

Role of Holistic Leadership in Kenyan Small and Medium Enterprises

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Abstract This paper discusses the role of holistic leadership on business performance of SMEs in Kenya. The traditional dichotomy leadership-management has led to non-holistic management in many business organisations. This realisation led this study to propose the concept of “holistic leadership” which encompasses both the traditional views of leadership and management. To be able to appraise the role of holistic leadership in the performance of a company the study focused on two major sub-components: human resources management, which is the pure leadership aspect of the holistic leadership theory; and financial management and planning, which is its pure management aspect.

Keywords: *leadership, management, holistic leadership, SMEs, Kenya*

Cite This Article: Théophile Muyisa Katuka, “Role of Holistic Leadership in Kenyan Small and Medium Enterprises.” *Journal of Business and Management Sciences*, vol. 6, no. 1 (2018): 12-15. doi: 10.12691/jbms-6-1-3.

1. Introduction

Business is essential in the economic development process of any country. Indeed, on one hand business activities enable to satisfy consumers’ needs, and create employment on the other hand. Small and medium enterprises have a particularly significant contribution to the economic growth of many countries, both developed and developing. There are about 90% of small and medium enterprises that contribute over 50% of employment worldwide. OECD economies, that is countries under Organization for Economic Co-operation and Development (OECD); have more than 95% of the entities as SMEs generating about 60%-70% of the employment [1].

Sukaatmadja, Rahyuda, & Dewi [2] relying on a study conducted by Saravanan, Gupta and Ghatak (2008) estimate that, in Africa, 90% of the businesses operate as SMEs and contribute towards more than 50% of employment as well as Gross Domestic Product (GDP). It is also reported that the SME sector in South Africa comprises 55% employment along with 22% of GDP. In Kenya SMEs contribute 18% of national GDP, while in Morocco the SME sector accounts for 93% of the industrial firms and 46% employment [2].

In recent years the SME sector has consistently registered higher growth rate compared to the overall industrial sector globally [3]. Researchers as well as policy makers generally agree that the major advantage of the sector is its employment potential at low capital cost.

However, individuals as well as households cannot continue to reap the benefits of SMEs if the latter are not sustainable. The sustainability of an organisation, either not-for-profit or for-profit, depends on the quality of its leadership and management. Lack of adequate skills in

business leadership and business management will result in poor performance and even bankruptcy of small and medium enterprises in Kenya. This paper strives to demonstrate the role that business leadership and management skills play in boosting efficiency and effectiveness of SMEs in Kenya.

2. Literature Review

Management and leadership are two concepts that have sparked debates among management thinkers, the reason being the difficulty of drawing a line between these two important concepts in both business literature and practice. In this section the two concepts are clarified separately and thereafter the definition of SME is given.

2.1. Business Leadership

Whether one manages a small restaurant, a retail shop, a national based company or a multinational company, he leads a business. He is the person in whom shareholders, customers, suppliers, lenders, bankers, and all the other stakeholders put their confidence. Though the concepts of leader and leadership seem to be of common usage, they are not easy to define.

Stogdill [4] affirmed that “there are almost as many different definitions of leadership as there are persons who have attempted to define the concept” (p. 7). Gardner defines leaders as individuals who significantly influence the thoughts, behaviors, and/or feelings of others (as cited in Werhane & Painter-Morland, 2010, p. 1 [5]). From Gardner’s definition, leadership can be understood as the ability or even the fact of influencing people in order to reach some goal. Cleveland [6] adds that the leader is the person endowed with ability to show the way by going first.

Leaders must develop a clear vision for the organisation they are leading and be able to pass it on to different stakeholders. For the vision to be implemented, the leader must not only understand and believe it himself, but must also communicate it to internal as well as external stakeholders so they can appropriate it.

After exploring several definitions of leadership, it can be concluded that leadership is “the process of interactive influence that occurs when, in a given context, some people accept someone as their leader to achieve common goals”. Clearly, leadership is more about guiding people towards set goals than taking care of material and financial resources. So, a leader should be endowed with interpersonal qualities such as supportiveness, listening and gratefulness.

Moreover, a good leader is an insatiable success seeker. Cleveland [6] argues that “success is an addiction, part of the DNA of leaders” (p. 2). Indeed, a good leader permanently strives to outperform every competitor. Anything less than his expectations leaves him feeling unfulfilled. An effective leader should acknowledge that success is not a fortuitous event. It comes out of strict implementation of the organisation’s strategic vision.

2.2. Business Management

Management is the effective and efficient attainment of organizational goals through planning, organising, leading, and controlling organisational resources [7]. Two important ideas emerge from this definition: (a) the so called four functions of management (planning, organising, leading, and controlling) and (b) the attainment of organizational goals in an effective and efficient manner. This definition appears to be too theoretical, therefore needs further explanation.

Unlike Daft and Marcic whose definition emphasizes the traditional functions of management, Armstrong [8] spells out the role of the manager as the person who sets goals, identifies appropriate resources to achieve the goals and, allocate those resources accordingly. Armstrong’s definition somehow operationalises traditional definitions of management.

2.3. Business Leadership and Business Management Compared

Although many authors have tried to spell out the difference between leadership and management, it is still not easy to clearly draw a line between the two concepts. Business leadership and business management still overlap significantly.

Armstrong [7] citing Hersey and Blanchard (1998) claims that management merely consists of leadership applied to business situations. It clearly emerges from this point of view that the authors consider management as included in the leadership.

In the light of the definitions mentioned above, it can be suggested that management mostly deals with material and financial resources management, whereas leadership aims at influencing people. Hence, managers are the ones who plan, budget, organize and control, while leaders are more focused on leading people to attain the predetermined goals of the organisation.

Definitely, leadership appears more like a quality, an attribute that the manager has to possess in order to achieve business goals. A survey of successful chief executives on the attributes most valuable at top levels of management indicated that leadership was the second after the ability to take decisions [9].

2.4. Holistic Leadership

The approach in this paper is not to present leadership and management as two skills far apart from each other. Instead, they are presented in an all-encompassing approach that can be called “holistic leadership”. Holistic leadership advocates a mixing of traditional leadership skills and traditional management skills.

To allow for appraisal of the role of holistic leadership in the performance of SMEs, this study focused on two major sub-components: human resources management, which is the pure leadership aspect of the holistic leadership and financial management and planning, which is the pure management aspect of holistic leadership.

2.5. Small and Medium Enterprises

The reason why the definition of a small and/or medium enterprise (SME) in the context of Kenya is given is that definitions of an SME vary across economies and defining agencies. Three constant factors in the definition globally include number of employees, total annual sales and value of net assets. In Kenya two criteria are used to define SME: number of employees and company’s annual turnover. Enterprises with less than 10 employees and whose turnover is under Kshs 500,000 are regarded as microenterprises. Enterprises with more than 10 and less than 50 employees and whose turnover is between Kshs 500,000 to Kshs 5000,000 are regarded as small enterprises. Finally, enterprises with more than 50 and less than 100 employees and whose turnover is between Ksh 5000,000 to Kshs 800,000,000 are regarded as medium enterprises [10].

3. Impact of Holistic Leadership on Successful SMEs in Kenya

3.1. Criteria for Successful Business

Several criteria can be used to appraise business success. In a for-profit organisation (business organisation) the classical criterion is profit. A business is considered to be successful if there is a surplus of sale receipts over expenses.

The second criterion of business success consists of shareholders value measured by stock price. For many businesses, an important goal is the long-term increase in the value of their common stock [11]. The first two criteria are related to each other. Indeed, maximising profit can lead to the maximisation of shareholder wealth.

Thirdly, an enterprise will be considered successful if it is able to offer at a lower cost quality goods and services to its customers. Unlike the first two criteria, the third criterion is oriented towards the satisfaction of customers.

A successful business can also be called performant business. Further in the study business success and business performance will be used interchangeably to describe the same reality.

3.2. Effects of Holistic Leadership on Successful Small and Medium Businesses

The failure rate of new enterprises is very high throughout the world, small and medium enterprises sector being the most affected. This reality has a detrimental impact on the ability of new businesses to contribute significantly to job creation as well as economic growth.

3.2.1. Lack of holistic leadership: main cause of SMEs

Two major types of factors are often pointed out as explaining business failure: internal factors and external factors. The external factors are difficult to avoid, since the business has no control over them. On the other side internal factors are factors that are controllable by the organisation and include deficiency in management [12].

Poor managerial and leadership skills lead to failure of SMEs. This has been proven by several studies. In 2014, Kamunge, Njeru and Tirimbathe [13] sought to know the factors affecting the performance of SMEs in Limuru Town Market of Kiambu County, Kenya. The study established that availability of managerial skills and experience affects businesses at Limuru Town Market to a great extent.

In a similar study conducted in Nairobi City, Bowen, Murara, and Muriithi [14] suggested that empowering SMEs' managers in managerial skills is positively related to business success. It follows from the previous arguments that by controlling internal factors (management / leadership) many companies would survive.

Studies elsewhere in the world seem to confirm these results. In 2011, Arasti conducted a survey on 51 Iranian failed enterprises. He came to the conclusion that management deficiency is the major reason why Iranian businesses collapse [15].

Contrary to what managers and owners of companies often claim, management deficiency is the main cause of business bankruptcy. Though external causes (such as high taxation, lack of credit, adverse economic atmosphere) can hinder business growth, they are not the main reason for business failure.

3.2.2. Human resources management and performance

It has been mentioned that leadership deals mostly with the mobilisation of human resources in order to achieve the established goals. Human resources are regarded as one of the most important resources of today's firms.

Studies have proven that good management of human resources can result in improvement of business performance (quality products, increase in sales and profit).

A study on leadership style and human resources management in Kenyan state corporations showed that the correlations between the transformational-leadership factors and organisational performance ratings were high [16].

In 2014, Cania demonstrated that 70% of Albanian organisations significantly improved their performance

through strategic management of human resources. Moreover, he noted that the organisations whose strategic human resources management did not have an impact on business performance, did not have a genuine business strategy and human resource management [17]. Human resources have a great role to play in the smooth running of businesses, especially since they manage the other resources available to the company.

3.2.3. Financial management and SMEs' performance

Financial managers often say that finance within an organisation is comparable to the blood in the human body. In fact, nearly all decisions taken in a business have a financial implication. Whether the business decides to hire new staff, launch a new product, or acquire new equipment, there will always be financial implications.

If one becomes a financial manager, his ability to adapt to change, raise funds, invest in assets, and manage orthodoxically will affect the business' success and, ultimately, the overall economy. Studies reveal that financial management is closely related to business' performance.

Muthoni [18], for instance, conducted a research on the effect of financial management practices on the performance of Saccos in the hospitality industry in Nairobi city. He found that effective cash management has strong impact on performance of the Saccos.

Today, external factors have an increasing impact on the financial management. Heightened business competition, technological change, volatility in inflation and interest rates, worldwide economic uncertainty, fluctuating exchange rates, tax law changes, environmental issues, and ethical concerns over certain financial dealings must be dealt with almost daily [19]. As a result, finance is required to play an ever more vital strategic role within the corporation.

4. Conclusion

To conclude, this paper recommends a new approach of leadership in Kenyan small and medium enterprises. Indeed, the traditional dichotomy leadership-management has led to non-holistic management in many business organisations. Holistic leadership theory is: (a) the process of influencing others to understand and agree about what needs to be done and how to do it; and (b) a collection of other activities involving planning, organizing and controlling.

Based on the evidence found in prior studies, this study argues that that lack of adequate skills in business leadership and business management will result in collapse of SMEs in Kenya.

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