CEO Transformational Leadership Style and Performance of SMEs: A Literature Review, Kenya

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Abstract:
Chief Executive Officer (CEO) transformational leadership style (TLS) has been promoted by many scholars as to the ultimate style that positively influences organizational performance in organizations. Despite increased publicity on its impact on organizational performance, its measurement has not been standardized making it difficult to corroborate the real impact of CEO TLS on the performance of organizations. The key parameters that define Small and Medium-Sized Enterprises (SME) performance include profitability, annual turnover, employee satisfaction, and owner satisfaction. Many studies focus on large corporates leaving out the SME sector which is a major driver of economic growth in many nations. The performance management theory, the Leader-Member Exchange Theory (LMX) and the transformational leadership theory (TLT) have been explored. The study adopted a literature review to establish the gaps. Studies confirm the presence of a considerable association between CEO TLS and the performance of SMEs. Upcoming inquiries need to explore harmonized designs that would help researchers conduct studies on SMEs using similar parameters to enhance comparison of the impact of CEO TLS on organizational performance. Studies should focus on each of the components of TLS to establish the most influential component and promote it for effective SME management for enhanced performance.

Keywords: CEO Transformational Leadership style, SME performance, annual turnover, and profitability

1. Introduction and Background of the Study

1.1. Introduction
Small and Medium-Sized Enterprises (SMEs) play a key role of providing skilled and unskilled employment to people from all walks of life in many countries. They provide a wide range of products and services to urban and rural communities. In the agriculture sector, SMEs play the role of providing technical services as they sell agricultural inputs to their clients. Others provide end market opportunities to contracted suppliers whom they provide additional services such as quality control and production techniques embedding their costs in the products they buy from the suppliers. SME efficient delivery of services requires a team of highly motivated organizational members. Various leadership styles at the CEO level have been explored to establish their impact on the service delivery of their employees. Transformational leadership is one of the leadership styles that has exhibited traits that motivate employees. Northouse (2016) defines Transformational Leadership Style (TLS) as the practice where a leader participates with others and builds a bond that raises the level of enthusiasm and morality in both the supervisor and the subordinate. The supervisor makes subordinates appreciate that the effect of their work is crucial. The leader ensures he achieves organizational targets instead of employees’ targets. The leader increases the followers’ confidence in reaching goals (Bass, 1990). Bass (1985) describes TLS as a practice characterized by four scopes of leader behavior: individualized consideration (IC), idealized influence (II), inspirational motivation (IM), and intellectual stimulation (IS). Bass (1990) posits that the TLS enables a leader to create a vision of change leading him to provide resources to individuals to whom they provide support and monitor their improvement. Ojokuku, Odetayo, and Sajuyigbe (2012) assert that TLS underscores the progress of employees and ensures that their requirements are met. Transformational leaders develop a value structure that positively inspires employees by enhancing their skills. The leader develops a system that acts as a bridge to help in the identification of followers’ motivational levels, values, and interests and therefore help them to achieve their desired goals. The leadership style encourages followers to adapt and express themselves to the improved changes and practices in the organization (Bass, 1985).

Ngodo (2008) observes that leadership is a give and take the process of collective effect where the leader and follower impact each other for them to achieve organizational goals. Performance in all organizations is driven by the kind of leadership provided by those in strategic positions. Deloitte (2015) in their study of global human capital trends cite leadership as the key building block for sustained organizational performance. This is consistent with Yukl (2012) assertion that the achievement of superior organizational results is pegged on the actions of leaders and how they lead people. The effectiveness of leadership style determines the level of staff turnover which to a great extent determines how the organization remains relevant in a competitive global economy. Lee and Hee (2016) explored why managers of
establishments effectively fulfill their plans that lead organizations to achieve exceptional corporate outcomes while others miss translating company approaches to achieve the anticipated organizational outcomes. Jing and Avery (2016) established that the leadership style extensively affects the performance of companies. Northouse (2016) described how leadership models and styles have been applied to clarify the effect of CEO TLS on company performance.

Globally, leadership styles dictate the ability of a business to remain profitable at a certain level. Orser, Hogarth-Scott, and Riding (2000) assert that SME growth is postulated to grow when a threshold of managerial expertise is attained by the management. Managerial problems are determined by firm attributes key of which is the size of the company.

According to Rensmann (2017), the worldwide definition of an SME is effortless and keeps changing depending on the country. The definition of an SME differs greatly among nations because what is referred to as small in one country would be large in another. However, the variables that define an SME from several governments include the balance sheet totals, level of capital invested, size of the company, legal status, and the number of personnel, the level of independence, annual revenue and the type of business. The European Commission adopts these parameters in its definition of an SME and is therefore globally accepted as the best definition of an SME. It defines an SME from the number of employees, annual sales volumes and the total company balance sheet.

According to Rensmann (2017), a vast majority of the world’s businesses are dominated by SMEs and account for between 85 to 99.9 percent of the businesses internationally. SMEs are an important segment of the economy that contribute approximately 67 percent of all private-sector employment and 52 percent of private-sector value addition. A thriving SME sector in any country determines the level of economic development. SMEs provide an excellent avenue for fighting poverty because they provide ready markets for commodities among the marginalized communities in the least developed and developing countries.

1.2. Statement of the Problem

Pawar (2003) asserts that most of the transformational leadership studies have focused on social-political situations and less on economically motivated businesses. Researchers must apply the leadership style in business-oriented contexts to establish its impact on organization performance. Different organizational contexts would create different degrees of need for a TLS. Some organizations may support it while others will oppose its application. Some organizational contexts have cultures that would influence which components of the transformational leadership style can be adopted. Different leaders exhibit different forms of transformational leadership with some emphasizing particular components compared to others. Some scholars emphasize an organizational change in the context of followers while others focus on the internal structures of the organization (Yukl & Michel, 2006; Yukl & Chavez, 2002).

Ojokuku, Odetayo, and Sajuuyigbe (2012) postulate that employees in an organization require the services of a leader to attain their targets and the goals of the organization. The CEO performs a key part in providing the required guidance that would determine the way things are done in the organization and how employees perceive and act on their roles and responsibilities. According to Ding, Zhang, Sheng and Wang (2017) TLS has been linked to progressive changes in followers where the leader empowers, motivates and inspires followers to pursue a collective vision and believe in their potential making them perform beyond expectations. Ullah (2013) explains that transformational leadership has been linked to leaders who provide clarity of vision and alignment of employee goals, values, and priorities to the vision of boosting their trust and confidence enabling them to increase their commitment and performance.

Hambrick and Quigley (2014) in their upper echelon theory observed that the CEO’s leadership style drives the overall progress of the organization. Organizational performance is the strongest indicator of the CEO’s performance and contribution to the corporate achievement of organizational goals. Studies on TLS have consistently noted an underlying course through which transformational leaders reveal their ability to develop the character of their followers and organizations. It is worth noting that the CEO’s style of leadership affects the profitability of the organization. This in return enhances the ability of an organization to invest in competitive business systems, retain a highly motivated team that supports the organization to consistently meet the needs of its end market.

Latham (2013) argues that CEOs apply transformational leadership behaviours to align individual, group, and organizational goals and achieve superior performance. Despite SMEs being the drivers of the economic growth of many countries, many SMEs have been noted to struggle to meet the demands of their clients and employees and therefore either close shop or stagnate for many years. Many scholars have cited leadership at the top as one of the most important pointers to the success of SMEs. Baldwin and Johnson (1996) identify management skills as an important factor behind the success of SMEs. Close interaction between employees is a key management initiative. The adoption of a participatory management style has been cited as being instrumental in the successful adoption of new technologies at the SME level. Fasola, Adeyemi, and Olowe (2013) in their scholarship work on banks in Nigeria established that TLS at the CEO level has a progressive correlation a fact that was equally established by Waziri, Ali and Allaghia (2015) in construction companies. Ndisya (2016) confirms that CEO TLS has shown a progressive effect on the organizational ability to achieve her goals in Kenyan private sector companies.

Obiwuru, Okwu, Akpa, and Nwankwere (2011) found a very momentous progressive association between transactional leadership and organizational ability to achieve her goals in SMEs in Nigeria. Their study found out that IS and IC exert a positive, but had an inconsequential effect on followers and performance. They found transactional leadership traits to have a momentous progressive influence on followers and achievement of organizational goals yet they recommend the adoption of TLS as the enterprises grow.
Chege, Wachira, and Mwenda (2015) outlined the importance of leadership styles on the execution of company strategies as a precursor to SME growth in their focus on SMEs in Nairobi, Kenya. Ling, Simsek, Lubatkin, and Veiga (2008) assert that CEO TLS has a strong progressive relationship on SME performance. Such leaders influence followers to adopt strategic plans which in effect lead to enhanced competitive advantage, a notion that is the opposite for large firms. Yıldız, Basturk, and Boz (2014) established that innovativeness, TLS, and transactional leadership styles have a progressive influence on organizational progress in that order for employees in the service sector. Murage (2017) found a positive relationship between each of the four components of transformational leadership on performance in the general private sector in Kenya. Similar studies need to be conducted on other levels of management to establish if similar results can be obtained. The study aimed at reviewing the literature to establish the best practice of CEO TLS on organizational progress to help directly on the kind of attributes CEO transformational leaders needs to exhibit to attain the highest level of organizational performance.

1.3. Purpose of the Study

This inquiry sought to establish the impact of each of the four components of TLS on the functioning of SMEs. It identified the key parameters that define SME performance and how they have been measured by various scholars. It sought to identify the variables that moderate the relationship between CEO TLS and SME performance from a broad perspective. The study will help guide similar studies in sectors that have not been covered. The study sought to establish what makes SMEs perform better than others and identify recommendations that the owners of SMEs can adopt to enhance the performance of SMEs in all sectors. The agriculture sector has many SMEs who play a key role in enhancing the competitiveness of any value chain. The findings of the study will guide scholars wanting to adopt similar approaches to the agriculture sector that is laced with numerous SMEs that start and either stagnate or die in their formative years.

1.4. Objectives of the Study

- To evaluate the effect of the SME CEO’s inspirational motivation on the performance of SMEs
- To establish the effect of the SME CEO’s individualized consideration on the performance of SMEs
- To evaluate the effect of the CEO’s idealized influence on the performance of SMEs
- To evaluate the effect of the CEO’s intellectual consideration on the progress of SMEs
- To assess the influence of the CEO TLS on the performance of SMEs.

1.5. Significance of the Study

The study aimed to evaluate the effect of CEO TLS on the performance of the SME. The outcomes of the inquiry will be used by governments, the private sector, and commercial banks to enlighten them on how to gauge SMEs that are performing well to qualify for low-interest bilateral loans and engagement in government initiatives that would lead to increased employment and market outlets for commodities. The results will help lending institutions to gauge the stability of SMEs before committing any financial resources. The trend of donor agencies adopting a market systems approach to fighting poverty sees SMEs as the drivers of market led production of agricultural commodities. Such organizations will benefit from these findings because the results of this study will guide them on how to identify viable SMEs for their engagement.

2. Literature Review

2.1. Theoretical Perspectives of SMEs Operations

Three theories have been been used to guide this study. The transformational leadership theory (TLT), the Leader Member –Exchange Theory and the performance Management Theory.

Leithwood and Sun (2012) explain that the transformational leadership theory (TLT) argues that affiliates of an organization become highly occupied and moved by inspirational goals. The theory identifies which internal states of the organizational constituents are critical to their performance and stipulates a set of leadership activities that are most likely to create a progressive effect. Many leadership actions and ways of doing things are capable of increasing the level of dedication and determination of staff in an organization to work towards achieving organizational goals. “The leader-member exchange theory (LMX)” conceptualizes leadership as a course that explains the exchanges between supervisors and their subordinates (Northouse, 2016). It has been used to categorize how CEOs develop special connections with subordinates within the organization that motivate them to perform beyond their targets. The theory does not explain why some organizations perform better than others even when both CEOs exhibit transformational leadership style. Ohemeng, Amoako-Asiedu and Obuobisa Darko (2018) assert that LMX theory may have injurious effects on juniors who do not have good working relations with the supervisor. The theory asserts that leaders must develop good working relationships with followers but does not prescribe how this can be affected. It emphasizes the “us versus them” assertiveness which focuses more on the group of followers with good working relations with the leader which may end up causing alienation in the organization for employees with poor relations with the leader when they compare themselves with those with good relations with the leader. The leader must value all followers, which calls for further studies to understand how different relationships between leaders and their followers impact on each other in an organizational setting. The type and content of the affiliation between the leader and the followers need further exploration. Organizational settings may affect the ability to generalize the theory based on the inference from specific cases where employees with a good association with the leaders may have an unparalleled advantage over their colleagues.
with poor relations with the leader (Berneth, Walker, & Harris, 2016). The performance management theory on the other side looks more at the strategic alignment of strategic objectives, plans, budgets a situation that would make leaders focus more on organizational performance and leave out the human relations bit (Ates, Garengo, Cocca, & Bittici, 2013). Bass and Riggio (2006) define the TLT in terms of the leader's influence on followers and the conduct used to accomplish the influence. Followers develop trust, admiration, loyalty, and high opinion toward their leader and are inspired to put their best efforts to ensure they achieve the best results. The theory explains the underlying influence process in terms of motivating the subordinates to rise above their selfishness for the sake of the organization. Despite possessing the four components of TLS, if the CEO does not embrace the cultural context issues of leadership, employees will remain disgruntled and not perform at their best.

2.2. Transformational Leadership Style (TLS)

TLS seeks to change the leadership situation as currently constituted by pronouncing to followers the glitches in the existing structure and providing a persuasive mental picture of what the new company should look like. It is associated with driving change and performance improvements (Yildiz, Basturk, & Boz, 2014). Ling, Simsek, Lubatkin, and Veiga (2008) describe transformational leaders as those people who demonstrate the four symbiotic and mutually strengthening features. The four features include charisma (C) that exposes the capacity of the leader to generate and present an appealing ability to think about the future and to use expressive influences that provoke admiration, confidence, passion, and commitment from followers (Bass, 1990). Inspirational motivation (IM) is described as the leader's capability to invigorate followers by instilling contentment making followers perform beyond selfishness for the greater good of the organization providing a guarantee that hurdles can be overwhelmed and high prospects are achieved (Howell & Hall-Merenda, 1999). Intellectual stimulation (IS) in the leader stimulates followers to challenge conjectures and the situation as currently constituted and encourages the followers to see challenges from new viewpoints and develop innovative methods (Howell & Hall-Merenda, 1999). Individualized consideration (IC) refers to the leader's capacity to develop follower growth by providing support, bolstering and guiding them to perform their roles better (Howell & Hall-Merenda, 1999).

2.3. Organizational Performance

Israel (2018) describes the performance of an organization as the capacity of a company to accomplish her objectives with good financial results, high profit, quality products, increased market share and an ability to survive irrespective of the market dynamics. Equally, organizational performance can be explained from the view of an enterprise on her level of market share, profitability levels, and product quality when compared with similar enterprises in the same sector. Organizational performance can be measured using the amount of revenue generated, level of profits, level of growth, development and expansion level of the organization at any specific point, usually annually.

2.4. CEO TLS and Organizational Performance

According to Israel (2018) idealized influence positively and significantly affects organizational sales, profitability and owner satisfaction. Individualized consideration is positively related to increment in sales, profitability and owner satisfaction. Liu, Fisher, and Chen (2018) assert that Transformational leadership is associated with charismatic leadership. Ling, Simsek, Lubatkin, and Veiga (2008) in their study to establish the impact of transformational CEO on company performance found out that CEO TLS had a momentous and direct effect on the progress of the company. They identified firm size, founder status, and tenure as moderators of the relationship between CEO transformational style and firm performance. They established that CEO TLS had a more profound effect on the progress of smaller firms in which the CEO had served longer and that the CEO was a founder of the firm.

IC has a momentous and progressive association with profitability and contingent rewards were found to significantly enhance SME growth. Boehm, Dwertmann, Bruch, and Shamir (2015) in their study identified CEO charisma to have a progressive influence on the progress of the organization. They, however, do not explain how that happens to make this a potential subject that needs further inquiry. Adopting the leader focused tactic with the CEO charisma as the main interpreter of company performance, Boehm et al found conflicting results that indicated the contrary. They found that a more follower centric approach to be a better determinant of performance because the CEOs only have a progressive influence of persuading their followers. Followers are therefore as important for progressive functioning results as the CEOs. CEOs play a momentous role because they influence leaders below them and consequently improving performance. CEOs are role replicas for the company's administration and define the leadership actions to be punished or rewarded and therefore shape the company working environment that determines the level of performance of employees at all levels which determines the level of performance.

According to Bass (1990) follower motivation, job satisfaction, creativity, and team performance are some of the measures of leadership effectiveness that TLS has been linked to. Direct interaction between the leader and followers at the management level has been equated to be similar to top management with middle-level management. In this context, it has been established that if the relationship between the transformational CEO at the top is good, it goes beyond all levels of the organization. Such a rapport has been linked to higher company performance and other company-level results. Most of the pragmatic studies have concentrated more on data from large and publicly held organizations.
2.5. CEO Transformational Leadership Style and SME Performance

Ling, Simsek, Lubatkin, and Veiga (2008) assert that transformational leadership will have the firmest impact in the SME context compared to large firms because there is less complex stakeholder structure that gives the CEO more managerial discretion to have his or her impact felt. This is coherent with Hambrick and Finkelstein’s (1987) declaration that the more stakeholders the CEOs have to report to, the more constrained their ability to provide leadership. CEOs of SMEs enjoy greater autonomy in how they manage their financial resources because there are less oversight and discipline imposed on them by the regulating authorities compared to large corporates operating in the same sector. SME CEOs do not have the bureaucracy experienced in large corporates that requires them to follow board directives before they make decisions. They make their decisions based on sound judgment and are therefore able to beat deadlines because they ratify and direct their companies and participate in the daily implementation of the strategies like managers in large corporates. They find more chances to be effective in a large number of spheres and to openly affect results. CEOs of SMEs have all the time to dedicate their efforts to the actual management of the company. The role of a large corporate CEO is more to appraise the functioning of the leaders of the company departments whereas CEOs of SMEs have a more direct function of inspiring their employees to perform their tasks at their best. The fact that SMEs context is fluid makes it possible for members of the organization to accept the CEO’s leadership. SME members, therefore, look to their CEO for direction because most of the structures are yet to be put in place a fact that makes transformational CEOs perform a function of enabling the company constituents to perform at their best. The SME context allows a transformational CEO to instill individual commitment and establishes high expectations among his or her followers. SMEs are more engaged in the enactment of the company’s strategies directly which gives the CEO a greater chance to directly inspire and back innovative ideas amongst all company employees.

Considering the flexible nature of the SME background and the fact that their roles are less clear, workers in an SME will most probably seek direction from the CEO on a regular basis which makes it possible for a transformational CEO to express a clear and appealing vision for the SME which provokes confidence and satisfaction making it possible for employees to get direct support, encouragement, and coaching from the transformational CEO (Ling, Simsek, Lubatkin, & Veiga, 2008). This is consistent with Waldman and Yammarino (1999) theoretical model which states that transformational CEOs have the capability of better exercising their influence at the SME level by being able to give and define the adaptive organizational ethos by encouraging unity and determination among their followers who constitute senior management staff as their leadership effects spreads to the lower level which leads to increased enthusiasm, commitment, and effort all of which lead to enhance organizational performance.

Yildiz, Basturk, and Boz (2014) assert that leadership is vital in organizations and it is a variable that affects the performance of organizational employees thereby impacting on company performance. Avolio and Bass (1995) postulate that the supervisor’s style of leading has a progressive influence on the subordinates and by default the progress of the company. Noruzy, Dalfard, Azhdari, Nazari-Shirkouhi, and Rezazadeh (2013) postulate that TLS exerts a progressive influence on the growth of companies. Samad (2012) established a similar progressive influence of TLS on the progress of companies in a study on logistics companies in Malaysia.

Suliman, Rao, and Elewa (2019) confirm that there is a progressive correlation between TLS and contingent rewards a component of transactional leadership that can be achieved by CEOs and top management teams through mentoring and training to improve their competencies of transformational leadership and hence drive positive organizational performance. Suliman et al (2019) however, assert that CEOs must understand the cultural factors inherent in their context and ensure they incorporate them as they lead their management teams. Understanding the cultural context for CEOs practicing TLS has been found to significantly contribute to organizational performance because when cultural diversity is embraced, employees feel appreciated and therefore, put the best foot forward and work towards achieving their best performance for the organization.

According to Yildiz, Basturk and Boz (2014) performance explains how individuals conclude to attain an aim. It is a description of how the organization's best staff live up to their tasks. Organizational performance is directly related to their staff's performance. Business performance, on the other hand, is a description of the level of the fulfilled task of business aims according to obtained output at the end of a business period. Yildiz and Karakas (2012) posit that business performance is measured by two methods, objective and subjective approaches together to prevent the shortcomings of each approach. Subjective approaches focus on sales, the size of the market held by the company and how profitable the enterprise is. Objective approaches focus on return on assets (ROA) and return on equity (ROE). ROA is the indicator of how profitable a company is relative to its total assets. ROE is a measure of profitability that is calculated by dividing net income after interest and taxes by average common stakeholders’ equity.

3. Conceptual Framework

Sekaran (2003) asserts that the theoretical framework discusses the interrelationships among the variables that are considered to be essential to the dynamics of the situation being examined. The development of a conceptual framework helps to conjecture and test certain relationships and thus improve the understanding of the dynamics of the situation. The theoretical framework offers a conceptual basis to advance the research. The theoretical framework identifies the network of associations between variables contemplated significant to the scholarship of any given problem setting.

Sekaran (2003) defines a variable as something that can take on different values. Any manipulation made to a variable will affect. There are four types of variables. The independent, dependent, intervening and moderating variables (Sekaran & Bougie, 2016). In this research, the four dimensions of TLS form the independent variables. CEOs of
organizations adopt various forms of leadership. CEOs who adopt transformational leadership exhibit the four components which would potentially affect the level of performance of SMEs on productivity, profitability, and annual turnover. According to Bass (1985), the four components of TLS are II, IC, IS and IM that work together to influence how the CEO influences his followers. According to Sekaran and Bougie (2016), the goal of the researcher is to understand and describe the dependent variable. He should explain why it varies or predict how it will behave when subjected to different levels of treatment. The dependent variable is the main variable that researchers use to investigate to determine the viability of a relationship. Researchers analyze the dependent variable which makes it possible for them to find the variables that impact it, a scenario that makes it possible for them to find solutions to the problem at hand. A researcher has to measure the dependent variable and other variables that influence it. SME performance is a dependent variable in this research. The variables that define SME performance include the level of profitability, productivity, and annual turnover.

In this study the context of the SME, its size and the tenure of the CEO form fundamental intervening variables that determine the effect of the independent variable on the dependent variable, SME performance. Enabling government policies have been identified as the potential moderating variable.

4. Empirical Literature Review

4.1. The Empirical Literature on TLS

Suliman, Rao, and Elewa (2019) established that CEO TLS is linked to performance and change of how teams operate. This is contrary to what Stoker, Gutterink, and Kolk (2012) found out that CEO TLS is not related to the change in the manner in which teams operate and by extension performance. Carmeli et al (2011) established that CEO enabling leadership and top management conduct in the organization to be progressively and considerably related. Consequently, they concluded that when CEOs empower their top management teams it influences their processes which in turn influences company performance.

Ogola (2017) found out that followers achieve high performance when their leaders recognize their efforts through creating confidence, self-development practices, employees’ efforts, and how leaders communicate with followers in ways that make it possible for them to learn. In her study, she found a substantial positive influence between individualized consideration and the performance of employees.

According to Rubin, Munz and Bommer (2005) studies have shown that transformational leaders have been evaluated as being more interpersonally sensitive, more promotable, more effective, higher performers. Eisenbeiß and Boerner (2013) found strong empirical evidence showing that there is a powerful connection between CEO TLS and worker outcomes. Some of the positive attributes include employee satisfaction, increased productivity at each employee level, and ability of employees to attain and surpass their goals, enhanced creativity, and decent working conditions and reduced employee turnover.

Ling, Simsek, Lubatkin, and Veiga (2008) in their study on the impact of CEO TLS on the performance of SMEs using the MLQ developed (Bass & Avolio, 1995). In their measure of CEO transformation leadership, TMT staff evaluated how frequently their CEO engaged in the four components of transformational leadership on a 5-point scale that ranged from one to five. One means no engagement at all and five means frequently engages. They executed an analysis of variance using company association as the independent variable on each item to establish the existence or otherwise of TLS. They confirmed the existence of a robust progressive association between CEO TLS and how SMEs perform in their business.

Ogola (2017) adopted a quantitative research approach to her study. She applied stratified random sampling to select 226 respondents from 553 senior managers considering the targeted SMEs were from different sectors. She grouped the SMEs into five divisions before taking a sample. She used simple random sampling to select respondents from each division based on the proportion of each division represented in the population. She used a structured questionnaire to gather quantitative data. She adopted the Likert scale type of questions with answers ranging from 0 to 4 was used. On the Likert scale, 0 was equivalent to not at all and 4 were equivalent to always. She analyzed the figures using inferential and descriptive statistics.

Ogola (2017) explained that the results indicate that CEOs frequently recognize that each subordinate exerts an influence as an individual to the organization. The findings confirm subordinates often complete their duties efficiently because the CEO coached and mentored them on how to execute their jobs. Ogola’s findings demonstrate that individualized consideration component of transformational leadership has a positive effect on follower performance in firms.

4.2. Empirical Reviews on SMEs

Koehc and Namusonge (2012) used the descriptive survey method to collect data on the opinions of intermediate and high-ranking managers in thirty government-owned organizations in Mombasa, Kenya. They adopted the survey technique because it provides a quantitative evaluation of attitudes, experience, and sentiments of the sample selected to participate in the study. They distributed a self-completed research questionnaire to the target sample and gathered them after a week. In their study, they had three independent variables and adapted measures from the previous study but customized them to match the specific context of their investigation. The three independent variables were the various components of transformational leadership, transactional leadership, and laissez-faire. They used a five-point scale ranging from 1 (strongly disagree) to 5 (strongly agree). 77 managers returned their questionnaires out of the 100
distributed. 72 questionnaires were found to be usable and were therefore used in the analysis. The degree to which the organization was able to achieve its objectives in the preceding financial year was adopted as the dependent variable. They conducted a correlation analysis to ascertain the influence of TLS on the performance of the SME and obtained high ratings. This confirms the assertion by other scholars that transformational leadership style when practiced by senior management positively affects SME performance. They however found low correlation ratings between the transactional-leadership style and organizational performance. They found the Laissez-faire leadership style not considerably correlated to the performance of the organization.

Aketch, Basheka, and Bagire (2017) in their study confirmed that within the SME sector, the TLS plays a progressive and momentous association with performance. On the conflicting side, Obiwuru, Okwu, Akpa, and Nwankwere (2011) in their study on 10 small businesses in Nigeria pointed out that there was a progressive association between TLS and organizational performance, but it was not significant. They found out that both charismatic leadership and individualized consideration had a positive effect on small businesses while intellectual stimulation had a negative effect. Koech and Namusonge (2012) in their study on the influence of leadership styles on the performance of 30 Kenya government-owned companies found TLS to have a higher correlation with performance.

Whereas most scholars agree that TLS positively influences the performance of organizations, it is only a few who have a detailed analysis of how each of the dimensions of TLS affects SME performance. Obiwuru et al. (2011) observed that each of the different dimensions of the TLS to have different findings. Kesting, Ulhøi, Song, and Niu (2015) explored additional traits that make the TLS positively influence SME performance. Jing and Avery (2008) note that no one best style of leadership affects performance. The context in which a leadership style is applied determines its effect on performance. Transformational leadership is not universal to all cultures and organizations and therefore calls for further research to examine the context on the choice of TLS (Aketch, Basheka, & Bagire, 2017). Some of the dimensions of transformational leadership styles have been found to have mixed results in their effect on performance (Rafferty & Griffin, 2006).

4.3. Empirical Review on Performance

Ling, Simsek, Lubatkin, and Veiga (2008) posit that researchers find the measurement of SME performance to be difficult because of the lack of availability of tangible data citing the fact that SMEs not being required to file their statements in many countries. Ling et al (2008) utilize sales growth and perceived firm performance evaluated by CEOs as a good yardstick for measuring SME performance. Sales growth is measured as the percentage change in sales incomes measured up on an annual basis. Agle, Nagarajan, Sonnenfeld, and Srinivasan (2006) postulate that most inquiries about CEO transformational leadership’s influence on company performance use an annual percentage change in sales incomes to compute the performance. The use of sales growth as a measure of SME performance is the most widely used objective measure because private companies prefer to reduce taxable income but find no challenge in reporting the actual level of trade (Schulze, Lubatkin, Dino, & Buchholtz, 2001).

Ling, Simsek, Lubatkin, and Veiga (2008) in their inquiry used the subjective approach to measure performance by asking CEOs to compare their company’s performance to those of their most serious rivals on the level of profits and projected development using the eight-item scale developed by Gupta and Govindarajan (Gupta & Govindarajan, 1986). In the measure, return on equity, return on assets, growth in sales and growth in market share were rated using a scale of one to five where one was worst and five the best’. Good reliability of 0.91 was demonstrated. They used the CEOs’ estimations because they expected to be the information holders of their company’s performance. They time trailed both objective and perceived measures of performance because all performance data are usually gathered one year after the survey information on the independent variables. Podsakoff, MacKenzie, Lee, and Podsakoff (2003) assert that the length of the time gap should be consistent with the progression under analysis which considers one year as sufficient time to reflect the effect of a transformational CEO on performance. One year is sufficient to avoid the interference of other infecting considerations.

Aketch, Basheka, and Bagire (2017) in their study on the influence of CEO TLS on the progress of SMEs in the hospitality industry in Uganda using a cross-sectional survey found that it is only the charismatic attribute of TLS that had a progressive and substantial association with SME performance. The other components of TLS had no positive impact on SME performance. In their study, they evaluated the contribution of each of the four dimensions of TLS on the performance of SMEs. Aketch et al (2017) conducted a cross-sectional explanatory-quantitative survey design to gather data. They selected a sample size of 140 hotels in Eastern Uganda. They achieved a response rate of 80%, retained organizations accounted for 68.6% of the sample selected. Managers and subordinates were the units that were being inquired while the unit of analysis was the hotels.

Aketch, Basheka, and Bagire (2017) postulate that the findings disclose that it is only the charismatic component of transformational leadership style that exerts a considerable impact on the performance of SMEs. This is consistent with Obiwuru, Okwu, Akpa and Nwank were (2011) assertion that the charismatic style had a positive effect on SME performance in the banking sector in Nigeria. This means that organizations wanting to improve on their performance have to place special emphasis on cultivating the charismatic style of TLS. Intellectual stimulation and individualized consideration components were found to exert insignificant effects on the performance of SMEs in the hospitality industry.
4.4. Summary of Research Gaps

More research is required to establish what in practice stimulates CEOs to practice transformational leadership behaviors. According to Ling, Simsek, Lubatkin, and Veiga (2008) they raise a flag on whether experience plays a role in the confidence and efficacy of the transformational CEO and whether these attributes make the CEO become better visionaries and credible coachees. ‘What happens when a CEO with TLS is inexperienced and yet engages in the transformational leadership which may make him be seen as arrogant or overconfident?’ Ogola (2017) identified the following gaps in the CEO TLS influence on the progress of salaried workers and how it influences the performance of an SME. There is a need to conduct similar studies by engaging lower-level managers and other junior employees to get the viewpoints because the respondents in her study were top management staff. The study was piloted on the top 100 SMEs in one sector. There is a need to replicate the same studies with SMEs from other sectors to confirm if the studies indeed hold.

According to Aketch, Basheka, and Bagire (2017), there is an urgent need to establish why the failure rates of SMEs are on the rise globally despite their significance in the economic sector in various economies especially in the developing world. Kesting, Ulhøi, Song, and Niu (2015) assert that there is a need to conduct studies on each of the aspects of transformational leadership style and how each affects SME performance. This would help SMEs to identify which specific traits of transformational style should be given more attention considering SMEs are constrained in resources.

5. Conclusion

It can be concluded that indeed that CEO TLS has an impact on SME performance. The impact of CEO TLS can be moderated by factors such as the cultural context of the SME, the tenure of the CEO, the size of the SME and owner status of the CEO. The design adopted by the researcher determines a great deal of the impact of the CEO on SME performance because some designs only engage the CEO leaving out other levels of management within the SME which would compromise the results. It has been established that a CEO who is capable of articulating his or her vision compellingly to his or her followers has a higher impact on the performance of the followers and by default the SME. The effect of each of the four components of transformational leadership style is dependent on the sector that it is evaluated. In some sectors some of the components like charisma exert a higher influence on employee performance which leads to higher achievement of organizational goals.

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