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# Leadership and firm entrepreneurial performance in county governments in Kenya

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## Abstract

The purpose of the study was to evaluate the influence of county government innovative leadership on the entrepreneurial firm performance in Kenya. The Multiple regression model was used to assess the innovative leadership and identify the influencing factors particularly on entrepreneurial firm performance. Data was collected through structured questionnaires, with a total sample of 80 respondents, selected from 20 of the 47 county units in Kenya. Data was analysed using Excel statistical tool. Results show that although county governments have programs to support entrepreneurs within their areas of jurisdiction the programs do not have a statistically significant influence on the entrepreneurial firm performance. Direct support such as credit provision in addition to promoting entrepreneurship training were not adequate. It is thought if these areas are addressed, county government leadership can positively influence firm performance and entrepreneurship development in the country. The county governments, through initiatives such as business incubators, favourable policy formulation and regulation could play an important role in changing the performance of entrepreneurial firms. They could also support them in formulating effective entrepreneurship strategies.

**Keywords:** Innovative leadership, Devolved units, Entrepreneurial firm performance, Influences, County governments, SMEs

## Introduction

### Background

Kenya, which is one of the developing countries in the world, is faced with the increasing challenges of unemployment, low levels of entrepreneurial activities, and poor firm performance, and hence, the problem of unsustainable economic growth and development. Since the country adopted the devolved system of government in 2010, there has been a huge demand from county government officials as well as the entrepreneurs operating in the areas on how to provide innovative leadership for entrepreneurial performance and development. Evidence shows that the pace and level of entrepreneurial firm performance in Kenyan devolved units is not sufficient for sustainable businesses to create more jobs. The expectation that devolved units would be self-sustaining in the shortest possible time is further compounding the matter. According to Abonyi (2005), entrepreneurs are becoming major contributors in the economies of many

countries. It is therefore prudent that their needs can be addressed in a special way by stakeholders. Yasuyuki and Wiens (2015) notes that promoting entrepreneurship<sup>1</sup> has been part of city and state economic development strategies for at least two decades. This has been the trend in a number of countries where entrepreneurship is considered the path to economic activities. The strategies have been largely informed by academic writing and, more recently, by the experience of successful entrepreneurs. With so much attention paid to entrepreneurship, one might expect entrepreneurship to be booming, yet unfortunately, the opposite is largely true. This is partly the reason why this study was undertaken. Another dimension of the problem stems from the fact that county government officials have not been able to provide good programs and innovative leadership to support performance and entrepreneurship development (Gliddon, 2006).

This situation has made it possible to initiate a study and assess the true position in the field of entrepreneurship. The rising level of corruption and poverty in the counties is causing discomfort to the county government officials thus, making them explore various causes of action. This, in addition to the fact that entrepreneurial firms are not performing well, raises a number of questions which may include: What support do entrepreneurs require from county governments? What are the key innovative leadership factors required to influence entrepreneurial firm performance? How should entrepreneurship be promoted in Kenyan county governments? Matters are made worse by the fact that changes in governance have resulted in challenges further complicating the situation for the county officials (Sarros et al. 2008). Stakeholders have held several meetings within the short time that county governments have been in existence. The discussions have mainly focused on developing programs to support the growth and development of entrepreneurial firms. This, in turn is expected to support and sustain the county governments.

### **Objectives of the study**

From the above introduction, the objectives of the study include the following:

1. Examining if leadership has measures in place such as credit facilities that support firm entrepreneurial performance.
2. To explore the effect of entrepreneurship training on firm entrepreneurial performance.
3. Finding out if leadership has favourable policy formulated to support firm entrepreneurial performance.
4. Establishing if leadership has put in place business incubators to support firm entrepreneurial performance.

### **Structure of the paper**

This paper is simply structured as per the guidelines given by the journal to the authors. It has an abstract followed by the introduction which gives a brief background to the study. This introduction is followed by an extensive review of literature which is followed by methodology covering data collection. There is then the section on Results and Discussion. This section covers main findings, data analysis and the discussion.

The paper ends by highlighting the Conclusion and Recommendations. The last bits are the usual detailing acknowledgement, Funding Authors' contributions, competing interest, author details and References.

### **Review of literature**

Applying innovative thinking to leadership tasks is one of the ways that can be used to attain desired performance in firms. Innovative leadership is the ability to both think and influence others to create “new and better” ideas to move towards positive results. “Innovation Leadership: How to use innovation to lead effectively, work collaboratively, and drive results”; (Horth & Buchner, 2014).

Innovative leadership inspires others to think outside the box, and then creates an environment where new ideas can be tested and evaluated. This may also result in improved performance in the firm. These leaders tend to be visionaries and motivate their followers through leading by example and fostering collaboration. The leaders could for instance come up with a policy that inspires others to become more productive hence improved performance. Innovative leadership uses several different leadership styles, depending upon what is required to meet the needs of organization and individuals. This is one of the entrepreneurial ingredients that can spur firm performance in devolved units (Mumford and Licuanan, 2004).

But in particular, innovation is critical in a knowledge economy — driving growth, new products, and new methods of delivering value to customers. Innovation, just like marketing, is a very important component of entrepreneurship process and development.

### **Firm performance**

Ayatse et al. (2017) posit that firms are encouraged to access the value-addition services of incubation as this greatly increases their chances of firm survival, revenue growth, employment and job creation, financial resources and networking and alliance building. Performance is a critical component of any contemporary firm. It is therefore a concept that is receiving a huge attention in the entrepreneurial development.

According to PwC's 2015 study on Global Innovation, U.S. companies spend \$145 billion dollars in-country on R&D each year. And yet, despite its importance, innovation is a difficult quality to cultivate both in leaders and in organizations. This is how critical the concept of innovative leadership is. In Conference Board's 2015 CEO Challenge study, 943 CEOs ranked “human capital” and “innovation” as their top two long-term challenges to driving business performance and growth.

This is a key talent challenge for most organizations, and a talent gap that needs to be closed, starting at the top – with the role of the CEO (Katherine 2016). This is an indicator that innovative leadership still holds sway in the way firms perform. Tanya (2010) posited that in a session on innovative leadership, Cheryl Lemke, President and CEO of the education technology consulting firm Metiri Group, shared certain steps to becoming an innovative leader. XBI Insight has collected competency data on nearly 5,000 leaders across a wide range of industries. Analyses were done to identify the competencies that innovative leaders share.

The top competencies found in the research are outlined below, including their corresponding behaviours. Every CEO should be cultivating these behaviors to maximize innovative leadership and thinking. Innovative leaders score higher than their non-innovative counterparts on managing risk. This is because they are bold when it comes to experimenting with new approaches. However, they will initiate reasonable action when potentially negative consequences are expected. When risks do present themselves, they develop plans to minimize the risk and identify where it is needed most (Mumford, et al. 2002). This kind of operation can go a long way in improving performance within firms.

Thus, innovation leadership is not the management of an innovative product development project; rather, it is the process of leading the company's innovation portfolio strategically. Specifically, innovation leadership is vital for consistent superior organizational performance (Samad et al. 2015).

According to Demircioglu (2017), some issues, such as organizational size, location, performance, and investments in human capital through training, are clearly applicable in any organizational context, be it private or public. Training for instance is a critical component in firms as well as in any governing unit. Training in essence is investing in the human resource with the intention of influencing performance and outcome.

Innovation leadership is defined as the process of creating the context for innovation to occur; creating and implementing the roles, decision-making structures, physical space, partnerships, networks, and equipment that support innovative thinking and testing (Porter-O'Grady and Malloch, 2010). Adjei (2013) also defined innovation leadership as the synthesis of different leadership styles in organizations to influence employees to produce creative ideas, products, services and solutions. According to Adjei (2013), due to the fact innovation leadership is a complex concept, there is no single explanation or formula for a leader to follow to increase innovation. But it is a concept that influences performance in firms in a big way. Innovative leaders also score higher in terms of demonstrating curiosity. They exhibit an underlying curiosity and desire to know more. These leaders will actively take the initiative to learn new information, which demonstrates engagement and loyalty to company goals.

Keeping their skills and knowledge current gives them the competitive edge they need to lead effectively, and also stimulates new ways of thinking in other workers. As an approach to organization development, innovation leadership can support achievement of the mission or the vision of an organization or group. With new technologies and processes, it is necessary for organizations to think innovatively to ensure continued success and stay competitive. According to Chen et al. (2007), to adapt to new changes, "The need for innovation in organizations has resulted in a new focus on the role of leaders in shaping the nature and success of creative efforts (Leitch, et al. 2013)" Without innovation leadership, organizations are likely to struggle (Kuratko, 2007). This new call for innovation represents the shift from the twentieth century, traditional view of organizational practices, which discouraged employee innovative behaviors, to the twenty-first-century view of valuing innovative thinking as a potentially powerful influence on organizational performance.

Innovative leaders are proactive and lead with confidence and authority. They turn tough circumstances into prime opportunities to demonstrate their decisive capabilities and take responsibility for difficult decision making.

These leaders are sure to engage and maintain audience attention in high-stakes meetings and discussions, and they do not avoid conflicts and differences of opinion. Horth and Buchner (2009, 2018a, 2018b) identified some innovative thinking skills which inform the innovative leadership of firm entrepreneurs. This also is a critical component because it influences performance. Innovative leaders scored higher when it comes to seizing opportunities. They are proactive and take initiative and ownership for success. These CEOs anticipate potential obstacles before taking action, but avoid over-analysis. They push for personal performance and are able to work independently for extended periods of time with minimal support.

They are also able to change directions quickly to take advantage of new opportunities when they come up. Examine setbacks and problems related to creating new opportunities and competitive strategies within your own company. Learn to see advantages in changing situations and new developments. Lastly, our research found that innovative leaders score higher when it comes to maintaining a strategic business perspective. These leaders demonstrate a keen understanding of industry trends and their implications for the organization (Dess and Pickens, 2000).

They thoroughly understand the business, the marketplace, and the customer base and are adept at identifying strategic opportunities or threats for the business. They actively participate in community, industry and leadership organizations to understand the external environment, and have an ability to articulate convincing approaches to moving their business forward. In firm performance, innovative leadership maintains excellent process tactics, and continues to produce outcomes and products reflective of the high quality desired (Cameli et al. 2010). There is one competency where innovative leaders perform more poorly than less innovative leaders — maintaining order and accuracy.

For this reason, organizations need to supplement innovation initiatives with people who are strong in project management, or provide tools and training to help the innovators manage the details more effectively. When product innovations are introduced, firms will generate positive growth which in turn increases firm profitability (Wolff and Pett, 2006). Studies also suggested that a strong customer orientation is a starting point for building a strategic marketplace perspective in leaders. Identify early career employees who consistently consider the customer perspective when making decisions. These individuals may be future innovators.

Exposing these customer-centric employees to strategic projects and to work that touches the customer experience along the life cycle will groom them to be future innovators (Shipton, et al. 2005). Analyzed behavioral styles of the highest-level innovators and found very interesting scenarios. Leaders with “driving styles” were the most likely to be innovative because they are willing to chart their own course and to stand alone in developing a creative, fresh approach to a product or service. People with “impacting styles” are also likely to drive innovation through their ability to convince and persuade others toward a new way of thinking.

### **Necessary support for entrepreneurs**

Prakash et al. (2015) consider government long term policies as one kind of support that entrepreneurial firms need for performance and growth. Other than this, other

scholars in a study of Turkish entrepreneurs, Kozan, Oksoy, and Ozsoy, 2006 found that business management training and financing are significantly related to an SME owner's expansion plans. Therefore government policies favouring entrepreneurs, relevant training and availability of credit are required for entrepreneurial firm performance. The same Governments can affect innovation in entrepreneurial firms.

This is because government controls a number of policy instruments that can be used to foster innovation and to induce individual entrepreneurial events. This ultimately creates the flock of entrepreneurs who promote economic development. It is such an eventually that countries may require for creation of employment, introduction of entrepreneurial societies and entrepreneurial development. Local leadership appears to be a critical factor in promising small business and entrepreneurship efforts (McConnell, et al. 2011). Of Particular importance are local leaders with a clear economic vision who actively encourage entrepreneurs and small businesses to participate in the city policy and planning issues that relate to them. This would be equated to leadership that formulates policies that encourage and support entrepreneurial firms in their performance. On the most practical level, strong local leadership with committed entrepreneurial acumen and innovativeness is needed to get things done. It helps motivate internal and external stakeholders, provides legitimacy for issues and programs and can provide the budget and staff needed for program success. On a light note, strong local leadership demonstrates to small business and entrepreneurs that they matter and are important to community success. It also raises increased awareness of the importance of entrepreneurs in the local economy. Leadership, as it were, motivates entrepreneurship.

#### **Concept of business incubation practice**

Business incubation agenda is a tool for promoting innovation and economic development (Bergek and Norman, 2008; Al-Mubarak and Busler, 2011). Though a relatively old concept in Kenya, the same has slowed down over the past three decades. This model is designed to be capable of adding value to incubated firms with the intention of increasing the survival rates of such incubated firms (Bizzotto, 2003; Moreira et al. 2012). Firms have been grappling with among other challenges, the need for survival in the harsh business environment.

The value adding activities are generally regarded as the business incubation practice with several models developed to explain the phenomenon. Bergek and Norman (2008) caution on the limited scope to which most of the incubation models are conceived as focusing primarily on results neglecting the interrelationship of the value added activities to other incubator activities. This is a practice that among other items, brings with it networking, facilitates entrepreneurial training, and provides entrepreneurs with information on credit sources.

#### **Leadership styles of entrepreneurs**

Bindah (2017), model of entrepreneurship behaviour and leadership style, highlights two concepts which are also key to the entrepreneurial firm performance. He underscored people-oriented and control -oriented leadership. As the old adage goes, everything rises or falls on leadership. In the same vein, county government and firm leadership affects



the performance of enterprises. It also means firms and systems need control just as people need. On the other hand, “supporting” and “contemplative” individuals tend not to be innovative leaders. They need more organizational encouragement and structure to help them bring their out-of-the-box ideas to the table. These styles play a key role both at the county government level and also at the level of firm entrepreneurial operations.

Certain data suggests that the most innovative CEOs do not ignore risks – they manage them. These leaders anticipate what can go wrong without getting boxed in (Zahra, 2007). They are curious, and they seize on clear opportunities, balancing exploration with being opportunistic. The CEOs who are most likely to lead innovation are driving, high-impact individuals, who are not afraid to be assertive, independent, and above all, curious. They also become alert to what happens in the firm and the surroundings.

### **Conceptual model of direct and indirect influencers**

While conducting preliminary investigations in a few selected counties and firms, the researcher developed a conceptual model named Nandpreneur 2017 to help reinforce a few concepts. This was done in consultation with another researcher Christopher Mithamo. The changing scenarios in the global entrepreneurial activities, calls for corresponding measures (Tushman and O'Reilly III., 1996). The model helped in developing the basis upon which the analysis of variables would be. It also assisted in identifying if important “third” variables were missing. The model shows the level of relationship measurement, if variables indeed are free to vary or if indeed causal relationships are stated or implied. In the literature reviewed (Edwards, 2011), the researcher managed to piece together a conceptual model. The parameters were identified as independent (county government leadership), dependent variable (entrepreneurial firm performance) and other transient influence (external and internal efficiencies). This is a structure of variables which the researcher operationalized in order to achieve the agreed objectives.

### **Methods**

The study employed a mixed survey design. The quantitative part was concerned with assessing the entrepreneurial firms in county units and particularly their performance. The qualitative part provided insights on the task of county administrators in influencing performance of the firms through their policies, training and other support.

The study population was composed of investment officials at county governors' offices, entrepreneurs selected from firms operating in county units and a few identified consultants in the county units. Twenty counties were selected out of the 47 as they formed a good representation of all the county population in Kenya (Government of Kenya, 2016). The investment officials were chosen because they influenced decisions and policy on entrepreneurship in counties. The entrepreneurs were chosen because of their proximity and operations in the firms while the consultants were picked to give an insight of their roles to entrepreneurship. A stratified random sampling technique was used to represent both rural and urban counties, with a share of 40% for rural counties, and 60% for urban counties.



### Data collection

Data for the study was collected through a structured questionnaire, comprising a sample of 80 respondents. (Cooper and Schindler, 2011) affirms that open ended and closed ended questionnaires, interview schedule and content analysis are good instruments of data collection. They were used for conducting this research. Individual interviews, observation are also useful methods relevant for this research. Interviews range from the highly structured style, in which questions are determined before the interview, to the open-ended, conversational format. The respondents were selected from the 20 sampled counties in a systematic way. The five-point Likert scale was used to measure innovative leadership towards firm performance; the understanding variables being: “strongly agree”, “agree”, “neutral”, “disagree” and “strongly disagree”.

Key SA- Strongly Agree, A –Agree N – Neutral, D – Disagree, SD – Strongly Disagree. The questionnaire was subject to a pilot-test with a sample of 15 respondents. The survey instrument showed a reliability of 0.78, based on Cronbach's Alpha. The questionnaire results were further improved with interviews with one consultant each in the counties on matters of entrepreneurship. This was to provide insights on entrepreneurship development and firm performance.

They also expounded on their role in enhancing entrepreneurship development within counties. From the results, a regression model was developed to identify the key factors of innovative leadership influencing the firm performance in counties.

### Results and discussion

Kenya is a developing country that attained its independence from Britain in 1963 and adopted a republic constitution the following year. This constitution effectively dashed the hopes of many citizens who had hoped to see the resources devolved to the grassroots hence have every corner of the country develop. Although the independence constitution served its purpose to some levels of satisfaction of the powers that be, it failed in its core mandate of ensuring resources are devolved, citizens are equitably served and all areas are developed almost at equal rate. The unemployment rates went up as well as the poverty levels.

This has hampered the possibility of remarkable entrepreneurship development in the country in general. With these developments the government's ability to generate more employment to meet the rising numbers of qualifying citizens who join the job market every year has been challenging.

Hence, promoting entrepreneurship at both national and county level was considered to be one of the policy options for new county administrator as well as the national officials could pursue to address a myriad of emerging problems. This is partly why the new constitution was promulgated in the year 2010.

### Main findings

Results of the survey, that involved 80 respondents, showed that the majority were male (70%) compared to 30% female. This reflects the gender distribution in the entrepreneurship field in Kenya. It is still a male dominated turf. This may be partly due to the fact that entrepreneurship is an emerging field in the country. It thus,

leaves room for a number of surveys and studies to be carried out so that actual facts can be established.

#### Data analysis

The data collected was analyzed by regressing it using the Excel statistical tool which the researcher was familiar with. Excel contains several functions to help one calculate other estimates.

#### The study regression model adopted

In multiple regressions, one can predict a dependent variable from several independent variables. For four predictors,  $X_1$ ,  $X_2$ ,  $X_3$  and  $X_4$ , the multiple regression model takes the form:

$$Y = \beta_0 + \beta_1 \cdot x_1 + \beta_{2x2} + \beta_{3x3} + \beta_{4x4} + \dots u$$

One of the goals of regression is prediction. One can use multiple regression to see how several variables combine to predict the dependent variable. When one performs a regression analysis, then one attempts to find the line that best estimates the relationship between two or more variables (the  $y$ , or dependent, variable, and the  $x$ , or independent, variable).

#### The Study regression model is

$$Y = \beta_0 + \beta_1 \cdot x_1 + \beta_{2x2} + \beta_{3x3} + \beta_{4x4} + \dots u$$

After computing estimated values for the  $\beta$  coefficients, one can plug them into the equation to get predicted values for  $Y$ . The estimated regression model is expressed as:

$$Y = b_0 + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4$$

This is the estimated the regression line.

Where

$Y$  – Firm Entrepreneurial Performance.

$X_1$  – Support measures in place such as credit facilities.

$X_2$  – Entrepreneurship Training.

$X_3$  – Favourable Policy Formulated.

$X_4$  – Presence of Business incubators in the county.

#### Results of the model in Table 2 show the following

1. The multiple correlation coefficient is 0.11335575. This indicates that the correlation among the independent and dependent variables is positive. This statistic, which ranges from  $-1$  to  $+1$ , does not indicate statistical significance of this correlation.
2. The coefficient of determination,  $R^2$ , is only 1.28%. This means that close to 1.3% of the variation in the dependent variable (Entrepreneurial Firm Performance) is explained by the independent variables.

The Coefficients column (gives the estimated coefficients for the model. The corresponding prediction equation is:

$$\text{Calc.}(Y) = 37.1102494 + 1.618565748(X_1) - 2.32517044(X_2) + 3.881426569(X_3) + 2.849036072(X_4)$$

- The support measures in place such as credit facilities indicated a less significant positive impact on Entrepreneurial Firm Performance, with  $P$ -value  $0.772578 > 0.05$ . This means that the less the level of support given such as credit, the more likely that entrepreneurial firm performance is likely to suffer.
- The level of entrepreneurship training has also shown a less significant impact on entrepreneurial firm performance, with  $P$ -value  $0.697122 > 0.05$ ; indicating that the less the entrepreneurial training provided, the more it is likely to affect entrepreneurial firm performance negatively.
- The policies formulated have no significant impact on the entrepreneurial firm performance, with  $P$ -value of  $0.49408 > 0.05$ .
- The current business incubators have no significant influence on the entrepreneurial firm performance, with the  $P$ -value of  $0.59552 > 0.05$ .

## Discussion

The study established that county government leadership has got no significant influence on entrepreneurial firm performance in Kenya. Interestingly, results have shown that despite a few measures put in place to support entrepreneurship, the same are not contributing significantly to entrepreneurial firm performance. This may require further interrogation and high level intervention. This points to the fact that a lot of concerted efforts by various stakeholders are still required. Change of approach by leadership may also be necessary because it will determine attitudes towards entrepreneurship (Omer, et al. 2017).

In regard to the leadership measures put in place to influence entrepreneurship, such as provision of credit; this was found to have no positive influence. Perhaps more needs to be done in this direction. It may be due to the insufficiency of the funding or it could be that entrepreneurs have to employ prudence in the available credit.

The study also found that the level of training provided in entrepreneurship did not have a significant impact on the entrepreneurial firm performance. The county governments can revise this program with the aim of making it more relevant.

The study found that the policies formulated by county government officials had no influence on the performance of entrepreneurial firms. The county government leadership may have to go back to the drawing board regarding this issue (McEntire and Greene-Short ridge, 2011). It may also be a pointer that the leadership needs to get more involved in the entrepreneurial process and performance.

In this study, the current business incubators, which provide great support to entrepreneurs in the form of start-up funding, location, networking opportunity, training and many other useful services (Kotler, et al. 2008), had no significant influence on entrepreneurial firm performance. Again this may be due to their dormancy or inaction in as far as entrepreneurial activities are concerned.

## Conclusion and recommendations

With the introduction of county government system in Kenya, the national government has an enormous task of sustaining the devolved units. Although the study found that county government leadership is not innovative enough to influence firm performance, the demand on them still remains. Entrepreneurial firm performance still requires that affordable credit be availed to entrepreneurs.

A specific training intervention program for entrepreneurs needs to be formulated and implemented to improve entrepreneurial performance and development (Ibrahim, et al. 2017). The county government leadership has important roles to play in promoting entrepreneurship through formulating relevant policies to enable entrepreneurial firms perform well and meet their objectives and goals.

This, the Governments can do by supporting business incubators to effectively undertake their roles and mandate. Although this study highlighted the integral role of business incubators in transforming the ability of entrepreneurial firms towards performance, their roles and lack of efficiency has not been thoroughly investigated. This may be due to varied reasons among them lack of data, this can form the basis of further future studies.

## Abbreviations

CEOs: Chief Executive Officers; R&D: Research and development; SMEs: Small- and medium-scale enterprises

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## Availability of data and materials

We used the Government of Kenya Survey data - Kenya National Bureau of Statistics, 2016 which is readily available upon request. Please note that we can also avail the do files upon request.

## Author's contributions

The corresponding author NJM presented the main idea and worked on key section of this study. He worked on proof reading and data collection, literature of this study. And he finally worked on findings, discussion and conclusion of this study, after which he approved the final manuscript.

## Competing interests

The author declares that he has no competing interests.

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