. Quantitative research is when we study objective ideas by seeing how different things are related to each other

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(Creswell, 2018). This research design comprises of numerical relations of variables. Methods such as experiments and surveys are used to measure these variables which enables data to be analyzed using 42 statistical processes as posited by (Creswell & Creswell, 2020).

### 3.2 Target Population

The study targeted a population of 91 Managers and Senior staff (HODs) who report to the CEOs, drawn from Top 100 SMEs in Nairobi. The ranking was by the KPMG & Business Daily Top 100 SMEs in Kenya list in the 2022 financial year (KPMG & Business Daily, 2022).

**Table 1: Target Population**

Job Role	Population Size	Population %
Managers / HODs	91	100%
<b>TOTAL</b>	<b>91</b>	<b>100%</b>

#### Source: SME HR Databases & Websites

The study adopted a 95 percent confidence level to figure out how many responses are needed for our sample. A formula from Miller and Brewer (2021) was used to calculate this number.

**Table 2: Sample Size**

Job Role	Population Size	Sample Ratio (n/91)	Sample Size
Managers / HODs	91	0.813	74
<b>TOTAL</b>	<b>91</b>		<b>74</b>

The study's sample size therefore was 74 Managers and HODs from 10 SMEs in Nairobi, which were listed as overall category winners in the IFC, KPMG and Business daily Top 100 SMEs list in the FY 2022.

### 3.3 Research Instrument and Data Collection

Primary data was collected for this research using structured questionnaires. Mugenda and Mugenda advocate the utilization of questionnaires as a cost-effective means for researchers to gather data from a wide geographical area. The questionnaire is included as an addendum in Appendix 1. The basic data for this study was collected using a set of questions derived from the Multifactor Leadership Questionnaire (MLQ Form 5X) developed by Bass and Avolio (1995). The MLQ Form 5X is designed to assess the behavioral aspects of individualized consideration, intellectual stimulation, inspirational motivation, and idealized influence.

### 3.4 Data Analysis and Presentation

According to Kothari (2012), data analysis is a process of summarizing and organizing collected data to answer research questions. It involves several closely related operations. We used a survey to collect data, and then analyze it using a statistical tool called SPSS. The analysis involved looking at percentages, averages, variation, and frequencies of the data. Descriptive analysis, through the process of rearranging, sorting, and manipulating data, endeavors to transform raw data into comprehensible and interpretable information, thereby catering to a broader spectrum of individuals. The study employed regression analysis, analysis of variance (ANOVA), and

correlation analysis as the primary statistical methodologies to derive significant insights from the amassed data. The study employed a regression model to figure out how transformational leadership affects organizational performance. This method helped us understand how the dependent and independent variables are connected in the current study.

The regression equation that was used is:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3+ \beta_4X_4+ \varepsilon$$

Where;

Y = Organizational Performance

X<sub>1</sub> = Idealized Influence; X<sub>2</sub> = Inspirational Motivation; X<sub>3</sub> = Intellectual Stimulation; X<sub>4</sub> = Individualized Consideration; β<sub>0</sub>= Constant Term; β<sub>1</sub>, β<sub>2</sub>, β<sub>3</sub>, β<sub>4</sub>= Beta coefficients; ε = Error Term.

## 4. Results and Discussion

### 4.1 Response Rate

The research distributed a total of 74 questionnaires to managers and senior staff members of small and medium-sized enterprises (SMEs), with 68 of these questions being successfully completed. The response rate was 91.9%.

### 4.2 Correlation Analysis

A correlation study was performed to ascertain the relationship between the independent and dependent variables. Table 3 displays the correlation matrix.

**Table 3: Correlation Matrix**

	Organizational Performance	Intellectual Stimulation	Idealized Influence	Inspirational Motivation	Individualized Consideration
Organizational Performance	1.000				
Intellectual Stimulation	.706** 0.000	1.000			
Idealized Influence	.783** 0.000	.489** 0.000	1.000		
Inspirational Motivation	.709** 0.000	.328** 0.000	.493** 0.000	1.000	
Individualized Consideration	.890** 0.000	.513** 0.000	.476** 0.000	.404** 0.000	1.000

**Source: Researcher, 2023**

These correlations highlight the extent to which different aspects of transformational leadership are associated with organizational performance. Firstly, there is a strong positive correlation between intellectual stimulation and organizational performance (r = 0.706, p < 0.001). This

indicates that when leaders encourage creative thinking, problem-solving, and innovation among their teams, it tends to have a favorable impact on the overall performance of the organization. Similarly, there is a strong positive correlation between idealized influence and Organizational Performance ( $r = 0.783, p < 0.001$ ). This suggests that when leaders set a positive example, demonstrate strong ethics, and foster a sense of trust and admiration among their employees, it contributes significantly to the organization's overall performance.

Furthermore, there is a noteworthy positive correlation between inspirational motivation and organizational performance ( $r = 0.709, p < 0.001$ ). This implies that leaders who inspire and motivate their teams by setting ambitious goals, articulating a compelling vision, and instilling a sense of enthusiasm tend to enhance the organization's performance. Lastly, there is a highly positive correlation between individualized consideration and organizational performance ( $r = 0.890, p < 0.001$ ). This underscores the importance of leaders showing genuine concern for their employees' individual needs, providing personalized support, and recognizing their contributions, as it has a significant positive influence on the overall performance of the organization.

Collectively, these correlation statistics suggest that within the context of the SMEs, transformational leadership behaviors such as promoting innovative thinking, demonstrating ethical leadership, inspiring motivation, and showing individualized care for employees are strongly linked to improved organizational performance.

### 4.3 Regression Analysis

The study employed regression analysis to determine the statistical significance of the connection between the independent and dependent variables. The fitness of the regression model in explaining the studied phenomena is provided in Table 4.

**Table 4: Model Fitness**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788 <sup>a</sup>	.779	.676	.08865

**Source: Researcher, 2023**

The regression model has a strong correspondence with the data, as evidenced by the substantial coefficient of determination (R-squared) value of 0.779. This suggests that around 77.9% of the variance in organizational performance can be accounted for by the linear combination of the predictor variables employed in the model. The findings of the Analysis of Variance (ANOVA) are presented in Table 5.

**Table 5: Analysis of Variance**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	21.127	4	5.282	672.057	.000
Residual	.495	63	.008		
Total	21.622	67			

**Source: Researcher, 2023**

The results provide additional evidence supporting the significance of the regression model, as indicated by the F statistic of 672.057 ( $p < 0.000$ ). This is reinforced by the fact that the p-value was 0.000, which is below the conventional threshold of 0.05. The study employed a regression coefficient analysis to determine the statistical significance of the relationship between the

independent factors and the dependent variable. The regression coefficient results are presented in Table 6.

**Table 6: Regression of Coefficients**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.048	.080		.601	.550
Intellectual Stimulation	.106	.038	.118	2.759	.008
Idealized Influence	.769	.066	.689	11.629	.000
Inspirational Motivation	.130	.045	.123	2.861	.006
Individualized Consideration	.073	.032	.091	2.263	.027

**Source: Researcher, 2023**

The intellectual stimulation variable has a coefficient of 0.106, indicating that for a one-unit increase in intellectual stimulation, there is an associated increase of 0.106 units in organizational performance. This relationship is statistically significant ( $t = 2.759$ ,  $p = 0.008$ ). Idealized Influence exhibits a strong impact on organizational performance, with a coefficient of 0.769. This suggests that an increase in idealized influence leads to a substantial increase in organizational performance. The high  $t$ -value of 11.629 and the very low  $p$ -value of  $< 0.001$  further reinforce the significance of this relationship. The variable Inspirational Motivation has a coefficient of 0.130, indicating that a one-unit increase in inspirational motivation is associated with a 0.130 unit increase in organizational performance. The statistical significance is supported by a  $t$ -value of 2.861 and a  $p$ -value of 0.006. Lastly, the coefficient of Individualized Consideration is 0.073. This implies that an increase in individualized consideration contributes to a slight increase in organizational performance. The  $t$ -value of 2.263 and the  $p$ -value of 0.027 demonstrate that this relationship is statistically significant.

The findings from the regression analysis suggest that the four dimensions of transformational leadership, namely Intellectual Stimulation, Idealized Influence, Inspirational Motivation, and Individualized Consideration, have varying levels of beneficial impact on the organizational performance of small and medium-sized enterprises (SMEs). The model demonstrates a noteworthy capacity to forecast organizational performance, as evidenced by the statistical significance of the individual coefficients and the overall fit of the model.

#### 4.4 Discussion of Findings

##### 4.4.1 Intellectual Stimulation

The first objective of the study was to examine how intellectual stimulation from top management influences organizational performance SMEs in Nairobi, Kenya. Correlation results indicated that there is a strong positive correlation between intellectual stimulation and organizational performance ( $r = 0.706$ ,  $p < 0.001$ ). Regression results indicated that intellectual stimulation variable has a coefficient of 0.106, indicating that for a one-unit increase in intellectual stimulation, there is an associated increase of 0.106 units in organizational performance. This relationship is statistically significant ( $t = 2.759$ ,  $p = 0.008$ ). Thus, the null hypothesis  $H_{01}$  was rejected.

The findings are consistent with Scott and Peter (2009), Omamo and Awuor (2018), and Magasi (2021) who emphasize the positive impact of intellectual stimulation on critical thinking, problem-



solving capabilities, innovation, and knowledge sharing within organizations. They argue that transformational leaders who promote intellectual stimulation challenge assumptions, encourage independent thinking, and empower employees to generate new ideas and solutions. These perspectives suggest that intellectual stimulation is a key factor in fostering a culture of learning, innovation, and organizational performance. Similarly, Youssef-Morgan and Luthans (2019), Lim et al. (2020), and Wang et al. (2021) highlight the role of intellectual stimulation in enhancing employee engagement, job performance, innovation capabilities, and continuous improvement. Kagendo (2018) and Muchiri (2018) highlight the relationship between intellectual stimulation, employee performance, and achievement of organizational goals. They argue that when leaders encourage creativity, innovation, and provide growth opportunities, they practice intellectual stimulation, which leads to improved employee performance and organizational outcomes.

#### **4.4.2 Idealized Influence**

The second objective of the study was to establish how the leaders' idealized influence affects the performance of the top 100 SMEs in Nairobi, Kenya. Correlation results indicated that there is a strong positive correlation between idealized influence and organizational performance ( $r = 0.783$ ,  $p < 0.001$ ). This suggests that when leaders set a positive example, demonstrate strong ethics, and foster a sense of trust and admiration among their employees, it contributes significantly to the organization's overall performance. Regression results indicated that idealized influence exhibits a strong impact on organizational performance, with a coefficient of 0.769. This suggests that an increase in idealized influence leads to a substantial increase in organizational performance. The high t-value of 11.629 and the very low p-value of  $< 0.001$  further reinforce the significance of this relationship. Thus, the null hypothesis  $H_{02}$  was rejected.

The findings are in line with Satyendra (2020) and Li et al. (2021) who argue that transformational leaders with idealized influence empower their followers, align their needs with organizational goals, and encourage elevated levels of performance. These scholars contend that such leaders can positively impact overall performance, including in SMEs. However, there are also divergent opinions in the literature. Zhang et al. (2022) found a positive association between idealized influence and employee performance in SMEs. They argue that leaders who inspire and motivate employees through idealized influence enhance individual and organizational performance. In contrast, Gadirajurrett et al. (2018) focus on mutual trust between leaders and associates as a key factor in team performance. While they acknowledge the importance of trust, they do not explicitly highlight idealized influence as a determining factor.

#### **4.4.3 Inspirational Motivation**

The third objective of the study was to determine how a leader's inspirational motivation affects the organizational performance of the top 100 SMEs in Nairobi, Kenya. Correlation results indicated that there is a strong positive correlation between inspirational motivation and organizational performance ( $r = 0.709$ ,  $p < 0.001$ ). This implies that leaders who inspire and motivate their teams by setting ambitious goals, articulating a compelling vision, and instilling a sense of enthusiasm tend to enhance the organization's performance. Regression results indicated that inspirational motivation has a coefficient of 0.130, indicating that a one-unit increase in inspirational motivation is associated with a 0.130 unit increase in organizational performance. The statistical significance is supported by a t-value of 2.861 and a p-value of 0.006. Thus, the null hypothesis  $H_{03}$  was rejected.

The findings are in line with Nugroho et al. (2020), Cemil et al. (2021), and Satyendra (2020) emphasize the positive impact of inspirational motivation on employee commitment, organizational citizenship behavior, and workplace satisfaction. They argue that transformational leaders who set a compelling vision, offer training and support, and involve employees in decision-making inspire and motivate employees to achieve high levels of performance. These perspectives suggest that inspirational motivation is a critical factor in driving organizational performance. Onditi et al. (2021), Kamau et al. (2020), and Muriuki et al. (2019) found positive correlations between inspirational motivation and various performance indicators in SMEs. These studies highlight the role of inspirational motivation in creating a sense of purpose, commitment, and engagement among employees, leading to improved organizational performance.

#### 4.4.4 Individualized Consideration

The fourth objective of the study was to examine how leaders' Individualized attention affects the organizational performance of top 100 SMEs in Nairobi, Kenya. The correlation results indicated that there is a highly positive correlation between Individualized Consideration and Organizational Performance ( $r = 0.890$ ,  $p < 0.001$ ). Thus, the null hypothesis  $H_{04}$  was rejected. This underscores the importance of leaders showing genuine concern for their employees' individual needs, providing personalized support, and recognizing their contributions, as it has a significant positive influence on the overall performance of the organization. The regression coefficient of individualized consideration was 0.073. This implies that an increase in individualized consideration contributes to a slight increase in organizational performance. The t-value of 2.263 and the p-value of 0.027 demonstrate that this relationship is statistically significant. Thus, the null hypothesis  $H_{04}$  was rejected.

The findings are consistent with McShane and Glinow (2018), Awori (2018), and Zakaria et al. (2017) who emphasize the positive impact of individualized consideration on employee performance. They argue that leaders who provide personalized attention, coaching, and mentoring to address the unique needs of employees foster a climate of trust, motivation, and open communication. These perspectives suggest that individualized consideration positively influences employee job performance and contributes to organizational growth. Similarly, Basnet and Dahal (2021), Singh and Jain (2021), and Rahman et al. (2020) highlight the role of individualized consideration in enhancing organizational performance. They argue that leaders who pay attention to the individual needs and aspirations of employees create a supportive environment that promotes commitment, satisfaction, and high-performance outcomes. These perspectives support the notion that individualized consideration positively impacts both employee and organizational performance.

## 5. Conclusion

The study concludes that intellectual stimulation from top management significantly influences the organizational performance of SMEs in Nairobi, Kenya. The analysis reveals a strong positive correlation between intellectual stimulation and organizational performance, highlighting the importance of fostering a culture of innovation and critical thinking within leadership practices. The regression analysis solidifies this relationship, suggesting that an increase in intellectual stimulation leads to an improvement in organizational performance. The statistical significance of this influence is supported by the calculated t-value and a p-value. These findings collectively affirm that intellectual stimulation plays a substantial role in driving enhanced organizational performance among the top SMEs in Nairobi, Kenya.

The study concludes that leaders' idealized influence significantly impacts the organizational performance of the top 100 SMEs in Nairobi, Kenya. The analysis establishes a strong positive correlation between idealized influence and organizational performance, underscoring the importance of leaders serving as positive role models and fostering trust within their teams. The regression analysis reinforces this connection, revealing a substantial coefficient for idealized influence. This coefficient implies that an increase in idealized influence corresponds to a significant enhancement in organizational performance. The statistical significance of this impact is confirmed by the calculated t-value and an extremely low p-value. These outcomes collectively emphasize that idealized influence is a pivotal factor contributing to the elevated organizational performance of SMEs in Nairobi, Kenya.

The study concludes that a leader's inspirational motivation has a significant and positive influence on the organizational performance of the top 100 SMEs in Nairobi, Kenya. The analysis reveals a strong positive correlation between inspirational motivation and organizational performance, highlighting the significance of leaders who inspire and motivate their teams to achieve exceptional results. The regression analysis reinforces this finding through the coefficient, indicating that an increase in inspirational motivation leads to a noteworthy increase in organizational performance. The statistical significance of this influence is affirmed by the calculated t-value and a p-value. These results underscore the pivotal role of inspirational motivation in driving improved organizational performance within the context of the top SMEs in Nairobi, Kenya.

In conclusion, the study establishes that leaders' practice of Individualized Consideration significantly influences the organizational performance of the top 100 SMEs in Nairobi, Kenya. The analysis uncovers a strong and highly positive correlation between these factors, emphasizing the importance of leaders who genuinely care for individual employee needs and provide tailored support. The regression coefficient indicates that an increase in individualized consideration leads to a slight but meaningful enhancement in organizational performance. Furthermore, the statistical significance of this impact is validated by the calculated t-value and a p-value. These findings collectively underscore the pivotal role of individualized attention in driving heightened organizational performance within the context of the top SMEs in Nairobi, Kenya.

## **6. Recommendations**

Based on the study findings, the following recommendations were made;

To enhance organizational performance in SMEs in Nairobi, it is recommended that top management actively fosters a culture of intellectual stimulation. This can be achieved by encouraging employees to think critically, challenge assumptions, and propose innovative ideas. Leaders should create platforms for brainstorming and idea sharing, providing opportunities for employees to contribute to decision-making processes. Regular training sessions, hackathons and workshops focused on design thinking and enhancing problem-solving skills and creative thinking can also be implemented. By valuing intellectual diversity and promoting an environment that stimulates innovative thinking, SMEs can experience improved performance and adaptability.

Leaders aiming to improve organizational performance in SMEs should prioritize embodying idealized influence. Leaders should consistently demonstrate ethical behavior, integrity, and a strong commitment to the organization's mission and values. Communication that reflects transparency and authenticity is crucial in building trust and admiration among employees. Regularly recognizing and celebrating employee achievements can reinforce the positive impact

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of idealized influence. Leadership development programs that emphasize ethical leadership and the cultivation of trust can aid in nurturing leaders who inspire their teams, leading to improved performance and organizational success.

For SMEs seeking enhanced organizational performance, leaders should focus on fostering inspirational motivation. Leaders should craft a compelling vision that resonates with employees' aspirations and values, and consistently communicate this vision to inspire commitment and dedication. This goes beyond beautiful acronyms stuck on the wall. The vision must find expression in every activity of the organization. Regular communication of progress towards the vision and celebration of milestones can keep employees motivated. Encouraging leaders to lead by example and demonstrate a passion for the organization's goals can create a culture of enthusiasm and aspiration. Providing training and coaching to enhance leaders' communication and motivational skills can further amplify the impact of inspirational motivation on organizational performance.

To drive improved organizational performance in SMEs, leaders should prioritize individualized consideration. This involves actively listening to employees' needs, concerns, and aspirations, and tailoring support to meet individual requirements. This includes employee needs outside the work place. Regular one-on-one meetings and feedback sessions can provide a platform for addressing individual needs and providing personalized guidance. Implementing mentorship programs and opportunities for career development can reinforce leaders' commitment to the growth and well-being of each employee. By valuing and investing in the individual contributions of employees, SMEs can create a work environment that fosters engagement, commitment, and ultimately, enhanced organizational performance.

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