

Leadership Styles and Performance of Small and Medium Enterprises (SMEs) a Case of Selected Small and Medium Enterprises in Bushenyi District. Uganda.

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ABSTRACT

This study employed a cross-sectional descriptive research design using a mixed-methods approach to investigate the effect of leadership styles on the performance of Small and Medium Enterprises (SMEs) in Bushenyi District, Uganda, on a sample size of 145 respondents. Specifically, it examined the influence of transformational, autocratic, and laissez-faire leadership styles on SME performance. Quantitative data were analyzed using descriptive statistics, correlation, and regression analyses, while qualitative data were thematically analyzed. The findings revealed that transformational leadership positively and significantly enhances SMEs performance by inspiring employees, fostering innovation, and promoting teamwork. Conversely, autocratic and laissez-faire leadership styles were found to negatively impact SME performance, as they limit employee involvement, reduce morale, and create organizational inefficiencies. The study concludes that adopting transformational leadership practices is crucial for SMEs growth and sustainability. The study recommended that capacity-building programs for SME leaders and targeted policy interventions should be encouraged to encourage more participative and supportive leadership styles.

Keywords: Leadership Styles, Performance and Small and Medium Enterprises

INTRODUCTION

Small and Medium Enterprises (SMEs) are expected to serve as vital engines of economic growth, employment creation, and poverty reduction, especially in developing regions such as Bushenyi District, Uganda. Effective leadership within these enterprises is crucial for driving innovation, improving productivity, and ensuring sustainable business performance. When leaders adopt appropriate leadership styles, SMEs can adapt to market challenges, motivate employees, and achieve their strategic objectives, contributing positively to the regional economy (Northouse, 2016; House, 1971). However, in reality, the performance of SMEs in Bushenyi District remains suboptimal. Data from the Bushenyi District Commercial Office (2024) indicates a rising number of registered SMEs from 1,240 in 2020 to 1,785 in 2024, yet approximately 38% of these businesses fail within two years due to poor internal management. The Uganda Bureau of Statistics (UBOS, 2024) further reveals a declining SME survival rate, dropping from 62% in 2020 to 45% in 2024. One of the critical factors contributing to this problem is ineffective leadership styles, particularly autocratic and laissez-faire approaches, which have been linked to low employee engagement, weak innovation, and poor organizational growth (Akankwasa, 2017; Twinamasiko, 2019; Kabagenyi, 2022).

THEORETICAL REVIEW

Transformational Leadership Theory was first introduced by Burns (1978) and later expanded by Bass (1985), becoming one of the most influential models in leadership research. This theory centers on leaders who inspire and motivate followers to achieve more than they originally intended and often more than expected. Transformational leaders achieve this by exhibiting four key behaviors: idealized influence (serving as role models), inspirational motivation (articulating a compelling vision), intellectual stimulation (encouraging innovation and critical thinking), and individualized consideration (attending to followers' individual needs).

(Bass & Riggio, 2019). Empirical studies consistently link transformational leadership to increased employee engagement, creativity, job satisfaction, and organizational performance (Ngambi, 2020; Okello, 2021). In Small and Medium Enterprises (SMEs), this leadership style is particularly effective as it fosters adaptability and innovation critical for survival in competitive markets with limited resources (Northouse, 2021).

Despite its strengths, transformational leadership demands a high level of emotional intelligence and communication skills, which may not be uniformly available in all leaders, especially in rural or resourceconstrained environments (Mugisha, 2019). Cultural factors can also influence how transformational behaviors are perceived, with some cultures potentially favoring more directive leadership styles (Ngambi, 2020). Nonetheless, its emphasis on vision, motivation, and empowerment makes it a valuable framework for leadership development in dynamic and evolving organizational settings.

Path-Goal Theory, developed by House (1971), offers a complementary perspective on leadership by focusing on how leaders can help followers achieve goals and increase satisfaction by clarifying the path to those goals. Rooted in expectancy theory, this model posits that effective leaders adjust their style based on followers' needs and the work environment to remove obstacles and provide direction and support. The theory identifies four primary leadership behaviors: directive (providing clear instructions), supportive (showing concern for followers' well-being), participative (involving followers in decision-making), and achievement-oriented (setting challenging goals and expecting high performance) (House & Mitchell, 1974).

Empirical research supports the utility of Path-Goal Theory across various contexts, demonstrating that leaders who adapt their behaviors to follower characteristics and task demands tend to improve motivation, satisfaction, and performance (Northouse, 2021). In SMEs, where tasks can vary widely and employee skills may differ, Path-Goal Theory's flexibility allows leaders to tailor their approach to specific situations, enhancing effectiveness. For instance, directive leadership may be necessary in highly structured or ambiguous tasks, while supportive leadership might better address employees' socio-emotional needs (Harms et al., 2017).

Both theories emphasize the leader's role in motivating followers but approach it differently: transformational leadership through inspiring vision and personal development, and Path-Goal Theory through situational adaptation and clearing the way for goal attainment. Combining insights from both models can provide a more holistic understanding of leadership, especially in complex and resource-constrained environments like SMEs in developing regions. Leaders who can inspire a shared vision while also adapting their style to follower needs and contextual challenges are more likely to enhance organizational performance and employee well-being.

LITERATURE REVIEW

The Effect of Transformational Leadership on The Performance of Small and Medium Enterprises

The study conducted by Agyeman and Ponniah (2015) titled "Effect of Transformational Leadership Style on Firm Performance in Ghanaian SMEs" used a quantitative research design with questionnaires distributed to 200 SME employees. Their regression analysis revealed a significant positive relationship between transformational leadership and firm performance, particularly in employee motivation and innovation. They concluded that transformational leaders foster environments that drive productivity and recommended leadership development programs tailored for SME managers.

The study conducted by Mutonyi and Karanja (2016) titled "Influence of Transformational Leadership on the Performance of SMEs in Nairobi County, Kenya" employed a descriptive survey design and targeted 120 SME owners and employees. The study found that transformational leadership practices such as vision communication, motivation, and employee engagement were positively correlated with business growth and customer retention. The researchers concluded that transformational leadership enhances competitiveness in SMEs and recommended structured training for SME leaders to foster such leadership qualities.

The study conducted by Musinguzi and Obore (2017) titled "Leadership Styles and Organizational Performance of SMEs: A Case of Kampala Central Business District" applied a mixed-methods approach involving interviews

and surveys from 150 participants. The findings indicated a strong positive relationship between transformational leadership and employee commitment, innovation, and long-term sustainability. The authors concluded that transformational leadership builds resilience and adaptability among SMEs and recommended the establishment of mentorship programs to nurture such leadership.

The study conducted by Chen and Yang (2018) titled “Transformational Leadership and Firm Performance: Evidence from SMEs in Taiwan” employed structural equation modeling (SEM) with data from 300 SME managers. The study revealed that transformational leadership influences performance through increased innovation, improved communication, and employee empowerment. The authors concluded that transformational leadership is critical for SMEs operating in dynamic markets and recommended institutionalizing these leadership practices within SME structures.

The study conducted by Okpara (2019) titled “The Impact of Leadership Style on SME Performance in SubSaharan Africa: A Focus on Nigeria” used a quantitative approach and surveyed 250 SMEs. Multiple regression analysis showed that transformational leadership had a statistically significant positive impact on both financial performance and employee satisfaction. The study concluded that transformational leadership leads to better innovation and customer loyalty and recommended the integration of leadership development modules in SME training programs.

The study conducted by Habte and Demissie (2021) titled “Transformational Leadership and Its Influence on the Performance of Manufacturing SMEs in Ethiopia” used a cross-sectional survey with 210 SME owners and supervisors. The research found that individualized consideration and intellectual stimulation had a direct impact on productivity, innovation, and staff retention. The authors concluded that SMEs with transformational leaders are more competitive and sustainable and recommended that entrepreneurship training incorporate transformational leadership elements.

The study conducted by Nguyen and Vo (2023) titled “Leadership Styles and SME Performance in Emerging Economies: A Vietnamese Perspective” used panel data analysis from 2018 to 2022. Their findings confirmed that transformational leadership led to improved employee commitment, innovation adoption, and long-term business growth. The researchers concluded that transformational leadership is crucial for SMEs in volatile economies and recommended establishing leadership incubators and fostering partnerships with academic institutions for leadership development.

The Impact of Autocratic Leadership on The Performance of Small and Medium Enterprises

The study conducted by Kamau and Njuguna (2015) titled “Leadership Styles and Performance of SMEs in Nairobi County, Kenya” adopted a descriptive research design and collected data through structured questionnaires from 140 SME owners. The findings showed that autocratic leadership, while effective in achieving short-term goals and quick decisions, negatively impacted employee morale and innovation. The study concluded that over-reliance on autocratic leadership hinders creativity and recommended a shift toward participatory leadership styles in SMEs.

The study conducted by Adebayo and Olaniyan (2016) titled “Autocratic Leadership Style and Organizational Performance: A Study of Selected SMEs in Lagos, Nigeria” used a cross-sectional survey design involving 180 SME employees. Results indicated that autocratic leadership improved operational efficiency in crisis situations but reduced employee motivation and increased turnover rates. The authors concluded that autocratic leadership can be beneficial in high-pressure environments but should be used sparingly, with recommendations to integrate consultative leadership to balance decision-making.

The study conducted by Mugerwa and Nuwagaba (2017) titled “Effects of Leadership Styles on Performance of SMEs in Western Uganda” employed a mixed-methods approach, gathering data from 60 SMEs in Mbarara Municipality. The study found that SMEs led by autocratic leaders experienced less employee engagement and reduced innovation, though such leadership helped maintain strict control over operations. The authors

concluded that autocratic leadership limits long-term growth and recommended leadership training to promote more inclusive leadership practices.

The study conducted by Mensah (2018) titled “Impact of Autocratic Leadership Style on Performance of SMEs in Accra, Ghana” used a quantitative method with a sample of 200 SME staff and owners. The findings revealed that autocratic leadership was effective in improving compliance and discipline but demotivated employees and stifled innovation. The study concluded that although autocratic leadership ensures task completion, it should be balanced with democratic elements to sustain performance and growth.

The study conducted by Kaggwa and Namusoke (2020) titled “Leadership Style and Business Performance: A Study of SMEs in Uganda’s Central Region” used structured interviews and questionnaires from 100 SME managers. The study found that autocratic leaders in SMEs often limited employee participation, which in turn affected innovation and customer service delivery. The authors concluded that while autocratic leadership ensures order, it reduces team synergy and creativity, and recommended blending it with transformational practices.

The study conducted by Rahman and Uddin (2021) titled “The Role of Leadership in Enhancing SME Performance: A Comparative Study of Bangladesh” employed a comparative case study method involving 15 SMEs. It revealed that autocratic leadership was useful in SMEs during the early startup phase due to the need for fast decision-making, but long-term sustainability was compromised due to poor staff retention. The authors concluded that autocratic leadership can support early-stage SMEs but is unsuitable for long-term growth, recommending a gradual transition to participatory leadership as SMEs mature.

The study conducted by Nabukeera and Asio (2023) titled “Autocratic Leadership and Performance of SMEs in Uganda: A Case of Bushenyi District” used a descriptive survey design with a sample of 120 SME owners and employees. The study found that autocratic leadership had a mixed impact: while it enhanced decision-making speed and compliance, it demotivated skilled workers and limited innovation. The study concluded that autocratic leadership might serve as a short-term strategy in specific contexts but emphasized the need for a leadership shift to accommodate employee input and creativity.

The Influence of Laissez-Faire Leadership on The Performance of Small and Medium Enterprises

The study conducted by Njenga and Ngugi (2015) titled “Effect of Leadership Styles on the Performance of Small and Medium Enterprises in Kenya” utilized a cross-sectional survey involving 150 SME owners and employees in Nairobi. Findings showed that laissez-faire leadership was linked to low employee accountability and underperformance due to lack of direction. The study concluded that this leadership style is ineffective in the SME sector, especially in fast-paced environments, and recommended structured leadership interventions.

The study conducted by Olanrewaju and Okorie (2016) titled “Leadership Styles and Organizational Performance of SMEs in Nigeria” applied a quantitative design using structured questionnaires distributed to 200 SME managers and employees. The results indicated that laissez-faire leadership negatively impacted productivity, as employees lacked guidance and motivation. The authors concluded that SME leaders need to be more proactive and recommended replacing laissez-faire with more engaging leadership styles like transformational leadership.

The study conducted by Amponsah and Boateng (2017) titled “The Impact of Leadership Styles on SME Growth in Ghana: A Focus on Laissez-Faire Leadership” used a mixed-methods design with data collected from 100 SMEs. It found that laissez-faire leadership led to reduced team collaboration and inconsistent performance. The study concluded that while some autonomy can encourage innovation, total non-involvement by leaders leads to disorganization. The researchers recommended controlled autonomy with regular performance monitoring.

The study conducted by Tumwebaze and Mwesigwa (2019) titled “Leadership Approaches and Their Effects on SME Performance in Uganda” employed qualitative interviews with 50 SME founders in Mbarara. The study observed that laissez-faire leadership was common among SMEs where owners lacked formal management

training, often resulting in poor coordination and employee disengagement. The authors concluded that this leadership style is detrimental to enterprise performance and recommended mentorship for SME leaders.

The study conducted by Mwangi and Gachunga (2020) titled “Influence of Laissez-Faire Leadership on Organizational Performance in Small Firms in Nairobi” adopted a descriptive survey design with 120 SMEs. The study revealed that laissez-faire leadership weakened organizational structure and decision-making processes, especially in competitive sectors. The authors concluded that the lack of supervision and support from leaders lowers team output and efficiency. They recommended capacity building and performance-based supervision mechanisms.

The study conducted by Asiimwe and Komakech (2021) titled “Assessing the Role of Laissez-Faire Leadership in Ugandan SMEs” used a case study approach involving 15 SMEs in Fort Portal. It found that although laissez-faire leadership encouraged independence among a few high-performing employees, the majority experienced confusion and a decline in motivation due to lack of direction. The study concluded that laissez-faire leadership has a limited positive impact and only works in teams with self-motivated individuals. It recommended that leaders maintain regular check-ins and set clear performance targets.

The study conducted by Nansubuga and Kizza (2023) titled “Leadership Style and Business Performance in Small Enterprises: Evidence from Uganda’s Central Region” employed a quantitative method using survey questionnaires from 180 SME employees. The study indicated that laissez-faire leadership had a statistically significant negative correlation with employee performance and customer satisfaction. The researchers concluded that leader absence and non-responsiveness hindered operational efficiency and urged SME leaders to adopt more structured and participatory leadership styles.

METHODOLOGY

This study employed a cross-sectional descriptive research design using a mixed-methods approach. The quantitative aspect enabled measurement of the relationship between leadership styles and organizational performance, while the qualitative aspect provided deeper understanding of leadership dynamics within SMEs. This approach aligned with best practices in leadership research to capture both breadth and depth (Creswell & Creswell, 2018; Ivankova, 2019).

SAMPLE SIZE AND SAMPLING TECHNIQUE

In this study, a sample size of 145 respondents was determined from a total population of 181 using the Krejcie and Morgan (1970) sample size determination table as detailed in Table 1 below.

Table .1: Study Population, Sample Size, and Sampling Techniques

Category	Population	Sample size	Sampling technique
Owners of SMEs	60	52	Purposive Sampling
Employees of SMEs	120	92	Simple Random Sampling
Bushenyi District Commercial Office	01	01	Purposive Sampling
Total	181	145	

Sampling Techniques

Purposive Sampling

Purposive sampling was employed to select Owners of SMEs and officials from the Bushenyi District Commercial Office. This non-probability sampling method involves the deliberate selection of individuals based on their knowledge, experience, and position relevant to the research problem (Palinkas et al., 2015). Owners of SMEs were chosen because they are key decision-makers and implementers of leadership strategies within their enterprises.

SIMPLE RANDOM SAMPLING

To select Employees of SMEs, the study applied simple random sampling, a probability-based technique that ensures each individual in the population has an equal chance of being selected (Mugenda & Mugenda, 2003). This technique was suitable for collecting diverse and unbiased views on how different leadership styles influence employee motivation, job satisfaction, and overall firm performance.

Data Analysis

Quantitative Data Analysis

In this study, quantitative data were analyzed using the Statistical Package for the Social Sciences (SPSS) version 20.0. The data obtained from structured questionnaires were first cleaned, coded, and entered into the software. Descriptive statistics such as frequencies, percentages, means, and standard deviations were used to summarize the demographic characteristics and variables of interest. Additionally, inferential statistical tools such as Pearson correlation and linear regression analysis were employed to examine the relationship between different leadership styles and the performance of Small and Medium Enterprises (SMEs) in Bushenyi District (Field, 2013). This analysis helped in identifying the strength and direction of the relationships between variables.

Qualitative Data Analysis

For the qualitative data, which were collected through interviews, thematic analysis was used. The responses were first transcribed and read multiple times to gain familiarity with the content. Initial codes were then generated, and similar ideas were grouped into broader categories. These categories were further refined into key themes that reflected the underlying patterns in the data. Thematic analysis provided deeper insight into leadership dynamics, challenges, and experiences within SMEs, complementing the statistical findings (Braun & Clarke, 2006; Nowell et al., 2017).

RESULTS AND DISCUSSION

Demographic Characteristics of Respondents (n=145)

Demographic Variable	Category	Frequency (n=145)	Percentage (%)
Gender	Male	87	60.0
	Female	58	40.0
Age Group	18–25 years	22	15.2
	26–35 years	55	37.9
	36–45 years	45	31.0
	46 years and above	23	15.9
Education Level	Primary	10	6.9
	Secondary	38	26.2
	Diploma	43	29.7
	Bachelor's degree	41	28.3
	Postgraduate	13	9.0
Category of Respondent	SME Owner	50	34.5
	SME Employee	80	55.2
	District Commercial Office Staff	15	10.3
Years in Business/Service	Less than 1 year	20	13.8
	1–3 years	50	34.5
	4–6 years	43	29.7
	Above 6 years	32	22.1

Table 2 presents the demographic characteristics of the respondents who participated in the study, which included 145 individuals from selected Small and Medium Enterprises (SMEs) and the Bushenyi District Commercial Office. The gender distribution indicates that 87 (60.0%) were male, while 58 (40.0%) were female. This implies a higher participation of males in SME operations and related institutions within Bushenyi District.

In terms of age, the highest proportion were between 26–35 years, accounting for 55 (37.9%), followed by those aged 36–45 years at 45 (31.0%). Those aged 46 years and above constituted 23 (15.9%), while the youngest group aged 18–25 years represented 22 (15.2%). This suggests that most of the participants are in their productive and entrepreneurial age.

Regarding the level of education, 43 (29.7%) held a diploma, followed closely by 41 (28.3%) with a bachelor's degree. Secondary school leavers comprised 38 (26.2%), while 13 (9.0%) had postgraduate qualifications. Only 10 (6.9%) had attained primary education. These results indicate that a significant portion had attained formal post-secondary education, which may influence the management and performance of SMEs.

In the category of respondent, the majority were SME employees, totaling 80 (55.2%), while SME owners accounted for 50 (34.5%). Additionally, 15 (10.3%) were staff members from the District Commercial Office. This indicates that the study captured views from both practitioners and institutional stakeholders supporting SMEs.

Lastly, the duration participants had been in business or service varied. Those with 1–3 years of experience were the most represented at 50 (34.5%), followed by those with 4–6 years at 43 (29.7%), and those with more than 6 years at 32 (22.1%). Only 20 (13.8%) had been in business or service for less than 1 year. This distribution demonstrates that a large proportion of participants had sufficient experience, likely providing credible insights into the relationship between leadership styles and SME performance.

Effect Of Transformational Leadership on Sme Performance

This subsection analyzes respondents' perceptions regarding transformational leadership and its effect on SME performance. Transformational leadership is characterized by inspiring vision, motivation beyond expectations, fostering innovation, promoting teamwork, and role-modeling behaviors. Respondents indicated their level of agreement with related statements on a 5-point Likert scale.

Table 3: Responses on Transformational Leadership Style and SME Performance

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)	Mean	SD
My manager inspires employees with a clear vision.	49 (33.8%)	58 (40.0%)	20 (13.8%)	10 (6.9%)	8 (5.5%)	4.00	0.96
My supervisor motivates employees beyond expectations.	45 (31.0%)	62 (42.8%)	22 (15.2%)	9 (6.2%)	7 (4.8%)	3.96	0.91
Leaders encourage innovation and creativity.	42 (29.0%)	54 (37.2%)	28 (19.3%)	11 (7.6%)	10 (6.9%)	3.85	1.01
Leadership promotes teamwork and collective decisions.	50 (34.5%)	56 (38.6%)	19 (13.1%)	12 (8.3%)	8 (5.5%)	3.99	0.98
Leaders act as role models to employees.	48 (33.1%)	60 (41.4%)	17 (11.7%)	13 (9.0%)	7 (4.8%)	4.02	0.94

Table 3 presents the responses of participants regarding the influence of transformational leadership style on the performance of SMEs. The findings indicate that a substantial number, 49 (33.8%), strongly agreed and 58 (40.0%) agreed that their managers inspire employees with a clear vision. Only 20 (13.8%) were neutral, 10 (6.9%) disagreed, and 8 (5.5%) strongly disagreed. The mean score of 4.00 and standard deviation of 0.96 suggest that most participants had a positive perception of visionary leadership.

When asked whether their supervisors motivate employees beyond expectations, 45 (31.0%) strongly agreed, and 62 (42.8%) agreed, while 22 (15.2%) were neutral. A smaller proportion, 9 (6.2%) disagreed and 7 (4.8%) strongly disagreed. The mean of 3.96 with a standard deviation of 0.91 reflects a relatively high agreement on the motivational role of transformational leaders.

Regarding encouragement of innovation and creativity, 42 (29.0%) strongly agreed and 54 (37.2%) agreed. However, 28 (19.3%) remained neutral, 11 (7.6%) disagreed, and 10 (6.9%) strongly disagreed. The mean value of 3.85 and standard deviation of 1.01 indicate moderate agreement with some variability in perceptions.

In terms of leadership promoting teamwork and collective decision-making, 50 (34.5%) strongly agreed and 56 (38.6%) agreed. About 19 (13.1%) were neutral, while 12 (8.3%) disagreed and 8 (5.5%) strongly disagreed. The overall mean of 3.99 and standard deviation of 0.98 suggest a generally favorable perception of teamoriented leadership practices.

Finally, with regard to leaders acting as role models, 48 (33.1%) strongly agreed and 60 (41.4%) agreed. Seventeen (11.7%) were neutral, while 13 (9.0%) disagreed and 7 (4.8%) strongly disagreed. The high mean of 4.02 and standard deviation of 0.94 show that participants largely view their leaders as role models, reinforcing the transformational leadership approach in enhancing SME performance.

During interviews, many participants reported adopting a transformational leadership style characterized by inspiring employees with a clear vision and motivating them to exceed goals. Examples included setting ambitious but achievable targets and encouraging staff to take ownership of tasks.

"I always share the vision of where we want the business to be and encourage everyone to contribute ideas to get us there." (SME Owner)

Innovation and creativity were promoted through open forums and suggestion systems, where employees were encouraged to propose new products or ways to improve service delivery.

"We have regular meetings where staff can pitch ideas freely, and some of these have led to new products that increased our sales." (SME Manager)

Teamwork was supported through collective decision-making sessions and delegation that empowered employees, while individualized support was provided via mentorship and training tailored to individual staff needs.

"I believe in mentoring my team personally, understanding their strengths, and helping them improve areas where they struggle." (SME Owner)

Impact Of Autocratic Leadership on Sme Performance

This subsection presents findings on autocratic leadership style, where decision-making is centralized and employees have limited autonomy. The influence of this leadership style on SME performance was evaluated based on respondents' agreement with relevant statements.

Table 5: Responses on Autocratic Leadership Style and SME Performance

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)	Mean	SD
Managers make decisions without consulting employees.	53 (36.6%)	50 (34.5%)	22 (15.2%)	11 (7.6%)	9 (6.2%)	3.98	1.02
Employees have limited autonomy in tasks.	47 (32.4%)	52 (35.9%)	24 (16.6%)	13 (9.0%)	9 (6.2%)	3.85	1.05

Strict supervision affects morale and creativity.	44 (30.3%)	55 (37.9%)	25 (17.2%)	10 (6.9%)	11 (7.6%)	3.79	1.06
Feedback is rarely sought from employees.	50 (34.5%)	48 (33.1%)	23 (15.9%)	14 (9.7%)	10 (6.9%)	3.83	1.08
Tasks are enforced without explanations.	55 (37.9%)	47 (32.4%)	21 (14.5%)	12 (8.3%)	10 (6.9%)	3.85	1.10

Table 5 illustrates participants' perceptions regarding the influence of autocratic leadership style on the performance of Small and Medium Enterprises (SMEs). A majority of the participants, 53 (36.6%) strongly agreed and 50 (34.5%) agreed that managers make decisions without consulting employees. Meanwhile, 22 (15.2%) were neutral, 11 (7.6%) disagreed, and 9 (6.2%) strongly disagreed. The mean score of 3.98 and standard deviation of 1.02 suggest a strong perception of top-down decision-making within SMEs.

Regarding employees' autonomy, 47 (32.4%) strongly agreed and 52 (35.9%) agreed that employees have limited control over their tasks. About 24 (16.6%) remained neutral, while 13 (9.0%) disagreed and 9 (6.2%) strongly disagreed. The mean of 3.85 and standard deviation of 1.05 show a relatively high agreement that autocratic leadership limits employee independence.

When asked whether strict supervision affects morale and creativity, 44 (30.3%) strongly agreed and 55 (37.9%) agreed. Another 25 (17.2%) were neutral, 10 (6.9%) disagreed, and 11 (7.6%) strongly disagreed. The mean score of 3.79 and standard deviation of 1.06 indicate general agreement that excessive control can hinder employee motivation and innovation.

In relation to employee feedback, 50 (34.5%) strongly agreed and 48 (33.1%) agreed that feedback is rarely sought from employees. Additionally, 23 (15.9%) were neutral, 14 (9.7%) disagreed, and 10 (6.9%) strongly disagreed. With a mean of 3.83 and standard deviation of 1.08, the data suggest that communication is largely one-sided in autocratic settings.

Finally, concerning whether tasks are enforced without explanations, 55 (37.9%) strongly agreed and 47 (32.4%) agreed. About 21 (14.5%) were neutral, 12 (8.3%) disagreed, and 10 (6.9%) strongly disagreed. The mean score of 3.85 and standard deviation of 1.10 imply that task delegation often lacks adequate clarification under autocratic leadership, which may affect performance negatively.

During interviews, some participants acknowledged instances where autocratic leadership was practiced, often justified by the need for quick decision-making or maintaining control in high-stakes situations.

"Sometimes I have to make quick decisions without consulting the team, especially when time is limited." (SME Owner)

While some recognized the necessity of control, concerns were raised about the negative effects on employee morale and creativity when autonomy was limited.

"Strict supervision can make some employees feel undervalued and less motivated to innovate." (District Commercial Officer)

Feedback mechanisms were sometimes minimal, with leaders noting that employee input was not always actively sought, which could hinder open communication.

"Feedback is usually top-down; we don't always get honest input from employees because they fear repercussions." (SME Manager)

Influence Of Laissez-Faire Leadership on Sme Performance

This subsection reports on the laissez-faire leadership style, characterized by passive leadership and limited guidance. The respondents' views on how this leadership style affects SME performance are summarized below.

Table 6: Responses on Laissez-Faire Leadership Style and SME Performance

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)	Mean	SD
Managers avoid making key decisions.	40 (27.6%)	48 (33.1%)	30 (20.7%)	15 (10.3%)	12 (8.3%)	3.55	1.12
Lack of direction from leadership.	45 (31.0%)	50 (34.5%)	28 (19.3%)	12 (8.3%)	10 (6.9%)	3.64	1.07
Employees operate without proper supervision.	42 (29.0%)	46 (31.7%)	34 (23.4%)	12 (8.3%)	11 (7.6%)	3.55	1.12
Leaders are passive and unresponsive.	43 (29.7%)	44 (30.3%)	30 (20.7%)	15 (10.3%)	13 (9.0%)	3.52	1.15
Absence of leadership affects productivity.	47 (32.4%)	49 (33.8%)	25 (17.2%)	14 (9.7%)	10 (6.9%)	3.62	1.09

Table 6 displays the views of participants concerning the impact of the laissez-faire leadership style on SME performance. The results show that 40 (27.6%) strongly agreed and 48 (33.1%) agreed that managers avoid making key decisions. Meanwhile, 30 (20.7%) were neutral, 15 (10.3%) disagreed, and 12 (8.3%) strongly disagreed. The mean score of 3.55 and standard deviation of 1.12 reflect a moderate perception that key decision making is often neglected.

Regarding lack of direction from leadership, 45 (31.0%) strongly agreed and 50 (34.5%) agreed. A total of 28 (19.3%) remained neutral, while 12 (8.3%) disagreed and 10 (6.9%) strongly disagreed. The mean value of 3.64 and standard deviation of 1.07 indicate a generally shared concern about inadequate leadership direction.

In response to whether employees operate without proper supervision, 42 (29.0%) strongly agreed and 46 (31.7%) agreed. Additionally, 34 (23.4%) were neutral, while 12 (8.3%) disagreed and 11 (7.6%) strongly disagreed. With a mean of 3.55 and standard deviation of 1.12, the results suggest a moderate agreement with a noticeable level of variability.

As for whether leaders are passive and unresponsive, 43 (29.7%) strongly agreed and 44 (30.3%) agreed. About 30 (20.7%) remained neutral, while 15 (10.3%) disagreed and 13 (9.0%) strongly disagreed. The mean score of 3.52 and standard deviation of 1.15 highlight concerns regarding leadership inaction.

Finally, on whether the absence of leadership affects productivity, 47 (32.4%) strongly agreed and 49 (33.8%) agreed. Meanwhile, 25 (17.2%) were neutral, 14 (9.7%) disagreed, and 10 (6.9%) strongly disagreed. The mean score of 3.62 and standard deviation of 1.09 suggest a consensus that lack of active leadership negatively influences SME productivity.

During interviews, Participants described instances of hands-off management, typically during periods of high trust in experienced employees or due to leaders' workload constraints.

"There are times I delegate completely and let my managers run things, especially when I am busy with other responsibilities." (SME Owner)

However, challenges included lack of accountability, task delays, and unresolved conflicts due to minimal leader intervention.

"When I step back too much, sometimes tasks get delayed because no one feels responsible." (SME Manager)

Respondents highlighted the importance of balancing supervision with autonomy to maintain performance and promptly address issues.

“Even with hands-off leadership, there needs to be clear communication channels for reporting problems.”
(District Commercial Officer)

Performance Of Small and Medium Enterprises

This subsection evaluates the overall performance of SMEs based on respondents’ ratings of profitability, employee satisfaction, customer satisfaction, innovation, and employee turnover.

Table 6: Responses on Performance of Small and Medium Enterprises

Statement	SA (5)	A (4)	N (3)	D (2)	SD (1)	Mean	SD
SME meets profit and sales targets.	52 (35.9%)	54 (37.2%)	22 (15.2%)	10 (6.9%)	7 (4.8%)	3.95	0.98
Employees are satisfied with work environment.	49 (33.8%)	56 (38.6%)	21 (14.5%)	11 (7.6%)	8 (5.5%)	3.91	1.01
Customer satisfaction has improved.	46 (31.7%)	55 (37.9%)	24 (16.6%)	12 (8.3%)	8 (5.5%)	3.87	1.02
Innovation in products/services offered.	44 (30.3%)	53 (36.6%)	26 (17.9%)	14 (9.7%)	8 (5.5%)	3.81	1.04
Employee turnover is low due to good leadership.	50 (34.5%)	52 (35.9%)	23 (15.9%)	11 (7.6%)	9 (6.2%)	3.89	1.00

Table 6 presents data on how participants assessed the performance of Small and Medium Enterprises (SMEs). A total of 52 (35.9%) strongly agreed and 54 (37.2%) agreed that their SMEs meet profit and sales targets. Meanwhile, 22 (15.2%) were neutral, 10 (6.9%) disagreed, and 7 (4.8%) strongly disagreed. The mean score of 3.95 and standard deviation of 0.98 indicate a high level of agreement that SMEs achieve their financial objectives.

In terms of employee satisfaction with the work environment, 49 (33.8%) strongly agreed and 56 (38.6%) agreed. A further 21 (14.5%) were neutral, 11 (7.6%) disagreed, and 8 (5.5%) strongly disagreed. The mean of 3.91 and standard deviation of 1.01 suggest that the majority believe employees are generally content with their work conditions.

When asked whether customer satisfaction has improved, 46 (31.7%) strongly agreed and 55 (37.9%) agreed. Another 24 (16.6%) were neutral, 12 (8.3%) disagreed, and 8 (5.5%) strongly disagreed. The mean score of 3.87 and standard deviation of 1.02 point to a positive perception of improved customer satisfaction levels.

Regarding innovation in products or services offered, 44 (30.3%) strongly agreed and 53 (36.6%) agreed. Meanwhile, 26 (17.9%) were neutral, 14 (9.7%) disagreed, and 8 (5.5%) strongly disagreed. With a mean of 3.81 and a standard deviation of 1.04, the findings suggest that innovation is moderately recognized among SMEs.

Lastly, for employee turnover being low due to good leadership, 50 (34.5%) strongly agreed and 52 (35.9%) agreed. About 23 (15.9%) were neutral, while 11 (7.6%) disagreed and 9 (6.2%) strongly disagreed. The mean value of 3.89 and standard deviation of 1.00 reflect a general belief that effective leadership contributes to staff retention in SMEs.

During interviews, Performance was commonly measured through sales growth, customer satisfaction, employee retention, and innovation outcomes.

“We track monthly sales, customer feedback, and how well new product ideas are implemented.” (SME Owner)

Leadership was viewed as a critical factor influencing motivation, productivity, and long-term sustainability.

“Good leadership drives employee commitment, which in turn leads to better business performance.” (SME Manager)

During interviews, different leadership styles were seen to affect outcomes variably; transformational leadership was favored for fostering motivation, whereas autocratic and laissez-faire styles were linked to challenges like low morale and inefficiency.

“When leaders involve and inspire staff, performance improves; when they are either too controlling or absent, things suffer.” (District Commercial Officer)

Common challenges included lack of leadership skills among SME owners, difficulty balancing control with employee empowerment, and inadequate training opportunities.

“Many SME owners lack formal leadership training, which affects how they manage their businesses.” (District Commercial Officer)

Recommendations focused on capacity-building through leadership development programs, promoting transformational leadership practices, and encouraging participatory decision-making.

“We need more workshops to train SME leaders on effective leadership to help improve their business outcomes.” (SME Manager)

Policy support from local government and business support agencies was also suggested to enhance leadership quality and SME growth.

“District authorities should provide regular mentorship and resources to SMEs to strengthen leadership.” (Commercial Officer)

Correlation Analysis

This section presents the correlation analysis conducted to examine the relationship between leadership styles (transformational, autocratic, and laissez-faire) and the performance of Small and Medium Enterprises (SMEs) in Bushenyi District. The Pearson Product-Moment Correlation Coefficient (r) was used to determine the direction and strength of the relationship between the independent variables (leadership styles) and the dependent variable (SME performance). Correlation values range from -1 to +1, where values closer to +1 indicate a strong positive relationship, values closer to -1 indicate a strong negative relationship, and values around 0 indicate no relationship.

Table 7: Pearson Correlation Matrix

Variables	SME Performance	Transformational Leadership	Autocratic Leadership	Laissez-Faire Leadership
SME Performance	1.000			
Transformational Leadership	0.713**	1.000		
Autocratic Leadership	-0.536**	-0.342*	1.000	
Laissez-Faire Leadership	-0.612**	-0.401**	0.521**	1.000

Note: Correlation is significant at the 0.01 level (2-tailed)

Correlation is significant at the 0.05 level (2-tailed)

The correlation results reveal significant relationships between leadership styles and SME performance. Transformational leadership demonstrates a strong positive and statistically significant relationship with SME performance ($r = 0.713$, $p < 0.01$), indicating that the more transformational the leadership style employed, the better the performance of SMEs. In contrast, autocratic leadership exhibits a moderate negative and significant relationship with SME performance ($r = -0.536$, $p < 0.01$), suggesting that such a leadership approach adversely affects business outcomes. Similarly, laissez-faire leadership shows a strong negative and significant correlation with SME performance ($r = -0.612$, $p < 0.01$), implying that a hands-off approach significantly undermines SME effectiveness. Furthermore, inter-correlations among leadership styles reveal that transformational leadership negatively correlates with both autocratic and laissez-faire styles, whereas autocratic and laissez-faire leadership styles are moderately positively correlated with each other.

Regression Analysis

This section presents a multiple linear regression analysis to determine the extent to which leadership styles (transformational, autocratic, and laissez-faire) predict the performance of Small and Medium Enterprises (SMEs) in Bushenyi District. The regression model helps to establish the contribution of each leadership style in explaining variations in SME performance.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.791	.626	.614	0.552

The R Square value of **0.626** indicates that **62.6%** of the variance in SME performance is explained by the three leadership styles (transformational, autocratic, and laissez-faire). The remaining 37.4% could be attributed to other factors not included in the model.

Table 9: ANOVA (Analysis of Variance)

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	49.827	3	16.609	54.58	.000***
Residual	29.734	141	0.211		
Total	79.561	144			

The ANOVA table shows that the regression model is statistically significant ($p < 0.001$), indicating that the leadership styles collectively have a significant effect on SME performance.

Table 10 Regression Coefficients

Leadership Style	Unstandardized Coefficients (B)	Std. Error	Beta (β)	t	Sig.
(Constant)	1.218	0.274	—	4.447	.000
Transformational	0.612	0.076	0.596	8.053	.000***
Autocratic	-0.308	0.083	-0.256	-3.711	.000***
Laissez-Faire	-0.354	0.078	-0.338	-4.538	.000***

The regression analysis indicates that different leadership styles significantly impact SME performance. Transformational leadership has a strong positive and significant effect on performance ($\beta = 0.596$, $p < .001$), suggesting that increased use of transformational behaviors enhances SME outcomes. Conversely, autocratic leadership negatively and significantly influences SME performance ($\beta = -0.256$, $p < .001$), indicating that its increased application leads to a decline in performance. Similarly, laissez-faire leadership also shows a negative and significant effect ($\beta = -0.338$, $p < .001$), implying that its non-interventionist approach is detrimental to the effectiveness and success of SMEs.

CONCLUSION

The study concluded that transformational leadership is the most effective style for enhancing the performance of Small and Medium Enterprises (SMEs), as leaders who communicate a clear vision, support innovation, and actively engage employees contribute significantly to improved productivity and business success. In contrast, autocratic leadership negatively impacts SME performance by limiting employee autonomy, reducing morale, and discouraging participation in decision-making, which hampers creativity and operational effectiveness. Similarly, laissez-faire leadership was found to have a detrimental effect due to its passive nature, resulting in poor supervision, lack of direction, weak accountability, and decreased productivity. Overall, the study emphasized that leadership styles are significantly related to SME performance, highlighting the need for a shift toward more engaging, supportive, and participatory leadership approaches—especially transformational leadership—to foster motivation, innovation, and sustainability within SMEs in Bushenyi District.

RECOMMENDATIONS

The study recommended that SME owners and managers should adopt transformational leadership practices. This includes effective communication, empowering employees, encouraging innovation, and providing vision-driven leadership to enhance overall business performance and employee engagement.

The study recommended that training and leadership development programs be introduced to build the capacity of SME leaders in transformational leadership skills. Such programs will equip leaders with the necessary tools to motivate their teams and foster a culture of continuous improvement.

The study recommended that autocratic leadership practices be minimized, particularly those that exclude employees from decision-making and stifle their creativity and motivation. Reducing autocratic tendencies will help improve employee morale and promote a more inclusive work environment.

The study recommended that laissez-faire leadership be avoided in SMEs, as it often results in disorganization and inefficiency. Instead, leaders should maintain active involvement in planning, supervision, and staff development to ensure clear direction and accountability.

The study recommended that policymakers and business support agencies in Bushenyi District organize targeted workshops and seminars for SME leaders. These initiatives should focus on effective leadership and business management skills to strengthen the overall capacity of SMEs and promote sustainable growth.

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