

**MAKERERE**



**UNIVERSITY**

**FIRM LEADERSHIP STYLE, INNOVATIVE BEHAVIOUR AND PERFORMANCE OF  
SMES IN KAMPALA DISTRICT**

**BY**

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**REG NO. 2010/HD10/2945U**

**A RESEARCH DISSERTATION SUBMITTED TO GRADUATE RESEARCH CENTRE  
IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE  
MASTER DEGREE OF SCIENCE OF ENTREPRENEURSHIP OF  
MAKERERE UNIVERSITY**

**OCTOBER, 2018**

**PLAN A**

## DECLARATION

I Haulah Namubiru declare that this report is my original work and has never been published and or submitted to any University or Institution of learning for any award; Where authored work has been referred to, citation was made in recognition of their work.

Signature..........Date.....10/10/2018.....

**HAULAH NAMUBIRU**

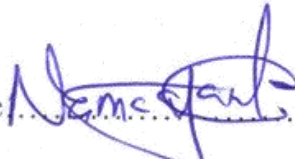
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## APPROVAL

This is to certify that the dissertation entitled: Firm Leadership Style, Innovative Behavior Performance of Smes in Kampala District by Haulah Namubiru was under our supervision and ready for submission to Makerere University for examination with our approval

Signature..........Date.....10-10-2018.....

Dr. Nkote N. Nabeeta

Signature..........Date.....10/10/2018.....

Ms. Namaganda Christine

## **DEDICATION**

The report is dedicated to my beloved parents, my supervisors, friends and all others who provided inspirational insights towards the accomplishment of this report with due diligence

## **ACKNOWLEDGEMENT**

I acknowledge the authors cited in the report that devoted their effort and time to ensure that their journal articles are published which greatly influenced the development and completion of my report

I extend my sincere gratitude to all those who provided constructive criticisms and help during the preparation of the report; more especially my Supervisors Dr. Nkote Nathan Nabeeta and Ms. Namaganda Christine upon their wonderful supervision whose outcomes are seen in the report.

My special appreciation to all those who provided material and financial support towards my education more especially my parents

## TABLE OF CONTENTS

DECLARATION.....	<b>Error! Bookmark not defined.</b>
APPROVAL .....	<b>Error! Bookmark not defined.</b>
DEDICATION.....	iii
ACKNOWLEDGEMENT .....	v
LISTS OF TABLES AND FIGURES .....	ix
ABSTRACT .....	x
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION .....</b>	<b>1</b>
1.0 Background to the study .....	1
1.2 Problem Statement.....	2
1.3 Purpose of the Study .....	2
1.4 Objectives of the Study.....	2
1.5 Research Questions.....	3
1.6 Scope of the Study .....	3
1.7 Significance of the study .....	4
1.8 Conceptual Frame work.....	4
<b>CHAPTER TWO .....</b>	<b>6</b>
<b>LITERATURE REVIEW .....</b>	<b>6</b>
2.0 Introduction.....	6
2.1. Firm Leadership style and innovative behavior.....	8
2.2 Innovative behavior and SMES performance.....	11
2.3 Firm Leadership, Innovative behavior and SMES Performance .....	14
<b>CHAPTER THREE.....</b>	<b>18</b>
<b>METHODOLOGY .....</b>	<b>18</b>

3.0 Introduction.....	18
3.1 Research design .....	18
3.2 Study Population.....	18
3.3. Sample size and Method.....	19
3.4. Data Source.....	19
3.5. Data Collection instrument .....	19
3.6. Measurement of Variables .....	20
3.7 Reliability .....	20
3.8. Analysis and presentation .....	21
<b>CHAPTER FOUR .....</b>	<b>22</b>
<b>PRESENTATION AND INTERPRETATION OF FINDINGS .....</b>	<b>22</b>
4.1. Introduction.....	22
4.2. Descriptive Statistics .....	22
4.3. Correlation Analysis .....	24
4.3.1: To establish the relationship between the innovative behaviors and performance of SMES	25
4.3.2: To establish the relationship between firm leadership and performance of SMEs .....	25
4.4 Regression Analysis.....	25
4.4.1: To find out the relationship between the firm leadership, innovative behavior and performance of SMES .....	26
<b>CHAPTER FIVE .....</b>	<b>27</b>
<b>DISCUSSION, CONCLUSION AND RECOMMENDATION .....</b>	<b>27</b>
5.1. Introduction.....	27
5.1. Discussion.....	28
5.1.1 Relationship between the innovative behaviors and performance of SMES in Kampala .....	28
5.1.2 Relationship between firm leadership and performance of SMEs in Kampala.....	30

5.1.3 Relationship between the firm leadership, innovative behavior and performance of SMES in Kampala.....	32
5.2 Conclusions.....	34
5.2.1. Relationship between the innovative behaviors and performance of SMES in Kampala .....	34
5.2.2 Relationship between firm leadership and performance of SMEs in Kampala.....	34
5.2.3 Relationship between the firm leadership, innovative behavior and performance of SMES in Kampala.....	34
5.3 Recommendations: .....	35
5.4. Areas for further Research:.....	35
REFERENCES .....	36



**LISTS OF TABLES AND FIGURES**

<b>CONTENT</b>	<b>PAGE</b>
Fig 1: Conceptual Frame work.....	5
Table 1 Position held .....	18
Table 2 Age range .....	18
Table 3 Gender .....	18
Table 4 Years of business existence .....	19
Table 5: Correlation analysis results of firm leadership, innovative behavior and performance of SMES.....	19
Table 6: Normal Regression analysis results of the firm leadership, innovative behavior and performance of SMES .....	25

## **ABSTRACT**

The purpose of the study was to investigate Firm leadership style, innovative behavior and performance of SMES in Kampala district. The study was guided by the following research objectives: To establish the relationship between the innovative behaviors and performance of SMES, to establish the relationship between firm leadership style behaviors and performance of SMEs and to find out the relationship between the firm leadership, innovative behavior and performance of SMES.

A cross sectional and quantitative survey, was used in the selection of 217 SMES from Kampala. Data was collected using questionnaires. The data was analyzed using the Statistical Package for Social Scientists (SPSS 17). Results from the finding confirmed that innovative behavior has a significant and positive relationship with performance of SMES, firm leadership has a significant and positive relationship with performance of SMES and Leadership Style and Innovative Behavior accounts for 12.8% ( $R^2 = .128$ ) variance in the performance of SMEs in Kampala.

The study therefore recommended that, it is crucial for the SMEs in Kampala District to practice good leadership in their businesses as this will help in motivating their staff to work well and also serve their clients when they are happy, SMEs in Kampala have to be flexible in their operations for example giving time off to staff to think about new better ways of improving their respective activities as this will bring in more innovations in the business and thus improve performance and SMEs also should take into consideration applying new ideas that come on board in their respective businesses as this will help them to be in line with the changing tastes and preferences for the clients.

## CHAPTER ONE

### INTRODUCTION

#### 1.0 Background to the study

Leadership style is widely recognized as a critical success factor for the development of new services or products (Yukl, 2002). However, despite agreement on the importance of leadership, research has failed to systematically study the relationship with innovation (Yukl, 2002). Scholars agree that some leader behaviors are desirable, such as having confidence in employees and a participating leadership style (Axtell *et al.*, 2000). Yet, not much is known about specific leadership style behaviors that influence innovation.

It is proved that SMEs lead in innovation and as often, they are the source of new materials, processes, ideas, services and products that large firms are unable or unwilling to provide. However, in innovation and leadership style research, performance of the Small and Medium-sized firms do not get much attention (King & Anderson, 2002; Yukl, 2002). SMEs contribute much more to the economy and society of Uganda because they tend to be more economically innovative than larger firms, therefore they are able to respond to the changing consumer demands and more receptive to creating opportunities and activities in distressed areas, and thus more in nature (Derek, 2006).

In addition GEM (2004) found that Ugandan's attitudes towards start-up are in reality positive and the majority (82%) of those intending to start a new business in the next three years thought that there would be good opportunities for doing this in their area and they did not fear failure. This signified that many SMEs owners have innovative behavior, which helps improves on their performance. However, Uganda is classified among the least developed economies in the world

with unsatisfactory performance as both output and productivity levels have continued to be low, despite the sharp developments in the world economies over the past few years. In addition, productions levels in Uganda have continued to be dominated by traditional technologies and production techniques (Ocici, 2007). In addition, it is evidenced by Ocici (2007) report that 30% of SMEs that start each year, collapse within a period of not more than 12 to 24 months. Therefore this study sought to establish the effect of firm leadership style and innovative behavior on the performance of SMES in Kampala.

## **1.2 Problem Statement**

SMEs in Uganda have been doing well in innovation as this is indicated by them being the source of new materials, processes, ideas, services and products that large firms are unable or unwilling to provide. However, there is an indication of poor performance of SMES as this is evidenced from the Uganda National Chamber of Commerce and Industry (2012) which indicates that of the 5,112 SMES that were started 2,363 closed down before the first year of operation. Therefore there is needed to be investigated whether the poor performance of SMEs in Uganda is attributed to the leadership style and innovative behavior of the owner.

## **1.3 Purpose of the Study**

The study sought to investigate Firm leadership style, innovative behavior and performance of SMES in Kampala district.

## **1.4 Objectives of the Study**

- i. To establish the relationship between the innovative behaviors and performance of SMES.

- ii. To establish the relationship between firm leadership style behaviors and performance of SMEs.
- iii. To find out the relationship between the firm leadership, innovative behavior and performance of SMES.

### **1.5 Research Questions**

- i. What is the relationship between the innovative behaviors and performance of SMES?
- ii. What is the relationship between firm leadership style behaviors and performance of SMEs?
- iii. What is the relationship between the firm leadership, innovative behavior and performance of SMES?

### **1.6 Scope of the Study**

#### **Subject Scope**

The study is about firm Leadership style behaviors, innovative behavior and SMES performance

#### **Geographical Scope**

The study on the SMES was carried out within Kampala District. The Justification for the choice of these businesses is because the rate at which they are increasing in all Divisions of Kampala is high (UBOS, 2007).

## **1.7 Significance of the study**

The study may be useful in the following ways:

The study may help identify the leadership style attributes effective for the SMES in order to improve on their performance.

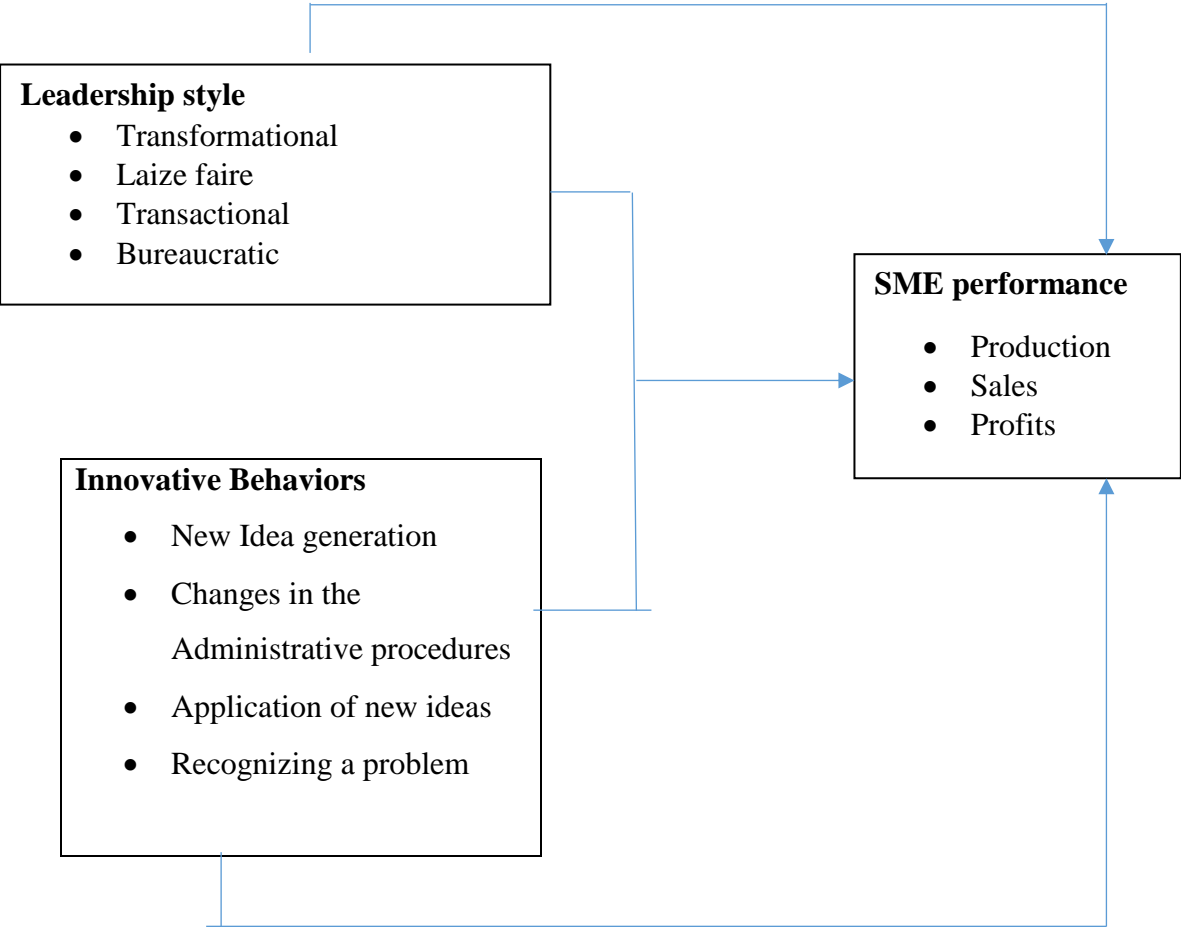
The study also helps identify attributes for effective innovative behavior to be practiced by the SMES in Uganda.

To the academia, the study may help generate new knowledge on the firm leadership, Innovative behavior and performances.

## **1.8 Conceptual Frame work**

With the existence of good leadership style in the firm, innovative behavior among the employees of SMES is influenced. In addition, it is expected that with a combination of good leadership style and innovative behaviors, performance of a firm will improve. Some of the Leadership style behaviors expected to improve or lower the innovative behavior and performance are transformational, transactional, Laissez-faire and bureaucratic behaviors. Some of the innovative behaviors expected to improve on the Entrepreneurial performance of SMES are; Idea generation, Application of new ideas and Changes in the administrative procedures among others listed in the model.

**Figure 1: The linkage between Firm Leadership, innovative behavior and performance of SMES**



**Source; Developed from the literature review of:** Dubrian, (2001); Nahavandi, (2002); Yukl, (2002); Waldman & Bass, Schumpeter, (1934); Ardts, Van Der Velde & Maurer (2010); King & Anderson, (2002); Yukl, (2002); among others.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter presented the literature review of the study variables as shown in the conceptual framework.

#### **Some types of Leadership styles**

##### **Transformational Leadership**

The difference between transformational and transactional leadership lies in the way of motivating others. Transformational leader's behaviour originates in the personal values and beliefs of the leader and motivates subordinates to do more than expected (Bass, 1985). Burns (1978), identified transformational leadership as a process where, "one or more persons engage with others in such a way that leaders and followers raise one another to higher levels of motivation and morality".

For transformational leadership style, the follower feels trust, admiration, loyalty and respect towards the leader, and is motivated to do more than what was originally expected to do (Bass, 1985; Katz & Kahn, 1978). The transformational leader motivates by making follower more aware of the importance of task outcomes, inducing them to transcend their own self-interest for the sake of the organization or team and activating their higher-order needs. He encourages followers to think critically and seek new ways to approach their jobs, resulting in intellectual stimulation (Bass et al., 1994). As a result, there is an increase in their level of performance, satisfaction, and commitment to the goals of their organization (Podsakoff et al, 1996).



## **Transactional Leadership**

Transactional leadership involves an exchange process that results in follower compliance with leader request but not likely to generate enthusiasm and commitment to task objective. The leader focuses on having internal actors perform the tasks required for the organization to reach its desired goals (Boehnke et al, 2003). The objective of the transactional leader is to ensure that the path to goal attainment is clearly understood by the internal actors, to remove potential barrier within the system, and to motivate the actors to achieve the predetermined goals (House and Aditya, 1997).

Transactional leaders display both constructive and corrective behaviours. Constructive behavior entails contingent reward, and corrective dimension imbibes management by exception. Contingent reward involves the clarification of the work required to obtain rewards and the use of incentives and contingent reward to exert influence. It considers follower expectations and offers recognition when goals are achieved. The clarification of goals and objectives and providing of recognition once goals are achieved should result in individuals and groups achieving expected levels of performance (Bass, 1985). Active management by exception refers to the leader setting the standards for compliance as well as for what constitutes ineffective performance, and may include punishing followers for non-compliance with those standards. This style of leadership implies close monitoring for deviances, mistakes, and errors and then taking corrective action as quickly as possible when they occur.

## **2.1 Firm Leadership style and innovative behavior**

An effective leader influences followers in a desired manner to achieve desired goals. Different leaderships may affect organizational effectiveness or performance (Nahavandi, 2002). Leadership style was relatively a consistent pattern of behavior that characterized a leader (Dubrian 2001). Today businesses need effective leaders who understand the complexities of the rapidly changing global environment. It is expected for the Entrepreneur to influence his co-workers with the intermediate goal of enhancing their innovative behavior, in order to improve the number and quality of innovations and eventually firm performance. Leadership style is widely recognized as a critical success factor for the development of new products and services (Howell & Avolio, Yukl, 2002).

In the literature, leadership has been identified as an important subject in the field of organizational behaviour. Leadership is one with the most dynamic effects during individual and organizational interaction. In other words, ability of management to execute “collaborated effort” depends on leadership capability. Lee and Chuang (2009), explain that the excellent leader not only inspires subordinate’s potential to enhance efficiency but also meets their requirements in the process of achieving organizational goals. Fry (2003), explains leadership as use of leading strategy to offer inspiring motive and to enhance the staff’s potential for growth and development. Several reasons indicate that there should be a relationship between leadership style and organizational performance. Studies have suggested that effective leadership behaviors can facilitate the improvement of performance when organizations face these new challenges (McGrath and MacMillan, 2000).

Understanding the effects of leadership on performance is also important because leadership is viewed by some researchers as one of the key driving forces for improving a firm's performance. Effective leadership is seen as a potent source of management development and sustained competitive advantage for organizational performance improvement (Rowe, 2001). For instance, transactional leadership helps organizations achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring that employees have the resources needed to get the job done (Zhu, Chew and Spengler, 2005). Visionary leaders create a strategic vision of some future state, communicate that vision through framing and use of metaphor, model the vision by acting consistently, and build commitment towards the vision (Von Glinow, 2000). Some scholars like Zhu *et al.* (2005), suggest that visionary leadership will result in high levels of cohesion, commitment, trust, motivation, and hence performance in the new organizational environments.

Mehra, Smith, Dixon and Robertson (2006) argue that when some organizations seek efficient ways to enable them outperform others, a longstanding approach is to focus on the effects of leadership. Team leaders are believed to play a pivotal role in shaping collective norms, helping teams cope with their environments, and coordinating collective action. This leader-centred perspective has provided valuable insights into the relationship between leadership and team performance (Guzzo and Dickson, 1996). Some studies have explored the strategic role of leadership to investigate how to employ leadership paradigms and use leadership behaviour to improve organizational performance (Judge, Bono, Ilies, and Gerhardt, 2002; Judge and Piccolo, 2004; Keller, 2006; McGrath and MacMillan, 2000; Meyer and Heppard, 2000; Purcell, Kinnie, Hutchinson and Dickson, 2004; Yukl, 2002). This is because intangible assets such as leadership styles, culture, skill and competence, and motivation are seen increasingly as key sources of

strength in those firms that can combine people and processes and organizational performance (Purcell *et al.*, 2004).

Other scholars have also suggested that leaders and their leadership style influence both their subordinates and organizational outcomes (Tarabishy, Solomon, Fernald, and Sashkin, 2005). Fenwick and Gayle (2008), in their study of the missing links in understanding the relationship between leadership and organizational performance conclude that despite a hypothesised leadership-performance relationship suggested by some researchers, current findings are inconclusive and difficult to interpret.

In addition to the above authors, Kotler (1998) stated that Firm leadership style is widely believed to be linked to the process of change, as it is only through leadership style that one can truly develop and nurture culture that is adaptive to change. Yukl (2002) asserted that specific leadership style behaviors may influence innovation through compliance as part of the organizational culture. However, appropriate leadership style to effect such change was equally being called for (Ahmed, 2006). In addition, firm leadership style has been emphasized as one of the most important influences of firm innovation because leaders can decide directly to introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from subordinates.

In support of this statement, Elenkov and Maner (2005) and others Bundly (2002); Henry, (2001) identified leader behavior as stimulating employee participation and esteem, and encouraging new ideas as integral to the innovation process. These leadership style behaviors, namely individualized consideration and motivation among others derives from a leader's vision and

values, contribute to a culture that facilitates organizational innovation (Elenkov and Manev, 2005, Nutt, 2002).

However, despite agreement on the importance of leadership, little has been done to establish the relationship with innovation. Theorists agree that some leader behaviors are desirable. Some examples include having confidence in employees and a participating leadership style (Axtell *et al.*, 2000). Yet, not much is known about specific leadership style behaviors that influence innovation. Therefore, this study is sought to establish the relationship between firm leadership style and innovation

## **2.2 Innovative behavior and SMES performance**

OECD (2005) Oslo manual guiding the collection of data on innovation reflects this perspective by defining innovation as: "... the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business practices, workplace organization or external relations. An alternative definition of innovation adopted more recently by policymakers in the UK and also applied in the literature (Stoneman, 2010; Battisti *et al.*, 2011) regards innovation as the 'successful exploitation of new ideas'.

True entrepreneurship has been translated (by some) to mean nothing less than innovations (Drucker, 1986, Schumpeter, 1934). Further, Schumpeter (1934) viewed an entrepreneurial act (or event) as a system and that if there are no innovations, there can be no profit because the concept of innovation is always current. In addition, all organizations are interested in knowing what influences the results they achieve, how and why they succeed or fail. However, the belief

that their results are related to innovation has continued to inspire questions and research on the subject by professionals and academicians.

The Product Development and Management Association (PDMA, 2004) indicates that innovation is a new idea, method, or device, the act of creating a new product or process. Innovative behavior can be defined as ‘all individual actions directed at the generation, introduction and application of beneficial novelty at any firm level’. Innovation is seen as a multi staged process, including recognizing a problem, creating new ideas and solutions for the problem, creating support for the new ideas and solutions for use in the organization. Additionally, Ishak (2005) proposes that to increase the innovativeness of employees, organizations should develop employee skills associated with solving work based problems innovatively (problem identification, problem resolution and solution implementation) Furthermore, the innovation process is often described as being comprised of an initiation and implementation phase (De Jong & Den Hartog 2007).

The growing pressure to innovate is enforced by a turbulent business environment (which is contributed to by a number of factors) including technology growth, globalization and hypercompetitive markets. Subsequently, innovative behaviour goes beyond the familiar path of what is accepted and concrete and is often associated with complexity and ambiguity (Kriegesmann, Kley&Schwering 2007). Therefore, employees are unlikely to display innovative behaviour unless they are enticed, rewarded and supported. Furthermore, if an employee makes a mistake when displaying innovative behaviour, it is important that this will not damage their career or reputation otherwise employees will be too concerned about the consequences to think innovatively or creatively (Janssen 2005). Nevertheless, the more an organization rewards and supports an employee’s innovative behaviour and listens and trusts their judgment, the more effort employees will put into being innovative (Ramus 2001).

The above is supported by Ards, Van Der Velde & Maurer (2010) who confirms that the innovative behavior of employees can provide a significant competitive advantage for small to medium sized enterprises (SMEs) because innovative behavior is the process of bringing new problem solving ideas into use. Further, Carmeli, Meitar and Weisberg (2006) described innovative behavior as a knowledge management process that involves recognizing a problem, creating solutions for the problem and creating support to embed the solutions into organizational practice. In addition, innovative behavior is suggested to be important for organizations seeking to improve the overall efficiency and effectiveness of organizational processes. The importance of innovative behavior is imperative for SMEs as the literature suggests that these institutions can be at a disadvantage when competing with larger firms (Cassell, Nadin, Gray & Clegg, 2002).

To explain, a disadvantage is often caused by the inequality of leverage and buying power over resources, when comparing larger organizations and SMEs. Therefore, the importance of developing the innovative behavior of employees becomes particularly important for SMEs, and is one method of improving the effectiveness and efficiency of organizational processes. The shared knowledge of employees is an important resource for facilitating innovative behavior. Cavusgil, Calantone and Zhao (2003) suggest organizations that can facilitate the use of knowledge are able to innovate faster and more successfully.

In addition, Bradley, (2000) indicates that Research has called for organizations to be more flexible, adaptive, entrepreneurial and innovative in order to effectively meet the changing demands of today's environment. However, in both innovation and leadership style research in small and medium-sized firms has not get much attention (King & Anderson, 2002; Yukl, 2002;

Johne&Storey, 1998). Therefore, this research will focused on the firm leadership style that can be used as a resource to aid the innovative behavior of employees within the context of an SME.

### **2.3 Firm Leadership, Innovative behavior and SMES Performance**

The concept and definition of leadership and style may differ from one person, or situation, to the other. The word „leadership“ has been used in various aspects of human endeavor such as politics, businesses, academics, social works, etc. Previous views about leadership show it as personal ability. Leadership style is the art of influencing others (De Pree, 2004). Today’s organizations need effective leaders who understand the complexities of the rapidly changing global environment (Nahavandi, 2002). Hence, an effective leader influences followers in a desired manner to achieve desired goals.

Leadership style is one of the most important human resource-related outcomes, and perhaps one of the most studied topic in management and industrial psychology. This is probably so because leadership happens to be the core but sometimes contentious issue in organizational research (Judge & Piccolo, 2004; Khurana, 2002). Leadership enables organizations to be more productive and profitable, but the extent of success depends on the style of the leader and the resultant environment created for employees to function well.

Kim (2004) is of the view that the kind of leadership style exhibited by managers to a large extent influences organizational valued outcomes such as low employee turnover, reduced absenteeism, customer satisfaction, and organizational effectiveness. It can either lead to inspiration or disenchantment among employees resulting in increase or decrease productivity (Sander, 2007).

Though the view seems reasonable, empirically, evidence suggested that leadership plays limited distinguishing role in influencing organizational members towards firm performance are scanty



(Jung, & Berson, 2003; Bertrand & Schoar, 2003; Judge & Piccolo, 2004; Judge, Piccolo, & Ilies, 2004; Koene, Vogelaar, & Soeters, 2002). The literature on leadership and firm performance has concentrated on leadership and employee satisfaction, participative leadership style on job satisfaction, link between diversity and firm performance, female style in corporate leadership and managerial style on firm policies (Bertrand et al. 2003; Belonia, 2012; Hamidifar, 2009; Matsa & Miller, 2011). Significantly, many of the studies concentrated on a single leader either the CEO, General Manager or Supervisor but organizational effectiveness depends on multiple leadership contributions (O'Reilly et al. 2009). From the authors observations there are no empirical Ghanaian based findings on the predictive relationship between leadership styles and financial performance of banks. Since leadership style is not a product of one leader, investigating the dominant leadership style in an organization and how it has affected performance would expand the frontiers of the study of leadership and firm performance.

Messick and Kramer (2004) argued that the degree to which the individual exhibits leadership traits depends not only on his characteristics and personal abilities, but also on the characteristics of the situation and environment in which he finds himself. Since human beings could become members of an organization in order to achieve certain personal objectives, the extent to which they are active members depends on how they are convinced that their membership will enable them to achieve their predetermined objectives. Therefore, an individual will support an organization if he believes that through it his personal objectives and goals could be met; if not, the person's interest will decline. Leadership style in an organization is one of the factors that play significant role in enhancing or retarding the interest and commitment of the individuals in

the organization. Thus, Glantz (2002) emphasizes the need for a manager to find his leadership style.

Small and medium enterprises (SMEs) exert a strong influence on the economies of all countries, particularly in the fast-changing and increasingly competitive global market (Ladzani& Van Vuuren, 2002). This study will focus on top-level managers of SMEs in Kampala who are identified as the CEOs, owners, founders, managers, presidents, or heads of SMEs. The study is designed to examine how leadership style and innovative behavior can affect the performance of SMEs in Uganda and more specifically Kampala.

There is an increasing interest in innovation management in the context of SMEs (Nauwelaers and Wintjes, 2002). This interest may be motivated by the important role that SMEs play in the economy. For example, SMEs employ as much as two thirds of the private sector's total personnel, and account for more than half of the total revenues in the EU (Ackelsberg and Arlow, 1985; Bauer, 2002). Despite their importance for the economy, SMEs face challenges particularly with regard to innovation management (OsterreichischerWirtschaftsbund, 1989).

The desire to assist SMEs to innovate effectively and efficiently has motivated research on the antecedents and consequences of innovations in this context. Research on technological scanning, on the execution of the new product development process (Huang, Soutar and Brown, 2002) and on innovation marketing (Roessl et al., 2007) in the context of SME has already provided valuable information for practitioners and researchers. Most researchers point out that a low degree of formalization of the entire new product innovation process may be a barrier to innovation (Herstatt, Luthje and Verworn, 2001). Meyer (2001) highlights that SMEs tend to use only simple brainstorming and checklists for new product development while more sophisticated tools are

rather unknown. In most SMEs, new product development remains and is often based on the creative talents of a few individuals.

However, in addition to the above, little attention has been paid to the relation of leadership. Leadership style defined as a process to coordinate the actions of employees with regard to a particular goal (Yukl, 2002), and innovativeness. In the context of innovation management, the transformational leadership, which addresses the intrinsic motivation of the employees and enables them to live up to their full potential, may be particularly effective. However, to the knowledge of the authors, only one paper addresses transformational leadership style in the context of SMEs performance (Ensley, Pearce and Hmieleski, 2006), and there seems to be no analysis of the relationship between leadership, innovativeness, in the context of SMEs.

The purpose of this study is to analyze the relationship between leadership style and innovativeness, and performance in the context of SMEs. Innovations are important since they constitute the basis for acquirement and retention of a sustainable competitive advantage and are crucial for the economic survival of SMEs (e.g. Cozijnsen, Vrakking and Ijzerloo, 2000; Hadjimanolis, 2000; Hyland and Beckett, 2004). Moreover, innovative SMEs can be an engine for the economic development of structurally weak regions.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This section presents the methodology which is to be used in the study and it included: Research design, data source, data collection methods, data analysis, sampling methods, study population, target sample, validations and reliability, measurement of variables and anticipated problems.

#### **3.1 Research design**

The study used a cross sectional, survey and quantitative research design to examine the effect of firm leadership style and innovative behavior on SMES performance. A correlation approach was used to establish the relationships between the study variables. The justification for this research design is because the researcher observed a population or a representative subset, at one specific point in time from which respondents was chosen.

#### **3.2 Study Population**

The study was carried out in the Kampala District. This is because Kampala has the highest number of SMES in the country (UBOS, 2007). Therefore the population of the study was Manufacturing SMES in Kampala and the population was 513 manufacturing firms (UBOS report, 2007). The justification for the choice of the this category of SMES in Kampala is that their rate of growth is high as compared to the other categories of SMES that were left out in this study (UBOS report, 2007).

### **3.3. Sample size and Method**

The unit of analysis in this study was the small business firm. Basing on the above population size of 513, the sample size is 217 SMES was determined basing on the sample size determination table by Krejcie and Morgan (1970), with a confidence interval of 95% and margin of error of 0.5%. The study will use simple random sampling to select the firms. Purposive sampling was used to select the managers or owners of the manufacturing firms. Purposive sampling for the owners and managers enabled everyone chance/opportunity to provide feedback on the research study considering that the respondents had similar characteristics and the technique also enabled the researcher to quickly reach the entire targeted sample.

### **3.4. Data Source**

The researcher used Primary data, which Data was collected from the SMES owners / managers who acted as the respondents for the study. The data was used for analysis of the effect of firm leadership style and innovative behavior on SMES, performance.

### **3.5. Data Collection instrument**

A questionnaire was used to survey population for primary data collection. The questionnaire contained structured questions, relating to each of the study variables in question. This is because structured questionnaires simple to administer and relatively inexpensive to analyze, (Kothari, 1990). The questionnaire was designed using ordinal scale, which ranged from strongly agree to strongly disagree.

### 3.6. Measurement of Variables

Firm leadership style was measured using Transformational leadership, Laize faire leadership, Transactional leadership style and Bureaucratic leadership. This according to the works of: Dubrian, (2001); Nahavandi, (2002); Yukl, (2002).

Innovative behavior was measured using: New Idea generation, Changes in the Administrative procedures and Application of new ideas. This is according to the works of: Drucker, (1986); Schumpeter, (1934); Ardts, Van Der Velde & Maurer (2010); King & Anderson, (2002); Yukl, (2002).

Performance was measured using production, sales and profits. This is according to the works of: Howell & Avolio, (1993); Yukl, (2002).

### 3.7 Reliability

Reliability is a measure of the degree to which a research instrument would yield the same results or data after repeated trials (Mugenda, 2008). The study used the internal consistency technique found in SPSS to measure reliability. A pre-test was done to 10 respondents though they were not part of the final study. The collected data was coded and entered into SPSS, a computer application for statistical analysis and thereafter, the cronbach's alpha reliability coefficient was derived with the help of cronbach's alpha standardised formula.

$$a = \frac{Nr}{1 + (N-1)r}$$

Where N=number of items

r=average inter-item correlation among items

Then  $(\sum \alpha/4)$  for accurate results (cronbach's 1951)

The cronbach alpha was  $\geq 0.7$  and thus the instrument was considered reliable (Amin, 2005).

Table 2 below represents the results for the Reliability Statistics for the variables

**Table 1: Results for the Reliability Statistics for the variables**

Variable	Cronbach's Alpha
Leadership style	.722
Innovative behavior	.876
Firm Performance	.879

*Source: Primary data, 2016*

Results in the table 2 above show that the cronbach's alpha for all the study variables was above 0.7. i.e, Leadership style had .722; Innovative behaviour had .876 and Firm performance had .879.

This is a clear indication that the instrument used was reliable because cronbach's alpha for all the study variables was above 0.7 as recommended by Amin (2005).

### **3.8. Analysis and presentation**

The data collected was edited for completeness and consistence to ensure correctness of the information given by the respondents. Statistical package for social scientists (SPSS 17) was used for data entry and analysis of the study variables. The analyses run were; Pearson's correlation coefficient for establishing the associations in the study variables and regression analysis for establishing the predictive power of the independent variables on the dependent variable.

## **CHAPTER FOUR**

### **PRESENTATION AND INTERPRETATION OF FINDINGS**

#### **4.1. Introduction**

This chapter presents, interprets and discusses the findings of the study, obtained from the primary data, which was analyzed in relation to the topic of: Firm Leadership, Innovative Behaviour and Performance of SMES in Uganda. This Chapter begins with the presentation and interpretation of the demographic characteristics of the respondents, such as Gender, Age, years of business existence and position, using frequency analysis. The Data was collected by use of questionnaires and the findings are presented in the tables showing the descriptive analysis. The research objectives were:

- i. To establish the relationship between the innovative behaviors and performance of SMES.
- ii. To establish the relationship between firm leadership style behaviors and performance of SMEs.
- iii. To find out the relationship between the firm leadership, innovative behavior and performance of SMES

#### **4.2. Descriptive Statistics**

The results below show the descriptive analysis for the respondents with the help of the frequency analysis. Frequency analysis was used to analyze the demographics data of the respondents.

#### **Table 1 Position held**



Variable	Frequency	Percent	Valid Percent	Cumulative Percent
Owner	147	72	72	33.8
Valid Manager	57	27.9	27.9	100
Total	204	100.0	100.0	

**Source: Primary Data**

Results from table 1 above indicates that the majority of the respondents in this study were owners constituting 72% of the total respondents.

**Table 2 Age range**

Variable	Frequency	Percent	Valid Percent	Cumulative Percent
18-25 years	45	22.1	22.1	22.1
26-35 years	36	17.6	17.6	39.7
36-45 years	52	25.5	25.5	65.2
Valid 46-55 years	38	18.6	18.6	83.8
Above 55 years	33	16.2	16.2	100.0
Total	204	100.0	100.0	

**Source: Primary Data**

Results from table 2 above indicate that the majority of the respondents in this study were aged between 36-45 years and these constituted 25.5% of the total respondents.

**Table 3 Gender**

Variable	Frequency	Percent	Valid Percent	Cumulative Percent
Male	124	60.8	60.8	60.8
Valid Female	80	39.2	39.2	100
Total	204	100.0	100.0	

**Source: Primary Data**

Results from table 3 above indicate that the majority of the respondents in this study were male constituting 60.8% of the total respondents.

**Table 4 Years of business existence**

Variable	Frequency	Percent	Valid Percent	Cumulative Percent
0-1 years	12	5.9	5.9	5.9
2-3 years	33	16.2	16.2	22.1
3-4 years	37	18.1	18.1	40.2
4-5 years	57	27.9	27.9	68.1
Above 5 years	65	31.9	31.9	100.0
Total	204	100.0	100.0	

**Source: Primary Data**

Results from table 4 above indicates that the majority of the respondents in this study their businesses had been in existence for at least over 3 years and these constituted 77.9% of the total respondents.

### 4.3. Correlation Analysis

Table 4.3 below shows the correlation analysis of the respondents understanding of the relationship between: Leadership style, innovative behavior and firm performance. Therefore, Correlation analysis was run to establish this relationship or effect of the independent variables on the dependent variable as explained below.

**Table 4.3: Correlation analysis results of firm leadership, innovative behavior and performance of SMES.**

Variables	1	2	3
<b>Leadership Style (1)</b>	1		
<b>Innovative Behavior(2)</b>	.563**	1	
<b>SMES performance(3)</b>	.290**	.337**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

**Source: Primary Data**

#### **4.3.1: To establish the relationship between the innovative behaviors and performance of SMES**

The first objective was to establish the relationship between the innovative behaviors and performance of SMES and the researcher analyzed the respondents understanding of the variable with the help of, correlation analysis to answer the objective of the study. The findings are shown in table 5 above. The results in table 5 above show that innovative behavior has a significant and positive relationship with performance of SMES ( $r=.337^{**}$ ,  $p\leq 0.01$ ). This implies that any positive change in innovative behavior is associated with positive changes in performance of SMES.

#### **4.3.2: To establish the relationship between firm leadership and performance of SMEs**

The second objective was to establish the relationship between firm leadership and performance of SMEs and the researcher analyzed the respondents understanding of the variable with the help of, correlation analysis to answer the objective of the study. The findings are shown in table 5 above. The results in table 5 above show that firm leadership has a significant and positive relationship with performance of SMES ( $r=.290^{**}$ ,  $p\leq 0.01$ ). This implies that any positive change in firm leadership is associated with positive changes in performance of SMES.

#### **4.4 Regression Analysis**

Table 4.4 below indicates the regression analysis of the findings. The analysis is intended to explain the predictive power of the two independents variables (Leadership style and innovative behavior) on the dependent variable of firm performance, in this study. The details are explained below:

#### **Table 4.4: Regression analysis results of the firm leadership, innovative behavior and performance of SMES**

Mode	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.290 <sup>a</sup>	.084	.080	.79082	.084	18.585	1	202	.000
2	.358 <sup>b</sup>	.128	.120	.77340	.044	10.198	1	201	.002

a. Predictors: (Constant), Leadership Style

b. Predictors: (Constant), Leadership Style, Innovative Behavior

**Source: Primary Data**

**4.4.1: To find out the relationship between the firm leadership, innovative behavior and performance of SMES**

The third objective was to establish relationship between the firm leadership, innovative behavior and performance of SMEs and the researcher analyzed the respondents understanding of the variable with the help of, regression analysis to answer the objective of the study. According to table 4.4 above table model one of the results indicates that, Leadership Style accounts for 8.4% (R squared .084) variance in the performance of SMEs in Kampala. In addition model two of the results in the table 6 indicates that Leadership Style and Innovative Behavior accounts for 12.8% (R squared =.128) variance in the performance of SMEs in Kampala.

The change in the predictive power of the model from .084 variance in performance of SMEs in Kampala to .128 is indicated by the change in R squared (.044) which has been brought about by the addition of a new predictor variable of Innovative Behavior to the model one. This means that Innovative Behavior alone accounts for 4.4% change in performance of SMEs in Kampala.

## **CHAPTER FIVE**

### **DISCUSSION, CONCLUSION AND RECOMMENDATION**

#### **5.1. Introduction**

This chapter discusses the conclusions and recommendations of the research findings, basing on the research objectives. Suggested areas for further research were also presented.

## **5.1.Discussion**

### **5.1.1 Relationship between the innovative behaviors and performance of SMES in**

#### **Kampala**

According to results in table 4.3, innovative behavior has a significant and positive relationship with performance of SMES. This implies that any positive change in innovative behavior is associated with positive changes in performance of SMES.

In support of the above findings, some authors such as Drucker, (1986) & Schumpeter, (1934) viewed true entrepreneurship to mean nothing less than innovations. Further, Schumpeter (1934) viewed an entrepreneurial act (or event) as a system and that if there are no innovations, there can be no profit because the concept of innovation is always current. In addition, all organizations are interested in knowing what influences the results they achieve, how and why they succeed or fail. However, the belief that their results are related to innovation has continued to inspire questions and research on the subject by professionals and academicians (Hurley and Hult, 1998).

Looking at The Product Development and Management Association (PDMA, 2004), it is shown that innovation is a new idea, method, or device, the act of creating a new product or process. Innovative behavior can be defined as ‘all individual actions directed at the generation, introduction and application of beneficial novelty at any firm level’ (West & Farr, 1989). Innovation is seen as a multi staged process, including recognizing a problem, creating new ideas and solutions for the problem, creating support for the new ideas and solutions for use in the organization.

Additionally, Ishak (2005) proposes that to increase the innovativeness of employees, organizations should develop employee skills associated with solving work based problems innovatively (problem identification, problem resolution and solution implementation) Furthermore, the innovation process is often described as being comprised of an initiation and implementation phase (De Jong & Den Hartog 2007).

The growing pressure to innovate is enforced by a turbulent business environment (which is contributed to by a number of factors) including technology growth, globalization and hypercompetitive markets. Subsequently, innovative behavior goes beyond the familiar path of what is accepted and concrete and is often associated with complexity and ambiguity (Kriegesmann, Kley&Schwering 2007). Therefore, employees are unlikely to display innovative behavior unless they are enticed, rewarded and supported (Burns &Otte 1999). Furthermore, if an employee makes a mistake when displaying innovative behavior, it is important that this will not damage their career or reputation otherwise employees will be too concerned about the consequences to think innovatively or creatively (Janssen 2005).

The above is supported by Ardts, Van Der Velde& Maurer (2010) who confirms that the innovative behavior of employees can provide a significant competitive advantage for small to medium sized enterprises (SMEs) because innovative behavior is the process of bringing new problem solving ideas into use. Further, Carmeli, Meitar and Weisberg (2006) described innovative behavior as a knowledge management process that involves recognizing a problem, creating solutions for the problem and creating support to embed the solutions into organizational practice. In addition, innovative behavior is suggested to be important for organizations seeking to improve the overall efficiency and effectiveness of organizational processes. The importance

of innovative behavior is imperative for SMEs as the literature suggests that these institutions can be at a disadvantage when competing with larger firms (Cassell, Nadin, Gray & Clegg 2002).

To explain, a disadvantage is often caused by the inequality of leverage and buying power over resources, when comparing larger organizations and SMEs. Therefore, the importance of developing the innovative behavior of employees becomes particularly important for SMEs, and is one method of improving the effectiveness and efficiency of organizational processes. The shared knowledge of employees is an important resource for facilitating innovative behavior. Cavusgil, Calantone and Zhao (2003) suggest organizations that can facilitate the use of knowledge are able to innovate faster and more successfully. In addition, Bradley, (2000) indicates that Research has called for organizations to be more flexible, adaptive, entrepreneurial and innovative in order to effectively meet the changing demands of today's environment. However, in both innovation and leadership style research in small and medium-sized firms has not get much attention (King & Anderson, 2002; Yukl, 2002; John & Storey, 1998).

### **5.1.2 Relationship between firm leadership and performance of SMEs in Kampala**

According to results in table 4.3, leadership style has a significant and positive relationship with performance of SMES. This implies that any positive change in firm leadership is associated with positive changes in performance of SMES.

In support of the above findings, some authors such as Nahavandi, (2002) points out that an effective leader influences followers in a desired manner to achieve desired goals. Different leaderships may affect organizational effectiveness or performance. Leadership style was relatively a consistent pattern of behavior that characterized a leader (Dubrian 2001). Today businesses need effective leaders who understand the complexities of the rapidly changing global



environment. Bryman (1992) states that most definitions of leadership style emphasize three main elements: 'group', 'influence' and 'goal'. In this study, these three main elements are related to innovative behavior and firm performance. In this regard, it is expected for the Entrepreneur to influence his co-workers with the intermediate goal of enhancing their innovative behavior, in order to improve the number and quality of innovations and eventually firm performance. Leadership style is widely recognized as a critical success factor for the development of new products and services (Atuahene-Gima, 1996; Martin & Horne, 1995; Bass & Avolio, 1994; Howell & Avolio, 1993; Yukl, 2002; Waldman & Bass, 1991; Manz *et al.*, 1989).

In addition to the above authors, Kotler (1998) stated that Firm leadership style is widely believed to be linked to the process of change, as it is only through leadership style that one can truly develop and nurture culture that is adaptive to change. Yukl (2002) asserted that specific leadership style behaviors may influence innovation through compliance as part of the organizational culture. However, appropriate leadership style to effect such change was equally being called for (Ahmed, 2006). In addition, firm leadership style has been emphasized as one of the most important influences of firm innovation because leaders can decide directly to introduce new ideas into an organization, set specific goals, and encourage innovation initiatives from subordinates (Kanter, 1983; Senge *et al.*, 1994). In support of this statement, Elenkov and Maner (2005) and others Bundly (2002); Henry, (2001) identified leader behavior as stimulating employee participation and esteem, and encouraging new ideas as integral to the innovation process. These leadership style behaviors, namely individualized consideration and motivation among others derives from a leader's vision and values, contribute to a culture that facilitates organizational innovation (Elenkov and Manev, 2005, Nutt, 2002).

### **5.1.3 Relationship between the firm leadership, innovative behavior and performance of SMES in Kampala**

According to results in table 4.3, leadership Style and Innovative Behavior accounts for 12.8% (R squared =.128) variance in the performance of SMEs in Kampala.

In support of the above findings, some authors such as Nahavandi, (2002) showed that today's organizations need effective leaders who understand the complexities of the rapidly changing global environment. Hence, an effective leader influences followers in a desired manner to achieve desired goals. There is an increasing interest in innovation management in the context of SMEs (Nauwelaers and Wintjes, 2002). This interest may be motivated by the important role that SMEs play in the economy. For example, SMEs employ as much as two thirds of the private sector's total personnel, and account for more than half of the total revenues in the EU (Ackelsberg and Arlow, 1985; Bauer, 2002). Despite their importance for the economy, SMEs face challenges particularly with regard to innovation management. (OsterreichischerWirtschaftsbund, 1989).

The desire to assist SMEs to innovate effectively and efficiently has motivated research on the antecedents and consequences of innovations in this context. Research on technological scanning (Julien et al., 1999), on the execution of the new product development process (Huang, Soutar and Brown, 2002) and on innovation marketing (Roessl et al., 2007) in the context of SME has already provided valuable information for practitioners and researchers. Most researchers point out that a low degree of formalization of the entire new product innovation process may be a barrier to innovation (Herstatt, Luthje and Verworn, 2001). Meyer (2001) highlights that SMEs tend to use only simple brainstorming and checklists for new product development while more sophisticated tools are rather unknown.

However, in addition to the above, little attention has been paid to the relation of leadership. Leadership style defined as a process to coordinate the actions of employees with regard to a particular goal (Yukl, 2002), and innovativeness. In the context of innovation management, the transformational leadership, which addresses the intrinsic motivation of the employees and enables them to live up to their full potential, may be particularly effective. However, to the knowledge of the authors, only one paper addresses transformational leadership style in the context of SMEs performance (Ensley, Pearce and Hmieleski, 2006), and there seems to be no analysis of the relationship between leadership, innovativeness, in the context of SMEs.

## **5.2 Conclusions**

### **5.2.1. Relationship between the innovative behaviors and performance of SMES in**

#### **Kampala**

Results from the finding confirmed that innovative behavior has a significant and positive relationship with performance of SMES. This implies that any positive change in innovative behavior is associated with positive changes in performance of SMES.

### **5.2.2 Relationship between firm leadership and performance of SMEs in Kampala**

Results from the finding confirmed that firm leadership has a significant and positive relationship with performance of SMES. This implies that any positive change in firm leadership is associated with positive changes in performance of SMES.

### **5.2.3 Relationship between the firm leadership, innovative behavior and performance of SMES in Kampala**

Findings from the study confirmed that Leadership Style accounts for 8.4% (R squared .084) variance in the performance of SMEs in Kampala. In addition model two of the results indicates that Leadership Style and Innovative Behavior accounts for 12.8% (R squared =.128) variance in the performance of SMEs in Kampala. The change in the predictive power of the model from .084 variance in performance of SMEs to .128 is indicated by the change in R squared (.044) which has been brought about by the addition of a new predictor variable of Innovative Behavior to the model one. This means that Innovative Behavior alone accounts for 4.4% change in performance of SMEs in Kampala.

### **5.3 Recommendations:**

With reference to findings revealed in the study, the following are suggested recommendations that SMEs in Kampala can apply to improve on their innovativeness and leadership for better performance:

- The study recommends that, it is crucial for the SMEs in Kampala District to practice good leadership in their businesses as this will help in motivating their staff to work well and also serve their clients when they are happy.
- SMEs in Kampala have to be flexible in their operations for example giving time off to staff to think about new better ways of improving their respective activities as this will bring in more innovations in the business and thus improve performance.
- SMEs also should take into consideration applying new ideas that come on board in their respective businesses as this will help them to be in line with the changing tastes and preferences for the clients and thus be an a better competitive advantage than their competitors in Business. This in the long run will help improve on their sales and profits in the business.

### **5.4. Areas for further Research:**

This study established the relationship between Firm Leadership, Innovative Behaviour and Performance of SMES in Kampala. This could be a good starting point for further research:

- i. Establishing the relationship between Firm Leadership, Innovative Behaviour and Performance of SMES in other Districts in Uganda other than Kampala.

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**APPENDIXI: RESEARCH QUESTIONNAIRE  
MAKERERE UNIVERSITY  
MAKERERE UNIVERSITY BUSINESS SCHOOL**

**Topic: Firm Leadership, Innovative Behaviour and Performance of SMES in Kampala**

Dear respondent,

The researcher is administering these questionnaires to collect data on the above named topic. You are kindly requested to answer all questions by ticking the appropriate box or space that best represents your feelings. The research is intended to be used for academic purposes only and results of this study will be kept confidential. Thank you for your time.

**SECTION A: BACKGROUND INFORMATION**

1. Position held in the Business
  - a) Owner
  - b) Manager
  - c) Others

2. What is your age range?

18-25years	26-35years	36-45years	46-55years	Above 55 years

3. Sex of the respondent

Male	Female

4. How long has this business been in existence?

0-1year	2-3years	3-4years	4-5years	Above 5 years

**SECTION B. Firm Leadership**

In this section, we seek to establish the firm leadership excited by the SMES owners/ managers. Please respond by ticking the box that best represent your feelings.

Strongly Agree	Agree	Not sure	Disagree	Strongly Disagree
5	4	3	2	1

**Firm leadership style**

	<b>Transformational leadership</b>	SA	A	NS	D	SD
1.	As the business owner/manager, you are able to communicate effectively the vision to the public					
2.	The business goals and how to achieve them are well understood					
3.	Top management treats staff with respect					
4.	Top management provides advice to staff whenever they need it					
5.	Staff are being coached by the top management whenever it is necessary					

6.	Staff are encouraged to bark-up their opinions with good reasoning					
7.	Careful problem solving before taking action is strongly emphasized					
8.	Staff are given the opportunity to look at problems as learning opportunities					
9.	Top management keeps in touch with staff using face to face communication					
10.	Top management has wide network links with other business men					
	<b>Transactional Leadership</b>	<b>SA</b>	<b>A</b>	<b>N S</b>	<b>D</b>	<b>SD</b>
1.	As the business leader/ manager, you focus so much on the operations of the business					
2.	You always Maintain the operations of the business as a routine					
3.	Staff in this business exactly follow the procedures of the way work is done in this business					
	<b>Laize faire Leadership</b>	<b>SA</b>	<b>A</b>	<b>N S</b>	<b>D</b>	<b>SD</b>
1.	Every staff is allowed to do things the way they want					
2.	There is limited control of staff from the business owner/ managers					
3.	Staff are free to come up with new ways and or ideas of doing their respective activities					
	<b>Bureaucratic Leadership</b>	<b>SA</b>	<b>A</b>	<b>N S</b>	<b>D</b>	<b>SD</b>
1.	As the business leader/manager, you ensure that your staff follow procedures exactly as designed while doing their work					
2.	There is restriction of staff to do things differently in this business					
3.	Staff here work under maximum supervision					

	<b>Changes in Administrative procedures</b>	<b>SA</b>	<b>A</b>	<b>N S</b>	<b>D</b>	<b>SD</b>
1.	Conflicts that exist between top management and staff are always handled in time					
2.	Innovative ideas exhibited by staff are always rewarded					
3.	Top management and staff interact freely on matters concerning innovation of the business					
4.	Staff are always given time off to think about new better ways of improving their respective activities					
	<b>Application of new ideas</b>	<b>SA</b>	<b>A</b>	<b>N S</b>	<b>D</b>	<b>SD</b>
1.	Resources are allocated for the new innovative ideas to be implemented					
2.	Staff are always trained in areas of inadequate skills in order to enable them to work on new ideas					

3.	There is flexibility in the methods and processes of production					
4.	The products/ services being provided to the customers are always changed for the better					
	<b>Recognizing a problem</b>	<b>SA</b>	<b>A</b>	<b>NS</b>	<b>D</b>	<b>SD</b>
1	You can easily know that their respective activities have got or is about to get a problem					
2	You have the capacity to carry out effective investigations on given issues within the business					
3	It takes a very short time for you to realize that something not good is facing the business					

**C: Innovative behavior**

	<b>Idea generation</b>	<b>SA</b>	<b>A</b>	<b>NS</b>	<b>D</b>	<b>SD</b>
1.	Staff are involved in coming up with new ideas in the business					
2.	Ideas to innovate the business are searched for internally and externally of the business					
3.	Brainstorming of ideas on issues concerning innovation is allowed in the business					
4.	New ideas are well come from all the staff					
5.	Clients are allowed to comment on the product/ service					
6.	New ideas concerning the methods and processes of production are encouraged in the business					

**D. SMES performance**

	<b>Production</b>	<b>SA</b>	<b>A</b>	<b>NS</b>	<b>D</b>	<b>SD</b>
1.	You always discuss with your suppliers in order to get the best quality raw material for production					
2	Your production levels have consistently increased					
3	As a business, you well come all complaints concerning your product/service					
4	You have good facilities of storage of raw materials and final product					
5.	Your products are never out of stock in the market					
6.	Your product has very good features					
7	You use nice looking packages for your product					
	<b>Sales and profits</b>	<b>SA</b>	<b>A</b>	<b>NS</b>	<b>D</b>	<b>SD</b>
1.	You consistently have many orders for your products/services every day					
2.	Your stock for sale always takes shorter time to be finished					
3.	From your sales, you always have the opportunity to expand your business					
4.	Your rate of profits have consistently increased from the day you started operations					

**THANK YOU FOR YOUR TIME AND COOPERATION**