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# **Combined Effects of Transformational Leadership and Prior Knowledge on Growth of Women-Owned Micro and Small Enterprises in Kasarani Division, Nairobi County, Kenya**

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## **Abstract**

The growth of women-owned enterprises is currently attracting much policy and literal attention. There is debate that transformational leadership and prior knowledge are essential to the growth of micro and small enterprises (MSEs). However, empirical evidence of the role of transformational leadership and prior knowledge on the growth of women-owned enterprises in Kenya is scarce. The purpose of this study was to examine the effects of transformational leadership and prior knowledge on the growth of women-owned enterprises in Kasarani Division in Nairobi County. A random sample of 400 women-owned and managed MSEs was surveyed using a structured questionnaire. The Multifactor Leadership Questionnaire (MLQ) was used to measure transformational leadership while prior knowledge was measured using educational attainment, networks and experience of women entrepreneurs. Regression models were used to examine the effects of transformational leadership and prior knowledge on enterprise growth. Transformational leadership had a positive and statistically significant relationship with enterprise growth ( $\beta = 0.57$ ,  $p < 0.05$ ). Having parents in business and obtaining business advice were negatively associated with growth. Further, the age of the business and

obtaining credit for business operations were positively associated with enterprise growth. These results cast doubt on the role of prior knowledge on enterprise growth. The results of this study suggest that enhancing transformational leadership in women-owned enterprises is a viable policy option. The need to enhance business heritage is recommended.

**Key Words:** *Transformational Leadership, Prior Knowledge, Growth, Women-Owned MSEs*

## **1.0 Introduction**

### **1.1. Background to the Study**

Growth is a multidimensional concept which includes economic and financial measures such as sales growth, profits, owner income, and number of employees. This can be referred to as objective measures (Lerner and Almor, 2002). Another way of looking at growth is by use of subjective measures which include non-financial goals and global success ratings made by women entrepreneurs (Helgesen, Nettet and Voldsund, 2008). Any of the above measures can be used to describe growth of an enterprise, hence the term multidimensional. According to a survey report by Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings (1999) change in the number of employees over time is considered a useful indicator of growth for MSEs. There is evidence that women usually view growth of their enterprises using subjective measures (Machado, St-Cyr and Mione, 2003). Studies in Kenya have mainly focused on objective measures of growth (Gakure, 2003; Kibas, 2006) while neglecting subjective measures. Understanding the nature of growth in women-owned enterprises using subjective measures may reveal patterns of growth that are currently not known, hence the need for further research.

Transformational leadership involves the leader's ability to make group members become less interested in themselves and more interested in the group (Rosener, 1990). Moore and Buttner (1997) observe that transformational leaders tend to encourage the participation of all employees at different levels of decisions, share power and information with them, stimulate and motivate them. Brush (1992) argues that women's attitude towards power tends to be relational consensual with little emphasis on authority and communication. Other characteristics mentioned are true concern over quality of services provided and an emphasis on social objectives (Machado, St-Cyr and Mione, 2003). This leadership style raises employee satisfaction and results in higher performance levels (Chaganti, 1986).

According to Bird (1989), women-owned enterprises do not grow at a rate that would realize economic benefits to the entrepreneur. It is, therefore, important to study and

document what can spur the growth of women-owned enterprises in Kenya. Transformational leadership has been documented as a correlate of growth of women-owned enterprises in the developed world (Rosener, 1990) however similar data is not available in Kenya. This makes it difficult to develop appropriate policy options that could be used to enhance the performance of women-owned enterprises. Examining the effects of transformational leadership on the growth of women-owned enterprises is, therefore, necessary.

Prior knowledge refers to the sum total of one's competencies which are derived from the unique backgrounds of individuals. According to Ardichvili, Cardozo and Ray (2003), the key indicators of prior knowledge include elements like educational background, past experience and networks of women. Formal education is said to be a highly efficient way to provide access to information (Shane and Venkataraman, 2000). The same is of great importance in that it exposes an individual to knowledge in many disciplines. Social networks are equally important. They are a key source for gathering information. Life experiences, on the other hand, provide valuable information on unmet needs and can stimulate the process of generating business ideas. Entrepreneurs past experiences provide good ground for the development of basic skills needed in management of an enterprise.

The participation of women in business and especially, in the Micro and Small Enterprises (MSEs) sector has increased tremendously since the 1980s (Stevenson and St-Onge, 2005). MSEs are broadly defined as income generating enterprises that employ less than 50 persons (GoK, 2005) and have now become the main source of income and employment for the majority of women in the Kenya. By 1999, there were 612,848 women-owned MSEs in Kenya, making 47.7 percent of the total ownership of the MSEs in the country (Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings Ltd., 1999). The patterns of growth and factors involved in these enterprises is however not clear.

The performance of women-owned enterprises in Kenya is modest. Data shows that the average number of employees in women-owned MSEs in Kenya is 1.54 (Stevenson and St-Onge, 2005; Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings Ltd., 1999). These reports also indicate that in total, women-owned enterprises account for 40 percent of the employment in the MSE sector. About 86 percent of the workers in women-owned MSEs are owner managers, 4 percent are employees and the remainder is made up of either family members or apprentices. Women-owned enterprises also report on average, lesser income than that reported by their male counter-parts. For example, in the 1999 National Baseline Survey (Central Bureau of Statistics, International Center for Economic Growth and K-REP Holdings

Ltd., 1999), women enterprises reported 57 percent of the income reported by male-owned enterprises. The performance of women-owned enterprises must therefore be improved if they are to effectively respond to the challenges of creating employment and wealth, alleviating poverty and redistributing wealth. Enhancing the performance of women-owned enterprises requires a clear understanding of growth and the factors involved.

### **1.2. Research Problem**

Women-owned enterprises in Kenya suffer from high mortality rates, operate informally thus, incur the penalties of informality, rarely grow or graduate to high value-adding activities and very little transformation occurs among them (GoK, 2005; McCormick, 2001). These shortcomings compromise the current government's efforts that are aimed at wealth and employment creation, poverty alleviation and redistribution of wealth and policy formulation to enhance growth of this important sector as indicated in the *Sessional Paper* Number 2 of 2005. Appropriate policies are therefore needed to spur growth in women-owned enterprises. A prerequisite for policy intervention is sound empirical information on issues where action is required. However, data on the factors that influence growth of women-owned enterprises is scanty in Kenya. In the developed world transformational leadership and prior knowledge have been associated with growth of women-owned enterprises (Bruni, Gherardi and Poggio, 2004; Eagly *et al.*, 2003; Beasley, 1999; Fischer, Reuber and Dyke, 1993). It is not clear whether these factors lead to enterprise growth in the Kenyan context. This study, therefore, sought to examine the effects of transformational leadership and prior knowledge in women-owned enterprises in order to spur growth in Kasarani division of Nairobi County, Kenya.

### **1.3. Objectives of the Study**

- i. To establish the combined effects of transformational leadership and prior knowledge on the growth of women-owned MSEs Kasarani Division of Nairobi County.

### **1.4. Research Questions**

- i. What are the combined effects of prior knowledge and transformational leadership on the growth of women-owned MSEs in Kenya?

### **1.5. Significance of the Study**

This study has academic, policy and practical implications. Academically, this study not only attempts to apply entrepreneurship concepts into the growth of women-owned enterprises but also seeks to represent enterprise growth from a woman's way of being, thinking and doing. This is quite unlike the common and restrictive gender dualism



approach. In addition this study attempts to document the contingent effects of prior knowledge and transformational leadership on growth of women-owned enterprises. This is unlike in the current literature where both prior knowledge and transformational leadership are treated as mutually independent determinants of growth. Thus it is expected that this study would eventually deepen the understanding of growth in women-owned enterprises.

The policy relevance of this study rests on its empirical basis for identifying policy options to enhance the growth of women-owned enterprises. It is, therefore, of value to those who seek to target women enterprises with offerings (such as the government and other service providers) and the women entrepreneurs themselves who can benefit from a greater insight into their growth.

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

This study focused on women who run MSEs in Kasarani Division in Nairobi that employ between two and fifty employees. Specifically, this study sought to establish the link between prior knowledge, transformational leadership and growth of this sample of women-owned enterprises.

### **1.7. Limitations of the Study**

A limitation of this study relate to its nature of being cross-sectional in nature. Growth is a process that occurs over time implying that a longitudinal approach would have been appropriate.

## **2.0 Literature Review**

### **2.1 Theoretical Review**

#### **2.1.1 Frank Knight's Risk Bearing Theory**

Frank Knight first introduced the dimension of risk-taking as a central characteristic of entrepreneurship (1921). This theory considers uncertainty as a factor of production and holds the main function of the entrepreneur as acting in anticipation of future events. The entrepreneur earns profits as a reward for taking such risks. According to Knight, it is not change that gives rise to profits, but uncertainty and the possibility of incorrectness of expectations. If uncertainty characterizes the environment, the problem is no more represented by the actual execution of activity; the issue is deciding what to do and how to do it. This primary function is the entrepreneurial function; the endeavour of deciding how various objectives are to be achieved and of predicting which objectives are worth achieving competes to the entrepreneur, a specialist who is prepared to bear the cost of uncertainty (Knight, 1921). The exercise of entrepreneurship is usually associated with

uncertainty bearing and has something to do with imperfect knowledge. Recent theories emphasize that the entrepreneur does not merely deal with the consequences of imperfect knowledge but rather concerns the regards of discovering and using new knowledge.

If Knight's work and subsequent developments identify in the capability of treating uncertainty, a crucial determinant of the entrepreneurial decision, according to alternative perspectives, mere differences in risk aversion cannot explain the special role of entrepreneurs because independent risks can be insured by means of capital markets. These approaches assign the entrepreneur the role of coping with the unknown, that is, to produce an effort to get things done but to deal with unforeseen events where risks can fail to be assured (Bird, 1989). It is out of the works of Knight that the general equilibrium theory of the firm under uncertainty was developed by Kihlstrom and Laffont (1979).

#### **2.1.2. The Psychological Theory**

This theory was first proposed by McClelland (1965). This theory considers entrepreneurs as people who do things in a better way and makes decisions in times of uncertainty. The dream to achieve big things overpowers monetary or other external incentives. McClelland's theory holds that people have three motives for accomplishing things that is the need to achieve; the need for affiliation; and the need for power. The need for achievement and the need for power are the two major drivers to entrepreneurship. However, it is pertinent to note that McClelland failed to prove the sense of frustration that drives people to entrepreneurship.

#### **2.1.3. Israel Kirzner's Theory**

Kirzner (1997) represents the Neo-Austrian approach to entrepreneurship and be focused on the question of whether a market economy works, and, if it does so, what is the process that leads the economy towards equilibrium. He claims that initially the economy is in disequilibrium and the competition among alert entrepreneurs leads to equilibrium. He advocates that profit opportunities stimulate entrepreneurship. He contends that the alertness in an entrepreneur is a peculiar form of knowledge that cannot be obtained through a rational investment policy. He states that entrepreneurs are profit-seeking speculators characterized by a kind of superior knowledge that enables them to gain from the ignorance of others (Kirzner, 1997).

Kirzner's entrepreneurship model holds the following: that the entrepreneur sub-consciously discovers an opportunity to earn money by buying resource or producing the resource and then sell it at a profit; that the entrepreneur finances the venture by borrowing money from a capitalist; that the entrepreneur uses the funds for his entrepreneurial venture; and that the entrepreneur pays back the capitalists, including

interest, and retains the pure entrepreneurial profit. In conclusion, Kirzner's considers the entrepreneur's alertness to recognize opportunity more characteristic than innovation in defining entrepreneurship. The entrepreneur either remedies or corrects errors of the customers (Kirzner, 1997).

#### **2.1.4. Max Weber's Sociological Theory**

Weber held religion as the major driver of entrepreneurship, and stresses on the spirit of capitalism which highlights economic freedom and private enterprise. The sociological theory of entrepreneurship holds social cultures as the driving force of entrepreneurship. The entrepreneur becomes a role performer in conformity with the role expectations of the society. He based such role expectations on religious beliefs, taboos and customs. He stated that capitalism thrives under the protestant work ethics that haps on these values. The right combination of discipline and an adventurous free-spirit define the successful entrepreneur (Brush, 1992).

#### **2.1.5. Joseph Schumpeter's Theory**

Schumpeter (1934) was another famous contributor to the theory of entrepreneurship. According to him, innovation is an essential function of the entrepreneur. He contends that entrepreneurship is not necessarily invention but it turns invention into a profitable venture. Schumpeter saw entrepreneurship as a fundamental factor in the economic development process and the entrepreneur as an innovator. According to Schumpeter an entrepreneur in the process of exploiting what was previously in use can further improve it into a new arrangement of economic value, that is, innovation (Schumpeter 1942). Schumpeter rejects the equilibrium analysis and he believes that human economic development is the history of continuous creative destructions by entrepreneurs. The entrepreneur is an innovator, not an imitator in the production. Thus, the reward of innovation and taking entrepreneurial risky activities is profit. Schumpeter viewed the profit as the result of innovation and also the inducement to innovation. With his analysis unlike Marshall (1890), Schumpeter is able to explain how the system works and where the profits come from.

#### **2.1.6. Alfred Marshall's Theory**

Marshall in his principles of Economics (1890) held that land, labour, capital and organization are the four factors of production and further considered entrepreneurship as the driving factor that brings these four factors together. The characteristics of a successful entrepreneur according to Marshall include among others: thorough understanding of the industry; good leadership skills; foresight on demand and supply changes and the willingness to act-on such risky foresights. Successful entrepreneurs, however, depend not on possession of the above skills, but on the economic situations in



which they attempt their endeavours. Many economists have modified Marshall's theory to consider the entrepreneur as the fourth factor itself instead of organization, and which co-ordinates the other three factors.

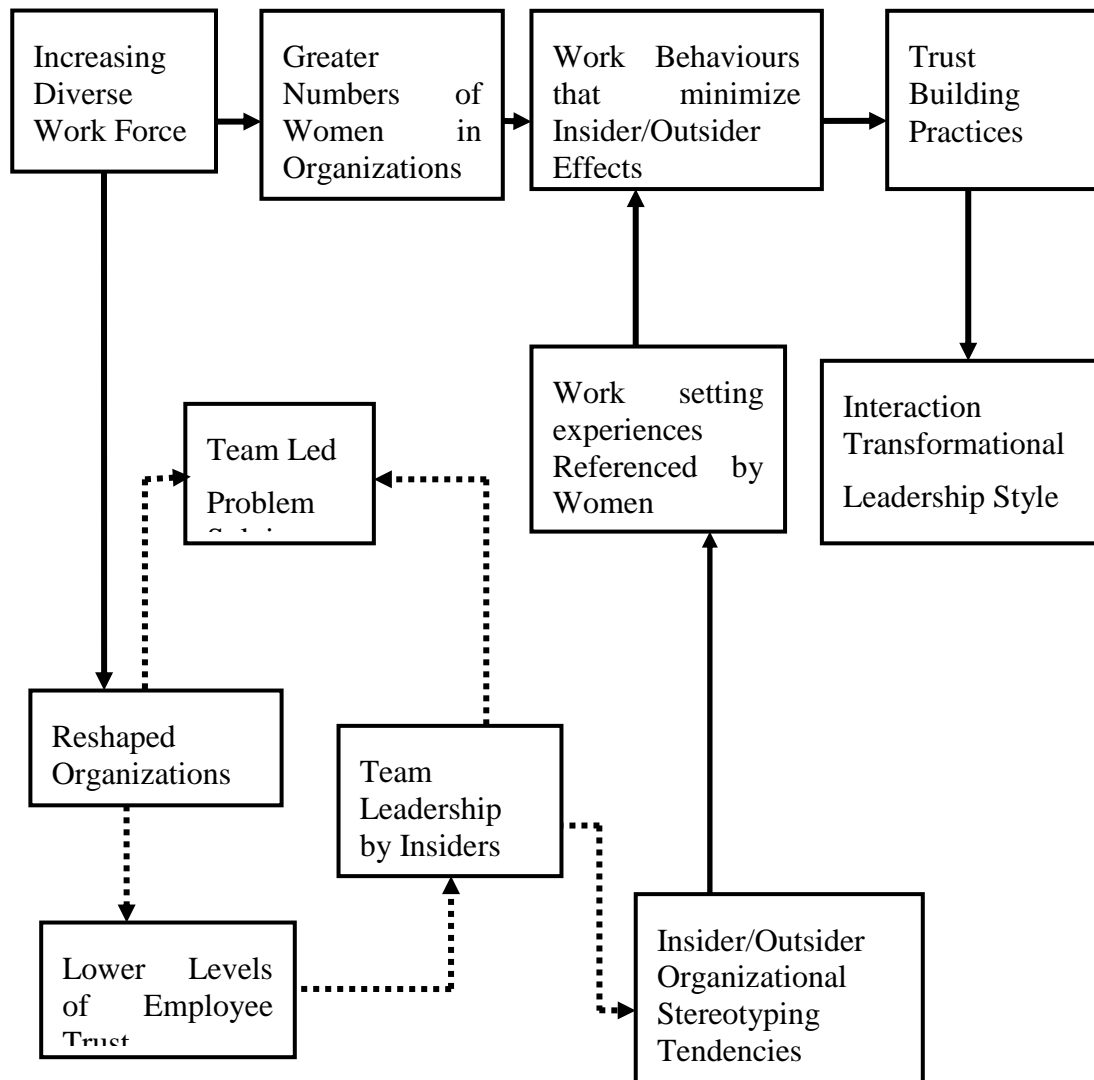
Most of the theories of entrepreneurship are mainly designed to answer questions like how market systems work and what the relationship between entrepreneurship and profit is. For the Marshallian theory, which indicates the existence of perfect information and perfect competition assumptions fails to address the two questions accurately. Schumpeter's theory is the closest to the reality regarding the work of market system and creation of profit. However, he gives too much importance to individual innovations and ignores the effects of generations and previous failures to discover innovations. Kirzner's alert entrepreneur is an arbitrageur and sees profit opportunities and exploits them (Kirzner, 1997). However, his model fails to explain the above questions accurately. The model sees the mistakes in Marshallian model and tries to correct them.

## **2.2. Empirical Review**

### **2.2.1. Transformational Leadership and Growth of Women Entrepreneurship**

Interactive transformational leadership was the style employed by many of the women managers who were rising in the organizational ranks and moving into work roles traditionally occupied by men (Riebe, 2003). The entry of large numbers of women into workplace, the emergence of teams and the growing importance of successful team management had provided women with opportunities to showcase their leadership skills. But as a consequent of prevailing attitudes (Kossek, Market and McHugh 2003), including stereotyping in organizations (Ely, 1994), women often found themselves marginalized (Kanter, 1977) and denied access to power (Kanter, 1987). Highly visible but isolated (Sealy, 2010) they learnt from experience to employ an interactive style of transformational leadership because it could moderate the effects of gender biases (Lerner and Almor, 2002).

The style in which women in corporate life and women entrepreneurs use transformational leadership in their own companies has been relatively understudied, and to date little research, has addressed the impact of women's leadership styles in building trust among members of entrepreneurial teams within organizations (Moore, Moore and Moore, 2011). This study addressed this gap in knowledge. There appears to be a number of related reasons why women lead this way. As entrepreneurs, women build on their organizational skills, employing an interactive approach to encourage both creativity and balance the authoritative command-and-control behaviors expected of a male boss with the more collaborative language and communication styles expected of a women leader (Moore, 2000). This can be depicted in the Figure 1.



**Source: Moore, Moore and Moore (2011)**

patterns of trust that lead to inter-group and which may, in turn spawn inter-organizational trust, when there is a high degree of trustworthy behavior, then the resultant is trust and shared expectations among employees who may have no mutual experience or history of interaction (Mollering, 2006).

When there is a climate of trust, then efficiency, greater productivity, decreased absenteeism, lower rates of employee turnover, better safety records and higher levels of commitment are enhanced which increase to the organization's value (Neves and Caetano, 2006). This is also true when knowledge among employees is shared because the acquisition and utilization of knowledge is a special intangible economic asset. It is important to mention that transformational leadership style has the most significant positive impact on team performance because of its effects on moderating complex issues that could become contentious (Huettermann and Boener, 2009), its multi-cultural and personal appeal to women, its encouragement of employees learning, creativity and implementation skills, its ability to develop high quality leader-follower and the advantage it confers in building trust.

In organizations and small businesses, norms and values are continually referenced by employees with their distinct work environments, organizational and sub-organizational units within which the interactions occur (Rosener, 1990) notes that women are far more likely than men to describe themselves as transferring subordinates' self-interest into concern for the whole organization. A female team leader in organizations is therefore likely to view her position in terms of supporting team members to assist in reaching their performance goals and go about this by employing a participative leadership style (Paris *et al.*, 2009). With effective communication as perhaps her most important leadership skill, she will focus on the sharing of power and information and other positive individual relationships to create a collaborative team environment (Keeffe, Darling and Mateson, 2008; Moore and Buttner, 1997; Moore, 2010).

As entrepreneurs, women take similar initiatives critical to the creation of a climate of trust. Construction of a trust climate involves several elements; each employee's personal propensity to trust, their past experiences and shared information among workers, individual perceptions of the owner normally reciprocate trustworthy behavior (Drath *et al.*, 2008). The women business owner tends to continually assess her actions, practices and behavior that impact employees because she knows it is through their experiences that they perceive the firm's overall fairness (Riebe, 2003). Better performance outcomes arise because in a high trust climate people show increased levels of loyalty, satisfaction and engagement and the resulting co-operation and free exchange of information to quicker and better decisions (Bass and Avolio, 1995). This can be shown in Figure 2.3 below:

Rosener (1990) calls women entrepreneurs' models of a leadership style which she labeled as non-traditional or transformational. Such entrepreneurs build a relationship of mutual stimulation and as elevation that converts followers into leaders and may convert leaders into moral agents. This occurs when leaders and followers engaged with others in such a way that leaders and followers raise one another to higher levels of motivation and morality (Burns, 1978 in Bass 1997).

Rosener (1990) suggests that one of the distinctive and characteristic features of women in leadership positions is their ability to engage in interactive leadership relationships with their managers and employees and a determination to empower others. Women see leadership as an on-going process, envisioning themselves as team leaders, as inspirational rather than directive, as participative rather than hierarchical, working to co-ordinate and balance their interests and those of their employees and transforming these into shared goals. This is usually translated into forms of interactive and participatory leadership that empowers employees while achieving corporate goals. Thus, leadership is thought of as a two-way interaction where both the managers and employees are motivated and sometimes even changed (Bass, 1985). This study intended to establish whether women entrepreneurs in Kenya would enhance growth of their enterprises if they applied transformational leadership style.

### **2.2.2. Prior Knowledge and Growth of Women Entrepreneurship**

Prior knowledge refers to the sum of one's competencies which are derived from the unique backgrounds of individuals. According to Ardichvili, Cardozo and Ray (2003), the key indicators of Prior Knowledge include education, networks and experience. It can be said also that Prior Knowledge generally refers to an individual's distinctive knowledge about a particular subject matter such as education, work experience or unintentional experiential learning (Shepherd and De Tienne, 2005). The standard typology can be found in Shane (1999) and Ardichvili, Cardozo and Ray (2003) which presents three propositions regarding knowledge and opportunity recognition. The likelihood of successful entrepreneurial opportunity recognition will increase with prior knowledge of customer problems, prior knowledge of markets which might include information about supplier relationships, sales techniques or capital equipment requirements that differ across markets (Von Hippel, 1988) and prior knowledge of ways to serve markets. For example, a person who had previously worked in a market as a customer manufacturer or supplier might already possess information that is not publicly available about how a new technology might influence that market. This prior knowledge can help one to discover an opportunity in which to use new technology (Bosma, 2008).

People's prior knowledge about how to serve markets might influence their discovery of how to use a new technology to serve a market. New information about a technology

might be complimentary with prior information about a customer problem such that discovery of the entrepreneurial opportunity might require prior information about customer needs. The locus of innovation often lies with the user of a new technology because users cannot articulate easily their needs for not yet developed solutions to problems (Von Hippel 1994). Individuals who lack familiarity with the customer's problem find it difficult to recognize solutions to those needs when the solutions come along (Bosma, 2008). This process leads entrepreneurs to start new companies to solve customer problems that they learned from working with users in their previous employment (Von Hippel, 1988). This suggests that people's prior knowledge of customer problems will influence their discovery of products and services to exploit a new technology. This can be well explained by the following illustration (Figure 2.4):-

According to Ardichvili, Cardozo and Ray (2003), Prior Knowledge has three main indicators which include education, networks and experience. Each of these indicators is discussed here below: Davidsson and Honing (2003) found that years of education had a positive influence on the chance that a person would identify new opportunities. Intuitively, one might expect higher levels of formal education to spur SMEs growth by enhancing firm capabilities. It could also be implied that formal education could provide entrepreneurs with a greater capacity to learn new production process and product design and other specific technical knowledge conducive to firm expansion which would increase the entrepreneur's flexibility. Empirical evidence suggests that firms with better educated entrepreneurs are more efficient (Burki and Terrell, 1998) however, greater complexity emerges when examining the relationship between education and MSEs' growth in developing economies Kenya included.

Women enter business from a wide variety of backgrounds and with a wide range of experiences. The provision of business start-up training and advice needs to accommodate these very different experiences. Life experiences provide valuable information and unmet needs and can stimulate the process of generating business ideas. Entrepreneurs' past experiences provide good ground for the development of basic skills needed in the management of an enterprise. Women's past experiences and backgrounds could shape their subsequent behavior and by extension, their performance (Bruni, Gherardi and Poggio, 2004; Fischer, Reuber and Dyke, 1993; Beasley, 1999).

Owners of MSEs acquire a substantial amount of management skills and knowledge while operating their enterprises. Work experiences may contribute to MSE growth either directly by expanding the capabilities of owners of MSEs and employees through acquisition of skills and knowledge; and indirectly by expanding entrepreneurs' social networks. Entrepreneurs with more years of work experience typically have fast growing enterprises. For example, one empirical study found that Kenyan entrepreneurs with at



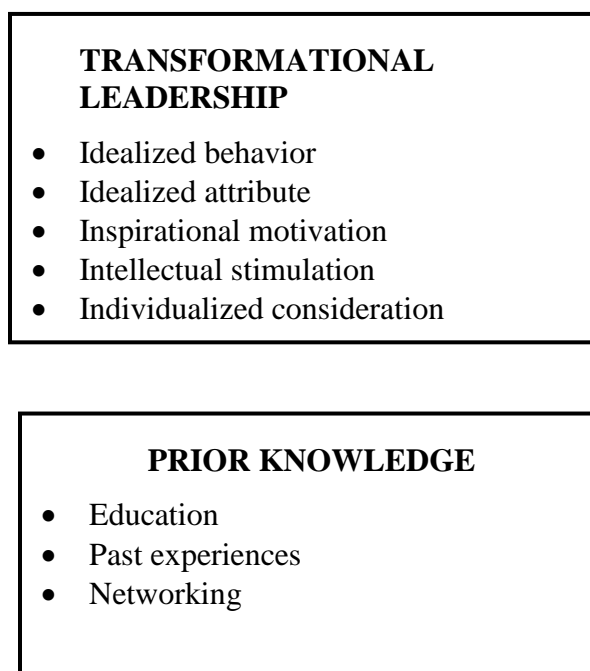
least seven years of work experience expanded their enterprises more rapidly than those without such experience (Parker, 1995).

Prior experience is important and helpful especially if that experience has been gained from the same sector or in MSEs. Prior experience proves to be important in developing economies-for example, a panel survey of one thousand entrepreneurs in the Netherlands found that entrepreneurs' prior experience, when in the same industry as their start-ups, improves firm growth, survival and profitability (Bosma *et al.*, 2004). In Latin America, a study of high growth entrepreneurs provides insights about the importance of not only skills but also business contacts gained during past employment (Kantis, Angellini and Koenig, 2004).

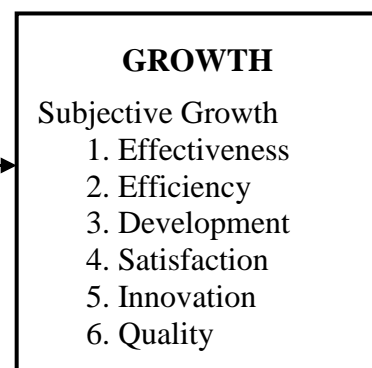
Granovetter's (1973) classic article describes the social perspective as interpersonal networks, including weak-tie network, strong-tie network and mentors. Further literature demonstrates that extended networks have positive associations with opportunity recognition (Hills, Lumpkin and Singh, 1997; Ardichvili, Cardozo and Ray, 2003). It is important to note that social networks are important in enterprise success. Social contacts are a key resource for the entrepreneur since they provide information, resources and moral support (Burt 2000; Adler and Kwon, 2002). Therefore entrepreneurs need to cultivate diverse, wide-ranging friendship.

## 2.3 Conceptual Framework

### Independent Variables



### Dependent Variable



**Figure 2: Conceptual Framework**

## 3.0 Research Methodology

The study adopted a cross-sectional survey of women owned enterprises. The target population of this study included all the women-owned MSEs in the study site that had between 2 and 50 employees. The population was heterogeneous since it comprised of MSEs operating in varied disciplines. These included salons and barber shops; green groceries; retail kiosks; food kiosks; hardware stalls; second hand clothes stalls; and cereals stalls. The sample size formula (Black, 2005) was used to compute the sample size

$$n = \frac{Z^2 pqD}{d^2} \quad \text{Where, } n = \text{the sample size}$$

$Z$  = the standard normal deviate (1.96)

p = the proportion of the target population estimated to have transformational leadership.  
 (This proportion is unknown hence it is estimated to be 0.5).

$$q = 1 - p = 1 - 0.5 = 0.5$$

d = margin of error, taken to be 5% in this study

D (the design effect) = 1

$$\text{Thus, } n = \frac{1.96^2 \times 0.5 \times 0.5 \times 1}{0.05^2} = 384$$

## 4.0. Findings and Discussion

### 4.1 Descriptive Statistics

A growth index was computed by summing up the six dimensions of growth. The overall mean of the computed growth index was 3.01 ( $\pm 0.46$ ). This growth index had satisfactory psychometric properties (Cronbach's  $\alpha = 0.61$ ) and there was no significant change in its internal reliability by deletion of any item. The surveyed women rated meeting business objectives highest at a mean of 3.60 ( $\pm 0.61$ ) and coming up with new products lowest at a mean of 2.51 ( $\pm 1.01$ )

**Table 1: Correlation Analysis of the Dimensions of Growth**

	Mean	SD	1	2	3	4	5	6
The enterprise:								
1. Meets its objectives	3.60	0.61	1					
2. Uses the fewest possible resources to meet its objectives	2.86	0.62	0.53*	1				
3. Develops its capacity to meet future opportunities and challenges	2.74	0.72	0.07	0.21*	1			
4. Satisfies all participants, stakeholders, employees and customers	3.03	0.89	-0.21*	-0.15*	0.42*	1		
5. Comes up with new products and processes	2.51	1.01	0.06	0.21*	0.27*	0.37*	1	
6. Offers products of high quality	3.32	0.77	0.15*	0.30*	0.10*	0.14*	0.60*	1

\*Significance  $p < 0.05$

**Table 2: Reliability Assessment Statistics**

Factor	Factor Indicators	Cronbach's Alpha
Idealized Attributes	I Instill pride in others for being associated with them; I go beyond self-interest for the good of the group; I act in ways that build others' respect for me; I display a sense of power and confidence	0.82
Idealized Behaviour (IB)	I talk about my most important values and beliefs; I specify the importance of having a strong sense of purpose; I consider the moral and ethical consequences of my decisions; I emphasize the importance of having a collective sense of mission	0.73
Inspirational Motivation (IM)	I talk optimistically about the future; I talk enthusiastically about what needs to be accomplished; I articulate a compelling vision of the future; I express confidence that goals will be achieved	0.77
Intellectual Stimulation (IS)	I seek differing perspectives when solving problems; I get others to look at problems from many different angles; I re-examine critical assumptions to question whether they are appropriate; I suggest new ways of solving old problems	0.69
Individual Consideration (IC)	I spend time teaching and coaching; I help others to develop their strengths; I treat others as individuals rather than just as a member of the group; I make personal sacrifices for other's benefits	0.74

The sampled respondents had a summary idealized attribute score that was above the validated benchmark levels (2). This reflects relatively high idealized attributes amongst the respondents. The idealized attribute scale identifies respondents who are able to build trust in their followers. The respondents are therefore able to inspire power and pride in their organizational teams, by going beyond their own individual interests and focusing on the interests of the enterprise and of its members.

**Table 3: Descriptive Statistics of Dimensions of Transformational Leadership**

Sub-scale	Mean (± SD)	Normative Values* Mean (95% CI)	Difference (Mean-value) normative
Idealized Attributes	2.95 (0.47)	1.50 (2.53, 2.69)	1.46
Idealized Behaviors	2.76 (0.59)	2.75 (2.28, 2.97)	0.02
Idealized Motivation	3.25 (0.66)	2.50 (2.67, 3.00)	0.76
Intellectual Stimulation	2.18 (0.61)	2.25 (2.72, 2.98)	-0.02
Individualized Consideration	2.02 (0.66)	2.75 (2.59, 2.64)	-0.56

\* Source: Bass and Avolio, 2000; 1995

The surveyed respondents had an average score on the idealized behaviors scale that is within the global standards. This scale identified respondents who act with integrity and manifested positive and highly valued behaviors, like dominance, consciousness, self-control, a high moral judgment, optimism and self-efficiency. They talk about their most important values and beliefs; they focus on a desirable vision and almost always consider the moral and ethical consequences of their actions. They also zero in on building a commonly shared sense of a vision or mission for the team or group.

The respondents had a higher average score on the inspirational motivation scale. This shows that the sampled respondents are able to promote positive expectations as well as inspire and motivate their employees, partners, or associates within their enterprises. It also indicates how well the respondents communicate their goals, manipulate images, and help others find meaning in their work. The respondents appear to articulate, in simple ways, shared goals and mutual understanding of what is right and important. They further provide visions of what is possible and how to attain them and enhance meaning and promote positive expectations about what needs to be done.

High rating on inspirational motivation items indicates the ways in which the sampled female entrepreneurs take to inspire their followers to achieve both personal and organizational goals. The findings are indicative that they look at the future optimistically and enthusiastically by providing a realizable and acceptable vision with clear communication and by presenting followers ways to reach them. The values, that the respondents adopt, can also be adopted easily by the employees. Thus, this suggests that their inspirational traits impacts cohesion through visioning behaviors that involving rapport building between the leaders and their followers. Past studies have already shown that a leader who promotes confidence in achievement and execution of goals and tasks,



speaks optimistically about the future and provides an exciting image of organizational change, exhibits idealized, inspirationally motivating behaviors (Bass and Avolio, 2000).

The respondents had a relatively low average score on the intellectual stimulation scale. This scale was used to identify respondents who were able to encourage creative thinking. This result suggests that the surveyed respondents had challenges in stimulating the ideas and values of their employees. Further, the result indicates that the sampled respondents rarely take critical approaches in solving problems that arise from within their enterprises. Through intellectual stimulation, transformational leaders help others to think about old problems in new ways. They are encouraged to question their own beliefs, assumptions, and values, and, when appropriate, those of the leader. As a consequence, associates develop the capacity to solve future problems unforeseen by the leader. Associates learn to tackle and solve problems on their own by being creative and innovative. A key measure of a leader's effectiveness is how capable the associates are able to identify new innovative ways of solving old or future problems (Bass and Avolio, 2000; Hisrich and Brush, 1984).

The low score on the individual consideration attributes is indicative that the understanding and sharing in others' concerns and their personal developmental needs are not issues of great concern to the sampled women MSEs' owners. Individual consideration shares some aspects of the mentoring concept. It deals with a focus that expands the individual's development, providing feed-back between parties and making the individual feel included in the work. Mentoring is a good framework for this dimension because of the focus on trust. The reported results show that there is minimal mentorship between the sampled female MSEs owners and their followers (staff and family support members).

**Table 4 Descriptive Statistics and Correlation Coefficients of the Sub-scales of Transformational Leadership**

	Mean	SD	1	2	3	4	5
1. Idealized Attributes	2.95	0.47	1				
2. Idealized Behaviour	2.76	0.59	0.64*	1			
3. Inspirational Motivation	3.25	0.66	0.46*	0.51*	1		
4. Individual Consideration	2.18	0.61	0.39*	0.44*	0.50*	1	
5. Intellectual Stimulation	2.02	0.66	0.49*	0.60*	0.42*	0.38*	1

\* Significance  $p < 0.05$

The factor analyses yielded a one factor solution for transformational leadership (Table 5). This single factor (transformational leadership summary score) explained 58.69

percent of the variance. The Cronbach's alpha coefficient of this factor was satisfactory ( $\alpha = 0.82$ ), and was not affected by the removal of any of the sub-scales. This single factor had a mean of 2.63 (SD = 0.46).

**Table 5: Factor Loadings Based on Principle Components Analysis for the 5 Dimensions of Transformational Leadership**

Aspect of Transformational Leadership	Factor Loading
Idealized Attributes	0.79
Idealized Behaviour	0.85
Inspirational Motivation	0.75
Individual Consideration	0.69
Intellectual Stimulation	0.76
Eigenvalue	2.94
Explained Variance (%)	58.70

A simple linear regression model was used to determine this relationship (Table 6). The model had satisfactory properties ( $F = 195.35$ ,  $p < 0.05$ ). The growth of the sampled women MSEs was positively and significantly associated with transformational leadership. A one unit increase in transformational leadership was associated with a 0.57 increase in growth. Further, transformational leadership explained 33% of the variation in growth.

**Table 6: Test of Relationship between Enterprise Growth and Transformational Leadership**

	$\beta$	SE	Standardized Beta	t-statistic	$p$ - Value
(Constant) Intercept	1.50	0.11		13.65	$< 0.05$
Transformational Leadership Index	0.57	0.04	0.57	13.98	$< 0.05$
$R^2 = 33\%$ , $F = 195.35$ , $p < 0.05$					

Dependent Variable = Enterprise Growth Index

**Table 7: Indicators of Prior Knowledge**

Variable	Categories	Number of responses	% of the total
Number of training sessions attended in the past three years	None	312	78.0
	More than One	88	22
Membership to business associations	Yes	58	14.0
	No	344	86.0
Number of other businesses ever started	None	251	62.7
	One	113	28.3
	More than Two	36	9.0
Engagement of parents in business activities	Yes	208	52.0
	No	192	48.0
Number of contacts with business advisors in the past one year	None	275	68.8
	Once	110	27.5
	Twice	15	3.7

The reported findings indicate that a majority of the respondents (78%) had never attended any training session, seminar, or conference in the past three years. Further, only 14% of the sampled women were members of business associations.

The findings also indicate that a majority of the sample respondents (62.7%) had never engaged in another line of business while the rest had attempted to run other forms of businesses in the past; some once (28.3%), [others twice (6.7%), thrice (1.5%) or four times (0.8%)]. The findings show that the sample was fairly distributed amongst respondents from family backgrounds where the parents engaged in business (52%) and those whose parents never engaged in business (48%). Finally, the findings of Table 7 indicate that a majority of the sample respondents (68.8%) reported that they had never contacted a business advisor (accountants, lawyers or consultants) for advisory services in the past year. The laxity in seeking advisory services amongst the sampled MSEs would be attributed to fear of incurring huge expenditure especially considering that most informal MSEs perceive such services to be “unnecessary” and “expensive”.

A multiple regression model was used to establish the relationship between the various dimensions of prior knowledge and growth of women-owned MSEs (Table 8). The model had satisfactory properties ( $F = 8.98$ ,  $p < 0.05$ ). The selected indicators of prior knowledge explained 8% of the variation in growth. The growth of the sampled women MSEs was positively and significantly associated with the number of trainings attended. A one unit increase in the number of trainings attended was associated with a 0.19% increase in growth. Further, having parents in business was associated with a reduction of 18% in growth. A one year increase in age was associated with a 0.1% reduction in growth. Contact with business consultants was associated with a 14% reduction with growth.

**Table 8: Test of Relationship between Enterprise Growth and Prior Knowledge**

	Unstandardized Coefficients		Standardized Coefficients	t
	$\beta$	SE	Beta	
(Constant)	3.32	0.10		32.53
Parents with business*	-0.18	0.04	-0.20	-4.13
Age in years*	-0.01	0.003	-0.11	-2.12
Number of training*	0.19	0.06	0.17	3.26
Number of contacts with consultants*	-0.14	0.05	-0.14	-2.61
$R^2 = 8\%$ , $F = 8.98$ , $p < 0.05$				

\* Significant at  $p < 0.05$

These results should not be construed to mean that prior knowledge attributes are not necessary for the growth of the business. This can possibly be explained by the fact that many of the studied women are not very active in business networks; they had not attended formal business training sessions; had not engaged in formal employment in the past; had no past experience in managerial positions; were engaged in their first ever business venture; had little business experience from the family; and had little or no contacts with business advisors in the past. Prior entrepreneurial experience provides a source of information and skills which are useful also to the pursuit of opportunity (besides the recognition of opportunity). Shane (2000) argues that general business experience, industry experience, functional experience in marketing, product development or management, and previous start-up experience all provide some of the information and skills that increase the likelihood of opportunity exploitation, and eventual enterprise growth.

#### 4.2 The Effects of Transformational Leadership and Prior Knowledge on Growth

The third objective of the study sought to show the effects of prior knowledge and transformational leadership on growth. A multiple linear regression model was applied to address this objective. The simultaneous effects of prior knowledge and transformational leadership on growth are shown in table 4.12. Transformational leadership had a positive and statistically significant association with growth ( $\beta = 0.57$ ,  $p < 0.05$ ). Further, obtaining business credit was related to an increase of 16% in growth. Indicators of prior knowledge had negative relationship with growth. Having parents in business was associated with a decline in growth ( $\beta = -0.13$ ,  $p < 0.05$ ). Contact with consultants was also inversely related to growth ( $\beta = -0.12$ ,  $p < 0.05$ ). The age of a business was associated with a 0.1% reduction in growth.

**Table 9: The Combined Effects of Transformational Leadership and Prior Knowledge on the Growth in Women-owned Enterprises**

Variables	Standardized Coefficients ( $\beta$ )		
	Transformational Leadership	Prior Knowledge	Combined Effects
Transformational leadership	0.57		0.57
Parents with business		-0.20	-0.14
Age of the entrepreneur		-0.11	-0.11
Number of trainings		0.17	0.17
Business contacts		-0.13	-0.13
Age of the business		-0.09	-0.09
P value	0.05	0.05	0.000
F Value	195.35	8.98	274.98
Adj. $R^2$	33%	8%	41%

The interpretation of the findings of Table 9 yields a number of observations. More importantly, the regression results convey how firm growth results from the interaction of a number of variables, offering a framework based on leadership style and prior knowledge. Transformational leadership combined with prior knowledge lead growth of women-owned enterprises. First, prior knowledge and experience had unexpected



associations with growth of women-owned MSEs. This is in contrast to entrepreneurship literature (Alsos and Kaikkonen, 2006; Ardichivilli and Cordozo, 2002). This finding is attributable to the low levels of capital and skills intensity required in start-up and day to day running of the enterprises. Women-owned firms face multiple challenges. Although evidence shows they are as effective as male owner/managers, women often use their firms as part of household survival strategy and opt not to grow. Any development practitioner or businessperson can attest that MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSEs, as entrepreneurs with more years of work experience typically have faster-growing MSEs.

Secondly, MSE growth defined simply as an increase in the number of firm employees may not be sustainable, but growth accompanied by improvements in productivity is likely to contribute to the desired development effects discussed earlier, such as broad-based economic growth. Firms exhibiting fast growth tend to be more productive than are their slow-growth competitors (Hisrich and Brush, 1984). This implies that the nature of leadership applied by the team leaders matter a lot. This also explains the link between transformational leadership and growth. The types of businesses covered under the study are usually sole proprietorships or partnerships with support from family for day to day operations.

## **5.0 Conclusions**

The purpose of the study was to examine the effects of transformational leadership and prior knowledge on the growth of women-owned MSEs in Kenya. The reported data shows that most of the surveyed enterprises were experiencing moderate growth. The results show that on average, the respondents were able to meet their business objectives, utilize resources effectively, satisfy stakeholders and offer quality products. Innovation and building the capacities of the businesses were two notable problematic areas.

The study findings confirmed previous literature that shows that transformational leadership is driven by five attributes namely idealized attributes; idealized behaviors; inspirational motivation; intellectual stimulation; and individual consideration. Three attributes scored highly among the sample (idealized attributes; idealized behaviors; and inspirational motivation) while low scoring was reported on two attributes (intellectual stimulation and individual consideration). High scoring on idealized influence attributes (idealized attributes and idealized behaviors) indicates that idealized influence is linked to charisma. Charisma development helps in mentorship and in resolution of conflicts. Idealized influence leaders serve as role models for their employees, allow them to identify with a shared organizational vision, and overcome obstacles in ways that breed pride and belief in employees. High scores rating on inspirational motivation items

indicate the ways in which the sampled female entrepreneurs take to inspire their followers to achieve both personal and organizational goals. Low scoring on the individualized consideration attributes shows that understanding and sharing in others' concerns and their personal developmental needs are not issues of great concern to the sampled women MSEs' owners.

Individual Consideration shares some aspects of the mentoring concept. Low scoring on intellectual stimulation attributes indicates deficiencies in conflict management and problem solving between the sampled female entrepreneurs and their followers. Effective conflict management can lead to better team performance, as leaders and followers are not dragged down by infighting and indecision. This could have contributed to possible slow growth experienced in the sampled enterprises because teamwork is diminished, and speed of decision-making and execution of tasks is curtailed. Transformational leadership was further found to be positively associated with growth of women-owned enterprises. This result supports literature that suggests that transformational leadership is essential in the development of women-owned enterprises. Therefore enhancing transformational leadership is a viable option for boosting the growth of women-owned enterprises.

This study also cast doubts on the role of prior knowledge on enterprise growth. The study findings indicate that a majority of the respondents had never attended any training session, seminar, or conference in the past three years, as a way expanding their entrepreneurial and analytical skills base. Participation in business associations was also minimal among the study respondents. The reported results also revealed that the respondents lack adequate exposure to business advisory services (accountants, lawyers or consultants) either due to ignorance or lack of capacity to finance the same. Further, having parents in business and obtaining business advice from consultants were negatively associated with enterprise growth. The profiled business heritage had a negative influence on enterprise growth. This observation is contrary to entrepreneurship literature which highlights the role of prior knowledge in the performance of businesses. The reported weak business heritage needs to be addressed in order to enhance the growth of women owned MSEs.

## **6.0 Recommendations**

There is need to formulate policies and programs on education and training in order to foster transformational leadership in women entrepreneurs. The presented results suggest that enhancing intellectual stimulation and individualized consideration among women entrepreneurs are avenues that can be pursued. The MLQ paradigm can be used to enhance the formulation and implementation of meaningful educational and training programs for women entrepreneurs. Proper coordination in the various government

departments to establish quality training programs emphasizing on women leadership and knowledge in business is required.

It is also recommended that prior knowledge in the form of business heritage and consulting for women-owned enterprises should be rejuvenated. Training programs can be initiated to enhance business attitudes, skills and knowledge. Such programs can focus on innovation and development of capacity. The government of Kenya should appoint and register business consultants for consistent business advice and accountability. Further, business heritage needs to be improved through proper documentation of business activities in a business plan by the entrepreneurs. There is need to identify the cost-benefit analysis of programs that can be used to train transformational leadership in women entrepreneurs. Currently, interventions that can enhance transformational leadership are not clearly understood. Identifying such interventions and their costs and advantages is an important research endeavor.

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