



Moderating Effect of Environmental Contingency Factors on the Relationship Between Path Goal Leadership and Performance of Manufacturing Small and Medium Enterprises in Kenya

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Abstract

This study sought to examine the moderating effect of environmental contingency factors on the relationship between path-goal leadership style and performance in manufacturing SMEs in Nairobi. The target population comprised of managers/owners from 425 SME's listed members of the Kenya Association of Manufacturers based in Nairobi region. A sample size of 369 managers/owners was derived using stratified random sampling technique. Data was collected using self-administered questionnaires. Binary logistic regression (Cox and Snell R Squared) was used and results indicated that the environmental contingency factors explain 16.5 % of the probability of the relationship between path-goal leadership style and organizational performance. The parameter estimates showed that the coefficient of path-goal leadership styles by environmental contingency factors were; directive leadership (2.935, $p = .112$), supportive leadership (-.427, $p = .717$), participative leadership (-.4.645, $p = 0.046$), achievement oriented leadership style (2.586, $p = 0.118$). Hence, the study failed to reject the null hypothesis that environmental contingency factors do not significantly moderate the relationship between path goal leadership style and organizational performance in three study variables (directive, supportive and achievement oriented leadership styles). However, the study rejected the null hypothesis that environmental contingency factors do not significantly moderate the relationship between participative leadership style and organizational performance. The study revealed that environmental contingency factors did not significantly moderate the relationship in three path goal leadership styles (directive, supportive and achievement-oriented leadership style) and organizational performance while it significantly moderated the relationship between participative leadership style and organizational performance in manufacturing SMEs in Nairobi. Therefore, the study recommends that owners/managers of manufacturing SME need to define the tasks and duties to be performed, instruct employees on how to carry out tasks and duties and build a cohesive team to carry out tasks especially when they apply participative leadership style to realize optimal organizational performance.

Keywords: *Environmental Contingency Factors, Organizational Performance, Manufacturing, SME's.*

Introduction

Leadership is critical to the performance of manufacturing small and medium sized enterprises (SMEs) in Kenya as their organizational performance is related to leadership behavior. Hence, SMEs leaders must be aware of the changes in the global environment as no business can survive and succeed without a clear vision established by the organization's leadership supported by entrepreneurial actions. To achieve this, the leaders of the organizations must understand their own capabilities, competencies and leadership style and what they desire to achieve (Sawaeana & Alib, 2020).

Micro and Small Enterprises (MSEs) more often cannot approach the Sustainable Development Goals as the government and large cooperation's. According to Organization for Economic Corporation and Development (OECD), SME and Entrepreneurship outlook (2019), SMEs are the main players in building a more inclusive and sustainable growth, increasing economic resilience and improving social cohesion. SMEs across the OECD account for 99 percent of all businesses and between 50 percent and 60 percent are value added. For every one out of three is employed in a micro firm less than 10 employees and 2 out of three in an SME. In most of the regions, SMEs have been the main drivers of job creation and contribute to the identity and social cohesion of countries. They typically operate in service sectors notably in wholesale and retail trade and construction. The manufacturing sector has fewer SMEs notably those that are capital or knowledge intensive, requiring a large scale of production (OECD, 2019).

In order for manufacturing sectors in SMEs to be sustainable, it is critical that they develop a culture of innovation in their business through staff development, in addition to enabling or employing skilled and more professional leaders to lead their subordinates in the process of implementing strategic business goals that will subsequently sustain the firm (Mkheimer, 2018). The sustainability of manufacturing SMEs requires the application of leadership style that will enhance their performance. There is need to have a strong association between leadership style and the performance if they are to achieve the strategic development goals.

Statement of the Problem

Leadership behavior affect the ability of the leader to influence, direct, encourage and control employees to accomplish the work set for them and achieve the organizational goals (Razak, Sarpan & Ramlan, 2018). The factors that determine both failure and success of small business include substantive and legitimate leadership behaviors and learning strategies. These factors may be among the principal reasons why some small businesses succeed, while others fail to understand the learning strategies, leadership knowledge, and skills used by successful small business leaders (Mersha & Avenew, 2018).

According to Ogola, Sikalieh and Linge (2017), the problem of poor performance in SMEs was strongly linked to the leader's style in an organization. Mkheimer (2018) subsequently identified leadership behavior, skills and qualities of leaders as essential factors that influenced the manufacturing industry's SMEs survival and growth. This therefore, offers an opportunity for researchers to explore more leadership studies so as to address the challenges that face the SME sector.

Despite existing and past policy interventions, SMEs have been continuously faced with persistent challenges impeding the performance and development of this sector. These challenges include but not limited to; access to markets, obsolete technology, regulatory environment and institutional coordination, governance structures, affordable finance among other emerging issues (Republic of Kenya, 2020). Wandiri, Nyangau and Ochieng (2020) add that as Kenya positions itself to achieve the sustainable development goals, there is a need to revisit the contributions of manufacturing SME's. The diversity in business environments and the heterogeneity of the SME population poses great challenges that would require fundamental SME policy consideration.

Globally, leadership scholars (Saleem *et al.*, 2020; Dokony *et al.*, 2020) conducted studies on path goal leadership in different contexts. In Kenya, other scholars (Mutonyi *et al.*, 2021; Mwaisaka *et al.*, 2019; Rana *et al.*, 2019) studied path goal leadership in large organizations with a focus on innovative behavior, organizational commitment, and employee satisfaction and employee performance. Hence, the need for additional research on leadership styles and organizational performance in manufacturing SMEs taking into consideration the gaps in, knowledge, policy and context of the studies.

Research Question

To what extent does environmental contingency factors moderate the relationship between path-goal leadership style and organizational performance in manufacturing SMEs in Nairobi?

Research hypothesis

Ho: Environmental contingency factors do not significantly moderate the relationship between path goal leadership style and organizational performance.

Literature Review

Theoretical Review

This study was grounded on Path-goal leadership theory, developed by Robert House and published in 1971. His intention was to reconcile prior conflicting findings concerning task and relationship-oriented leadership behavior. The foundation of Path-Goal model was Vroom's (1964) expectancy theory, which assumes that one's behavior comes from conscious choices among alternatives. Vroom realized that an employee's performance was based on individual factors such as knowledge, personality, skills, abilities and experiences. The Path- Goal model is based on stipulating the leader's behavior that best fits the employee and work environment so as to achieve a goal (House & Mitchell, 1974). The four leadership styles described by House and Mitchell path goal model are: directive, supportive, participative and achievement oriented, which should be appropriate to the situation to maximize performance.

Empirical Literature Review

Path goal theory considers three situational factors that can influence or moderate the effects of leader actions on follower attitudes and behaviors. The task characteristics include the design of the follower's task, the formal authority system of the organization and the primary work group of followers. Whenever a situation provides a clearly structured task, an established authority system and strong group norms then the followers will find the paths to their desired goals and will not require a leader to clarify goals or coach them to achieve these goals (Northouse, 2016). The Moderating Effect of Environmental Contingency Factors on the Relationship between Path Goal Leadership and Organizational Performance are discussed in this section. They include; task structure, formal authority system and primary work group (House & Mitchel, 1974).

Task Structure

Zhao and Sheng (2019) claimed that task structure had an important effect on the efficiency of leadership behavior. It affected the relationship between leader's behavior and the corresponding behavior of the subordinates. Their study on the influence of authoritarian leadership style and charismatic leadership style on employee engagement with the moderating role of task structure. Showed that task structure played a moderating role between authoritarian leadership and employee engagement. The more structured the task, the weaker the negative effect of authoritarian leadership on employee engagement; on the other hand, the less structured the task, the stronger the negative impact on authoritarian leadership on employee engagement. Demonstrating the significant role of task structure and employee engagement, which thereby affects performance positively or negatively.

An alternative study by Schuitema, Palha, Boxtel and Peetsma (2019) investigated the effects of task structure and group composition on the elaboration and metacognitive activities of 11th graded pre university students in Netherlands. The analysis showed the interaction that existed between task structure and the cognitive ability on the students' elaboration and metacognitive activities. The conclusion revealed that, task structure had a negative outcome on the elaborative contributions of high ability students. On the contrary, for students with lower abilities, task structure had a positive outcome on elaboration and metacognitive activities. This demonstrated that open ended collective tasks with little supervision and directions on how to handle them could arouse higher order processes among high ability students and would offer them the challenge they needed.

Formal Authority System

Fleming and Spicer (2014) argued that formal authority was a product of organizational structure, hierarchy and specific authorized positions or titles held by organizational actors. Formal authority is still the dominant characteristic of current organizations demonstrating where the apparent and exercised power of the managers flows in decision making. Leaders use formal authority for directing, controlling and organizing employees so that all parts of the work is coordinated in order to achieve the purpose of the organization (Yukl, 2010).

Daft (2011) described the relationship between organizational structure and decision making as first; the set of formal tasks assigned to departments and individuals, second; formal reporting relationships, which includes lines of authority, responsibility, decision, hierarchical levels and the span of managerial control and third; system design to ensure effective coordination of employees across departments. Therefore, organizational structure divides the formal tasks of departments and individuals, formal reporting relationships such as lines of authority, decision making, control management and number of hierarchical levels. Hence, leadership has a strategic role in designing the organizational structure while making decisions on duties, division of work, communication, and resource allocation that leads to employee confidence.

Additionally, Pešalj *et al.*, (2018) explored the use of management control and performance measurements systems in Dutch small and medium enterprises. The purpose of the research was to answer to the current demand of understanding how various management controls and performance measurements systems were used to manage performance concurrently in the SME context. The results from the single qualitative case study recognized managerial practices that allowed the interface of four control systems (diagnostic, boundaries, beliefs and interactive). This helped the organizations to manage pressures in relation to short and long term focus, anticipate the achievement of goals and pursue new prospects. Therefore, suggesting that managing performance needed a continuous and active usage of all the four

systems especially in SMEs where there was less formal authority and there was need for balance, notwithstanding the lack of managerial practices and proficiencies (Heinicke *et al.*, 2016).

Nguyen *et al.*, (2019) investigated whether formal authority of the HR department had any impact on line manager's evaluation of HR department effectiveness in Vietnam. Using Structural Equation modelling and PROCESS macro to analyze the data, the two staged study findings concluded that in the public sector, the HR department's level of formal authority was positively associated with their strategic involvement a perspective of the line managers. Hence, the more formal the authority, the more the perception that the public sector HR department was involved in the strategic management process. On the contrary, the findings showed that strategic partnership with line managers was central to the private sector HR department to efficiently exercise its effect in decision making.

Work Group

Employees in their work roles are rarely self-contained individuals. A range of theoretical perspectives have emphasized on how emergent states of work groups lead individuals to interpret and respond to their experiences and observations in diverse ways (Zohar & Hofmann, 2012) Group climate concepts are the values and beliefs that are endorsed by members of the group through collective process that make sense. Thus, the group exercises considerable influences as a source of social information (Zohar & Hofmann).

Love (2018) empirical research purposed to investigate a proposed link between group diversity and workgroup cohesion dependent on group size. Using data from a population of four small workgroups consisting of 7 to 12 members, comparative statistical analysis was used to examine the existence and the extent of any correlation. To determine group diversity, the research design employed Blau's (1977) index. However, the conclusions did not support the research hypotheses. This was because the results from the comparative assessments of the 10-member group produced descriptive statistics that supported theorizing greater group cohesiveness of similar task groups than varied task groups. Since the statistical analysis presented a correlation coefficient that showed an inverse linear relationship, the outcome lacked any statistical significance.

On the contrary, Shen *et al.*, (2019) developed and tested a moderated mediation model of the relationship between authoritarian leadership and desirable employee performance, group traditionality moderating the indirect relationship. Using multilevel, multisource analysis and data from 215 subordinates and 53 supervisors the findings supported the indirect relationship and the contingency effect of group traditionality. Hence, groups with low traditionality exhibited significantly stronger negative indirect effects on authoritarian leadership on both outcomes while groups with higher traditionality exhibited negligible indirect relationships.

Conceptual Framework

Marshall and Rossman (2016) define conceptual framework as mental maps resulting from specific illustrations or circumstances that help to show the relationships and interactions of variables diagrammatically and graphically. The conceptual framework for this study comprised of the independent variable as path-goal leadership behavior and the dependent variable is organizational performance amongst manufacturing SMEs. The study used; increase in revenue, sales production per employee and number of new inventions as the key performance indicators from the balance score card perspectives as they have quantitative metrics, can easily be measured and are numerically comparable.

This study selected environmental contingency factors as the moderating variable since they influence the effects of leader actions on follower attitudes and behaviors. The conceptual framework is shown in figure 1.

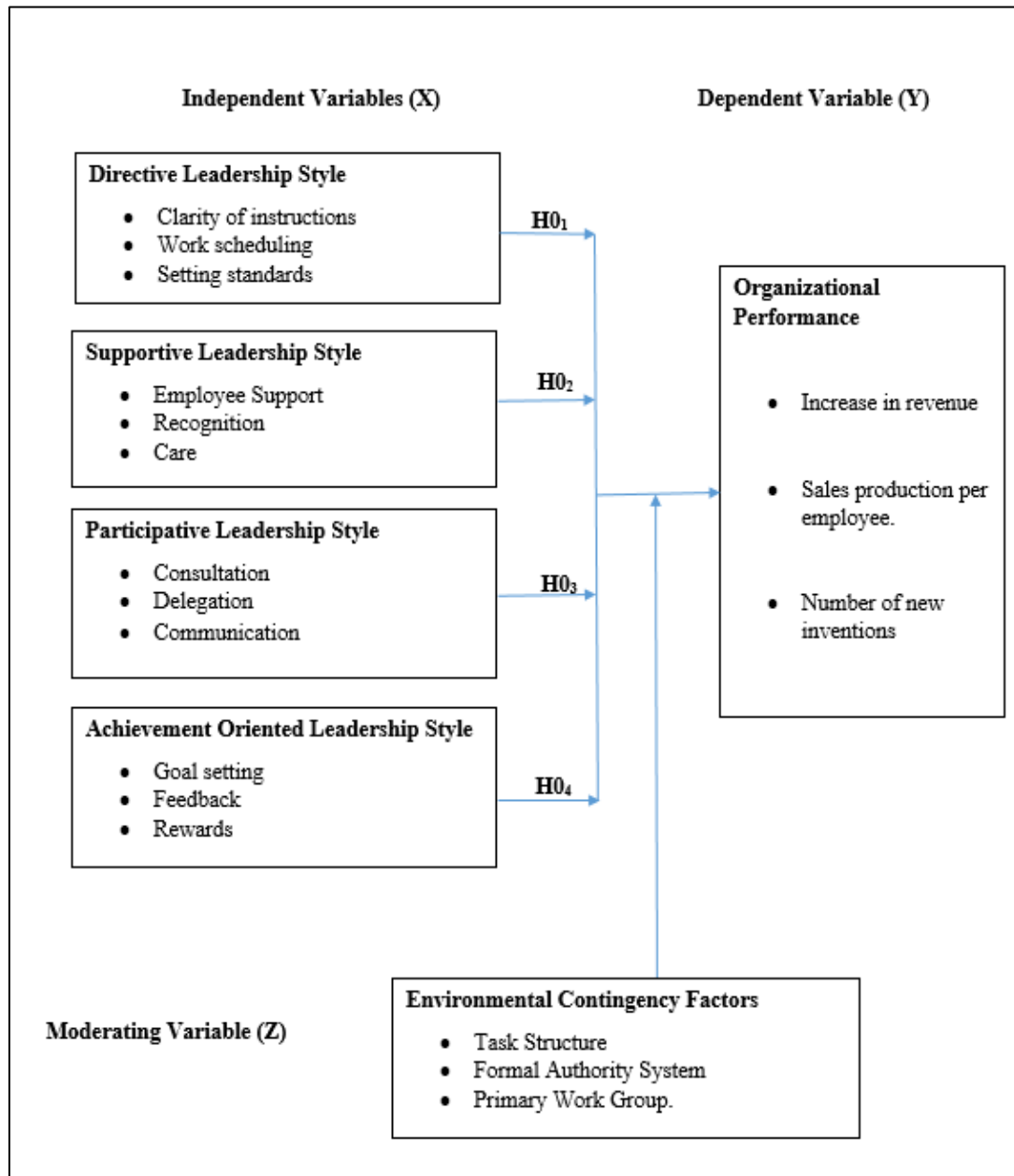


Figure 1: Conceptual Framework

Research Methodology

The study applied positivist research philosophy, allowing the application of quantitative design techniques to determine how the independent variable (path goal leadership styles) influenced the dependent variable (organizational performance) and determine the moderating effect of Environmental Contingency Factors on the relationship between Path-Goal Leadership Style and Organizational Performance in manufacturing SMEs in Nairobi.

A descriptive correlational design was adopted to determine if two variables correlated. This design established the relationship between path goal leadership style and organizational performance. The population targeted for the study were managers/owners from 425 SMEs listed members of the Kenya Association of Manufacturers based in Nairobi County as per the Kenya Manufacturers and Exporters Directory 2020-2021 edition. SMEs in Nairobi County constitute 65 per cent of the Kenya Association of Manufacturers, making it the ideal location for the study. Using a Stratified random sampling technique, the study derived a sample of 369 respondents from the total population of 425 organizations. This ensured that all the study elements were well represented, increasing the probability that the sample was proportionally represented (Saunders, Lewis & Thornhill, 2016). SMEs from the different categories were thereby grouped in 14 homogenous strata before being sampled (Katialem, Muhanji & Otuya, 2018). Simple random sampling was then used to select the SMEs from each stratum in the population based on the percentage represented by each stratum. Yamane's (1967) formula was adopted to define the sample size for each stratum. Using a self-administered structured questionnaire, data was collected from the managers/owners of manufacturing SMEs. Close-ended questions with a five-point Likert scale were used to measure the respondents' answers using the following scale ratings to gauge path goal leadership and organizational performance: 1 = Not at all, 2 = Rarely, 3 = Sometimes, 4 = Often, and 5 = Always

Results and Findings

The results and findings present descriptive and inferential statistics. Descriptive statistics included; mean, standard deviation, skewness and kurtosis, while inferential analysis included; factor analysis, validity and reliability tests, correlation analysis, chi-square and binary logistic regression. SPSS version 22 was used as the data analysis tool.

Descriptive Statistics

Descriptive statistics were applied to examine the demographic information of the respondents and their institution of work. The variables captured included the position in the firm, gender, the duration in the organization, age of the respondents and the highest level of education. From the study results, the managers were 62% of the respondents while the owners were 38%, more than two thirds were Male (70 %) followed by female (30 %), at least 24.3% of the respondents had been in the institution for 2-3 years, 4-5 years at 24.8%, 0-1 years were 11.7%, 6-8 years were 11.7% and 13-15 years had worked for 10.4%. Others were less than 10%; 9-12 years were 8.7% and over 15 years were 8.4%, Most of the respondents were 41-50 years of age at 30.7%, 36-40 years at 26.8%, 31-35 years at 11.0%, and 26-30 years at 10.1%. Others were less than 10%; 51-60 years at 7.4%, 18-25 years at 5.8%, 61-70 years at 5.2% and over 70 years at 3.0% and Most of the respondents were diploma holders at 35.2%, the undergraduate were 24.9%, and certificate were 22.7%. Others were less than 10%; 7.9% were in high school, 7.7% at Masters Level, 1.1% at PhD and 0.5% in other levels.

Mean, standard deviation, skewness and kurtosis for Environmental Contingency Factors

The descriptive statistics covered were mean, standard deviation, skewness and kurtosis. As presented in Table 1, the mean value of each questions arranged in a chronological order were; 'I have built a cohesive team to carry out tasks and duties (M=3.72, SD=.871), followed by 'I instruct employees on how to carry out the tasks and duties.' (M=3.62, SD=1.570) and lastly, 'I define the tasks and duties to be performed' (M=3.67, SD=.805).

The mean value of all the questions on environmental contingency factors ranged from 3.62 to 3.72, converted to zero decimal place was M=4. Similarly, the SD ranged from .805 to 1.570, hence most of the respondents highly agreed with the questions on environmental contingency factors as the moderating variable of study. The skewness and kurtosis of the data was also <1 hence data on environmental contingency factors were normally distributed.

Table 1

Mean, standard deviation, skewness, and kurtosis for Environmental Contingency Factors

		I define the tasks and duties to be performed.	I instruct employees on how to carry out the tasks and duties.	I have built a cohesive team to carry out tasks and duties.
N	Valid	366	366	364
	Missing	1	1	3
Mean		3.67	3.62	3.72
Median		4.00	4.00	4.00
Std. Deviation		.805	1.570	.871
Skewness		-.296	7.379	-.429
Std. Error of Skewness		.128	.128	.128
Kurtosis		.645	80.827	.406
Std. Error of Kurtosis		.254	.254	.255

Binary Logistic Regression and Hypothesis Testing

This section covers binary logistic regression analysis conducted to determine the moderating effect of Environmental Contingency Factors on the relationship between Path-Goal Leadership Style and Organizational Performance in manufacturing SMEs in Nairobi. The hypothesis tested was:

H₀: Environmental contingency factors do not significantly moderate the relationship between path goal leadership style and organizational performance.

The binary logistics results for Environmental contingency factors was presented in the form of dependent and independent variable measures, Hosmer and Lemeshow tests, model summary and variables in the equation.

Dependent and Independent Variable Measure

In this study, the questions on the dependent and independent constructs had categorical measurement. The measurements were on five point Likert scale format; Not at all, rarely, sometimes, often and always. The questions retained for analysis after the factor analysis were categorized into two; Yes and No (binary) and the distribution of the organization performance were; 97.5% agreed while 2.5% disagreed.

Table 2

Dependent and Independent Variable Measure

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	9	2.5	2.5	2.5
	Yes	358	97.5	97.5	100.0
	Total	367	100.0	100.0	

Model Summary

Cox & Snell is an analogous static in logistic regression to the coefficient of determination of R square in linear regression. The model summary provides some approximation of R statistics in logistic regression. The result of Cox and Snell R squared shown in Table 3 suggest that 16.5 % of the probability of the relationship between Path-Goal Leadership Style and Organizational Performance is explained by the Environmental Contingency Factors.

Table 3

Model Summary

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square	R
1	18.588 ^a	.165	.799	

^a. Estimation terminated at iteration number 11 because parameter estimates changed by less than .001.

Hosmer and Lemeshow

Hosmer and Lemeshow indicate a poor fit if the significance p -value is less than .05. In this case the model adequately fits the data as the p -value was greater than .05 (.366) and there was no difference between the observed and predicted model.

Table 4

Hosmer and Lemeshow Test

Step	Chi-square	Df	Sig.
1	8.723	8	.366

Classification Table

The classification table indicates on how well the model can predict the correct category once the predictor variables are added to the study. In this case, the model correctly classified 99.2 % of the cases overall. It is the degree to which the model predicts observed outcome. Overall the accuracy was good as the model exhibited good sensitivity among those who chose Yes over No at 99.7 % based on the model.

Table 5

Classification Table

	Observed	Predicted			
		Binary of OP (1 and 0)		Percentage Correct	
Step 1		.00	1.00		
	Binary of OP (1 and 0)	.00	7	2	77.8
		1.00	1	354	99.7
	Overall Percentage				99.2

^a. The cut value is .500

Variables in the Equation

Table 6 shows the moderating effect of Environmental Contingency Factors on the relationship between Path-Goal Leadership Style and Organizational Performance. The results show that the coefficient of Directive leadership by Environmental Contingency Factors was (2.935, $p = .112$), the Exp (B) for Directive Leadership style was 18.589. The coefficient of Supportive leadership by Environmental Contingency Factors was (-.427, $p = .717$), the Exp (B) for Supportive Leadership style was 0.652, the coefficient of Participative Leadership by Environmental Contingency Factors was (-.4.645, $p = 0.046$), the Exp (B) for participative leadership style was 0.010. The Achievement Oriented Leadership Style coefficient by Environmental Contingency Factors was (2.586, $p = 0.118$) and the Exp (B) for Achievement Oriented Leadership style was 13.274.

Table 6

Variables in the Equation

		B	S.E.	Wald	df	Sig.	Exp(B)
	DLS	-6.862	5.504	1.554	1	.213	.001
	SLS	6.302	5.201	1.468	1	.226	545.691
	PLS	12.351	6.127	4.064	1	.044	231298.034
	AOLS1	-9.164	5.281	3.011	1	.083	.000
Step 1 ^a	DLS by ECF	2.935	1.900	2.387	1	.122	18.829
	ECF by SLS	-.427	1.180	.131	1	.717	.652
	ECF by PLS	-4.645	2.329	3.978	1	.046	.010
	AOLS1 by ECF	2.586	1.656	2.439	1	.118	13.274
	Constant	-6.609	3.252	4.131	1	.042	.001

^a. Variable(s) entered on step 1: DLS, SLS, PLS, AOLS1, DLS * ECF, ECF * SLS, ECF * PLS, AOLS1 * ECF.

Discussion of Results

The study revealed that environmental contingency factors did not significantly moderate the relationship in three path goal leadership styles (directive, supportive and achievement oriented leadership styles) and organizational performance while it significantly moderated the relationship between participative leadership style and organizational performance in manufacturing SMEs in Nairobi County, Kenya. Binary Logistic Regression, Cox and Snell R squared revealed that the environmental contingency factors explained 16.5 % of the probability of the relationship between path-goal leadership style and organizational performance. Hosmer and Lemeshow test showed that the model adequately fitted the data as the *p*-value was greater than .05 (.366) The parameter estimates results indicated that the coefficient of directive leadership by environmental contingency factors ($\beta = 2.935$, $p = .112$) was statistically insignificant. The coefficient of supportive leadership by environmental contingency factors ($\beta = -.427$, $p = .717$) was statistically insignificant. The coefficient of participative leadership by environmental contingency factors ($\beta = -.4.645$, $p = 0.046$) was statistically significant. The coefficient of achievement oriented leadership style by environmental contingency factors ($\beta = 2.586$, $p = 0.118$) was statistically insignificant.

Based on the results, the study failed to reject the null hypothesis “Environmental contingency factors do not significantly moderate the relationship between path goal leadership style and organizational performance in three study variables (directive, supportive and achievement oriented leadership styles). The study rejected the null hypothesis in participative leadership by environmental contingency factors. Therefore, the study concluded that environmental contingency factors did not moderate the relationship in three path goal leadership styles (directive, supportive and achievement oriented leadership styles) and organizational performance while it moderated the relationship between participative leadership style and organizational performance in manufacturing SMEs in Nairobi County, Kenya.

Conclusion

The study revealed that environmental contingency factors did not significantly moderate the relationship in three path goal leadership styles (directive, supportive and achievement oriented leadership style) and organizational performance while it significantly moderated the relationship between participative leadership style and organizational performance in manufacturing SME’s in Nairobi County, Kenya. Therefore, the study recommends that owners/ managers of manufacturing SME need to define the tasks and duties to be performed, instruct employees on how to carry out tasks and duties and build a cohesive team to carry out tasks especially when they apply participative leadership style to realize optimal organizational performance.

Recommendations

The study sought to determine the influence of path goal leadership style on organizational performance of manufacturing SMEs in Nairobi County, Kenya. The target population for the study was limited to manufacturing SMEs in Nairobi, registered under Kenya Association of Manufacturers (KAM). This study therefore recommends further studies to be conducted to examine the influence of path goal leadership style on organizational performance of manufacturing SMEs in Kenya taking into consideration a larger SME population. The study was limited to path goal leadership styles, therefore, further research needs to be done in other contexts with the inclusion of demographic variables such as gender and age in relation to organizational performance which could produce diverse outcomes. In addition, future researchers could use a longitudinal approach and other data analysis methods to provide new insights in the SME sector

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