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Influence of Microfinances' (MFIs) Socio-Economic Services on the Number of Employees in Welding Enterprises, Kitui County, Kenya

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Abstract

This study assessed the influence of microfinance socio-economic services—business expansion, job creation, income growth, and poverty reduction—on the number of employees in welding enterprises in Kitui County, Kenya. A quantitative correlational design was adopted to objectively test the relationship between microfinance socio-economic services and enterprise employment without manipulating study variables. From a target population of 848 registered welding enterprises across Kitui Town, Zombe Town, Kabati Town, Kwa Vonza, Mutomo Town, and Mwingi Town, a sample of 272 was drawn using Yamane's (1967) formula, with data obtained from 259 respondents through stratified random sampling, which ensured proportional representation across all geographical strata. Data were collected using a structured, closed-ended questionnaire on a 4-point Likert scale and analysed via descriptive statistics and multiple linear regression in IBM SPSS Version 27. Results showed that business expansion ($\beta = 0.588$; $p < 0.001$) was the strongest predictor of employee numbers, followed by job creation ($\beta = 0.423$; $p < 0.001$), income growth ($\beta = 0.393$; $p = 0.024$), and poverty reduction ($\beta = 0.368$; $p < 0.001$), all significantly positive. The study concludes that microfinance socio-economic services promote employment growth in welding enterprises and recommends that microfinance institutions prioritise business expansion financing while strengthening job creation, income-enhancement, and poverty reduction interventions to sustain inclusive SME employment growth in Kitui County.

Key terms: Business expansion, job creation, microfinance socio-economic services, poverty reduction, welding enterprises.

INTRODUCTION

Access to finance remains one of the most persistent constraints facing Small and Medium Enterprises (SMEs) in developing economies, and welding enterprises within Kenya's informal *Jua Kali* sector are no exception. Despite their demonstrated contribution to grassroots industrialisation, employment generation, and household welfare, these enterprises continue to operate with limited access to formal credit, constraining their capacity to expand operations and sustain employment. This persistent financing gap raises a critical question: to what extent do microfinance institutions' socio-economic services influence employment outcomes within welding enterprises, particularly in resource-constrained counties such as Kitui? It is this problem that the present study addresses.

In this study, SMEs refer to independently owned and operated businesses characterised by limited capital investment and a small workforce, typically employing between 1 and 10 workers in the Kenyan context (FSD Kenya, 2024). The *Jua Kali* sector, a Kiswahili term meaning "hot sun," denotes Kenya's informal, small-scale artisanal and manufacturing sector, within which welding enterprises constitute a significant subset producing goods such as gates, doors, and agricultural implements (Kiptoo et al., 2024; Momanyi, 2026). Microfinance institutions (MFIs) are financial intermediaries that provide small-scale, accessible financial products—including loans, savings, insurance, and remittance services—to individuals and enterprises excluded from conventional banking systems (Lwesya & Mwakalobo, 2023; Osuma et al., 2025; Sarfo et al., 2024). Socio-economic services, as used in this study, refer specifically to microfinance-related interventions in business expansion, job creation, income growth, and poverty reduction, which collectively shape the employment capacity of beneficiary enterprises.

SMEs are widely acknowledged worldwide as drivers of economic growth, job creation, and poverty alleviation (Endris & Kassegn, 2023). Within Kenya's *Jua Kali* sector, welding enterprises make a significant contribution to grassroots industrialisation by producing vital goods such as gates, doors, and agricultural tools. These businesses offer employment opportunities for youth and semi-skilled workers, empower women to pursue technical trades, and promote household income growth—ultimately supporting improved access to education and healthcare (Endris & Kassegn, 2022; Mbogo & Mbala, 2025).In Kitui County specifically, welding enterprises are prevalent, with 1,857 registered businesses employing between 1 and 10 workers each, underscoring their importance to local development and to the realisation of Vision 2030 objectives such as decent work, poverty reduction, and gender equality.

Despite this socio-economic significance, welding enterprises continue to face financial hurdles arising from limited access to traditional banking channels. Microfinance institutions have therefore become vital to SME growth by providing customised financial products—including loans, savings, insurance, and remittance services—that help bridge the financing gap and enable welding firms to expand operations, hire additional staff, and increase income (Lwesya & Mwakalobo, 2023; Sarfo et al., 2024). Historically, and consistent with Kamara's (2022) and Paul's (2020) observations, microfinance has played a key role in empowering marginalised groups, particularly women, and in promoting inclusive development in rural and semi-urban communities (Kamara, 2022; Paul, 2020).

In Kenya, microfinance services gained prominence in the late 1980s, with institutions such as Equity Bank, Family Bank, and Faulu Kenya leading efforts to include underserved populations in the formal financial system (Paul, 2020). Today, microfinance remains essential in supporting SMEs, including welding businesses, by reducing poverty, improving financial literacy, and building economic resilience (Musamali et al., 2024). According to FSD Kenya (2024), access to microfinance enables welding enterprises to reinvest profits, expand their workforce, and strengthen their contribution to local and national economies.

Against this backdrop, this study assessed the influence of microfinance's socio-economic services on the number of employees in welding enterprises in Kitui County, Kenya. Specifically, the study sought to examine: (1) the role of microfinance-related business expansion on the number of employees in welding enterprises in Kitui County; (2) the role of microfinance-related job creation on the number of

employees in welding enterprises in Kitui County; (3) the role of microfinance-related income growth on the number of employees in welding enterprises in Kitui County; and (4) the role of microfinance-related poverty reduction on the number of employees in welding enterprises in Kitui County.

Based on these objectives, the study tested the following hypotheses: H1: There was no significant relationship between microfinance related business expansion and the number of employees in welding enterprises in Kitui County; H2: There was no significant relationship between microfinance related job creation and the number of employees in welding enterprises in Kitui County; H3: There was no significant relationship between microfinance related income growth and the number of employees in welding enterprises in Kitui County; and H4: There was no significant relationship between microfinance related poverty reduction and the number of employees in welding enterprises in Kitui County.

The remainder of this paper is organised as follows: the next section reviews relevant theoretical and empirical literature; this is followed by the methodology employed in data collection and analysis; thereafter, the results are presented and discussed in light of the study's objectives; and the paper concludes with a summary of findings, policy implications, and recommendations for strengthening microfinance-led employment growth within Kenya's welding SME sub-sector.

LITERATURE REVIEW

Empirical Literature

This section presents a critical review of empirical literature relevant to the study's problem statement—namely, the uncertain and context-specific relationship between microfinance socio-economic services and employment outcomes in welding enterprises. The review is organised thematically around the four hypotheses tested in this study.

Microfinance-Related Business Expansion and Number of Employees

H1: *There was no significant relationship between microfinance-related business expansion and the number of employees in welding enterprises in Kitui County.*

Globally, the dominant assumption in the microfinance literature is that business expansion financed through microfinance translates directly into employment growth, yet the empirical basis for this assumption is considerably weaker than the theoretical narrative suggests. Audu et al. (2021), assessing SMEs in Nigeria, found that microloans, business training, and microsavings significantly enhanced enterprise performance as measured by sales, profitability, and market share. Critically, however, the study's outcome variables were entirely financial; employment was neither measured nor modelled, meaning the inference that business expansion translates into staffing growth is extrapolated rather than empirically demonstrated.

A similar conceptual slippage characterises Amakom and Amagwu (2020), whose study of informal microfinance services among micro and small enterprises in South-East Nigeria attributed profitability and growth gains to the flexibility and relational nature of informal finance. While methodologically sound within its own scope, the study again conflates business growth with employment growth without directly testing the latter. Collectively, these studies illustrate a recurring pattern in the global literature: business expansion is treated as a proxy for employment creation rather than as a distinct construct requiring independent verification, an assumption this study explicitly tests rather than accepts.

At the East African regional level, the evidence becomes marginally more direct but no less contested. Costantino and Mbamba (2023), studying SMEs in Tanzania, found that microfinance services positively affected job creation but had only a limited effect on enterprise capital and income—a finding that in fact destabilises the presumed causal chain from business expansion to employment, since it suggests employment gains can occur independently of, or even in the absence of, substantial capital growth. This raises an important methodological question left unresolved in the literature: is business expansion a necessary precondition for employment growth, or merely one of several parallel pathways? Mrombo and Ronald (2018) offered a more conventional finding, reporting that improved access to microfinance services boosted SME growth through increased sales

and profits, which in turn enabled entrepreneurs to expand and hire additional staff. However, the reliance on cross-sectional survey data in both studies restricts causal inference; neither study can distinguish whether hiring preceded or followed business expansion, nor whether the relationship holds under sector-specific labour conditions such as those found in artisanal welding, where hiring is often constrained by apprenticeship structures rather than pure capital availability.

Within the Kenyan context, direct empirical treatment of business expansion as a discrete driver of employee numbers, particularly within manufacturing-oriented informal enterprises such as welding, remains notably absent. Existing Kenyan SME literature tends to address business growth in aggregate terms, without isolating the employment-specific consequences of microfinance-facilitated expansion, nor accounting for the labour-intensive, skills-dependent nature of welding work. This gap is precisely what H1 is designed to interrogate empirically rather than theoretically assume.

Microfinance-Related Job Creation and Number of Employees

H2: *There was no significant relationship between microfinance-related job creation and the number of employees in welding enterprises in Kitui County.*

The global literature on microfinance and job creation is comparatively more direct in its measurement of employment outcomes, yet it remains geographically and sectorally narrow. Erhardt (2017), assessing microcredit programmes among small businesses in Bulgaria, found that recipient firms hired an average of 2.5 additional employees within two years, with these gains persisting over time, particularly among smaller firms. This study is methodologically valuable in that it directly operationalises employment as a dependent variable; however, its European institutional and labour-market context—characterised by formal contractual employment, regulated minimum wage structures, and distinct credit markets—limits its transferability to Kenya's informal *Jua Kali* welding sector, where employment relationships are frequently informal, seasonal, or apprenticeship-based. Moreover, Erhardt's (2017) focus on financial assistance alone, to the exclusion of complementary socio-economic services such as training and mentorship, leaves unanswered whether job creation is attributable to credit access per se or to the broader bundle of support services that typically accompany it.

At the continental level, Brixiová et al. (2020), analysing SMEs across 42 Sub-Saharan African countries, found that enterprises with access to formal financing experienced greater employment growth than those without, and notably that manufacturing enterprises generated more employment than service-oriented firms—a finding of direct relevance to welding as a manufacturing-adjacent trade. Nonetheless, the study's cross-country, macro-level design necessarily abstracts away from firm-level and sector-specific dynamics, and its treatment of "formal financing" does not disaggregate microfinance from other credit sources, making it difficult to isolate the specific contribution of microfinance socio-economic services to job creation.

Opoku-Afriyie (2019) similarly established that SMEs are central to job creation and economic growth in Ghana, accounting for the bulk of national employment; yet this study is descriptive of SME contribution to the economy at large rather than analytical of the mechanism by which microfinance services generate employment within specific enterprise categories. Both continental studies, while affirming the finance–employment link in principle, stop short of the enterprise-level, sector-specific causal testing that welding businesses in a county such as Kitui require.

Kenyan-specific literature examining job creation as a discrete outcome of microfinance socio-economic services, independent of general SME performance, is similarly underdeveloped, leaving the mechanism largely untested within the informal manufacturing trades that dominate county-level economies such as Kitui's. This absence of sector- and context-specific testing underlies the rationale for H2.

Microfinance-Related Income Growth and Number of Employees

H3: *There was no significant relationship between microfinance-related income growth and the number of employees in welding enterprises in Kitui County.*

The theoretical logic linking income growth to employment rests on the proposition that improved liquidity enhances an enterprise's capacity to retain and recruit staff; however, much of the supporting empirical literature tests income and profitability outcomes without extending the analysis to staffing decisions. Onuwa (2022) found that microcredit, complemented by financial advisory support and flexible loan terms, significantly boosted SME productivity and profitability in Nigeria. While this establishes a credible pathway through which microfinance could plausibly influence hiring capacity, the study does not test employment outcomes directly, leaving the second half of the causal chain—from income growth to staffing decisions—empirically unverified. Fomum and Opperman (2023) similarly found that financial inclusion services, including savings mechanisms and informal financial tools, improved profitability and operational efficiency among MSMEs in Eswatini, but again without extending the analysis to workforce size, reflecting a broader tendency in the literature to treat income growth as a terminal outcome rather than an intermediate variable in an employment pathway.

At the East African level, Endris and Kassegn (2023) found that managerial education, credit access, advisory services, and business support programmes significantly improved enterprise profitability among agricultural micro and small enterprises in Ethiopia, underscoring the role of non-financial socio-economic services—rather than credit alone—in driving income outcomes. This finding is instructive for the present study insofar as it suggests that income growth attributable to microfinance is rarely a product of lending in isolation, but the study's agricultural sector focus and profitability-centred outcome measure again leave the income–employment linkage untested.

Within Kenya, Munyao (2021) found that microsavings significantly supported SME development, while Arora's (2024) study demonstrated that mobile savings services improved financial performance by strengthening risk management and investment capacity. Both studies reinforce the premise that income-related financial services matter for enterprise viability, yet neither interrogates whether such income gains materialise as additional hires, nor whether this relationship holds in labour-intensive, skill-dependent trades such as welding, where staffing decisions may be governed as much by technical capacity and workshop space as by income availability. Consequently, while the theoretical case for H3 is well established, its empirical verification, particularly at the level of individual welding enterprises in a rural Kenyan county, remains largely absent from the literature.

Microfinance-Related Poverty Reduction and Number of Employees

H4: *There was no significant relationship between microfinance-related poverty reduction and the number of employees in welding enterprises in Kitui County.*

The relationship between poverty reduction and enterprise-level employment is the least directly tested of the four constructs in the existing literature, despite its centrality to the broader development rationale for microfinance. Tmava and Bellaqa (2025), studying Kosovo, found that microfinance services contributed to poverty reduction through job creation, but characterised the relationship as comparatively weak, and argued that financial services generate meaningful poverty outcomes only when paired with training, advisory support, and government cooperation.

This finding is significant in that it challenges the often-implicit assumption in the literature that poverty reduction and employment growth are mutually reinforcing by default; rather, it suggests the relationship is conditional on complementary institutional support, a nuance frequently lost in single-variable analyses. Pomi (2019), assessing rural Bangladesh, found that microfinance participation improved household well-being, education, healthcare access, and income-generating activity, enabling beneficiaries to participate more actively in small-business activity. However, the study's outcome measures are household-level welfare indicators rather than firm-level employment figures, meaning the enterprise-level employment implications of poverty reduction remain inferential rather than directly tested.

Within the Kenyan context, Shakir (2022) observed that microfinance services can contribute to poverty reduction by supporting SME development and self-

employment opportunities, but noted that this impact varies considerably depending on how loans and accompanying support services are utilised, and that financial assistance alone rarely produces meaningful outcomes without complementary mentorship, training, and financial literacy interventions. This finding is consistent with the broader pattern observed across the poverty-reduction literature: the pathway from microfinance to poverty alleviation to enterprise-level employment growth is neither linear nor automatic, but mediated by factors that remain underexamined at the firm level. Notably, no reviewed study directly tests whether poverty reduction attributable to microfinance interventions translates into measurable increases in the number of employees within a specific manufacturing trade such as welding, leaving H4 substantively untested in the existing empirical record.

Synthesis and Identified Gaps

Taken together, the reviewed literature has revealed three recurring and interrelated limitations. First, the overwhelming majority of studies operationalise enterprise performance through financial proxies such as profitability, sales growth, and financial inclusion, while employment, when addressed at all, is treated as an assumed downstream consequence rather than a directly measured variable. Second, the literature largely treats microfinance socio-economic services as an undifferentiated construct, seldom disaggregating business expansion, job creation, income growth, and poverty reduction as distinct explanatory dimensions with potentially different employment effects, despite theoretical grounds for expecting such differentiation.

Third, the predominance of cross-sectional designs across the reviewed studies constrains causal inference, while the geographic and sectoral concentration of existing evidence, spanning Nigeria, Tanzania, Bulgaria, Ghana, Eswatini, Ethiopia, Kosovo, Bangladesh, and general Kenyan SME populations, means that findings are rarely transferable to the specific institutional, labour, and market conditions of rural, manufacturing-oriented informal enterprises such as welding businesses in Kitui County.

It is against this backdrop of conceptual conflation, methodological limitation, and contextual mismatch that the present study is positioned. By explicitly disaggregating microfinance socio-economic services into business expansion, job creation, income growth, and poverty reduction, and by testing each dimension's relationship with a directly measured employment outcome—the number of employees—within a single, labour-intensive informal manufacturing sub-sector, this study addresses the empirical, conceptual, and contextual gaps identified across the global, African, and Kenyan literature reviewed above.

Theoretical Framework

The relationship between microfinance socio-economic services and employment outcomes in welding enterprises is understood through three complementary theoretical perspectives: Pecking Order Theory (POT), the Trade-Off Theory of Capital Structure, and Financial Constraint Theory (FCT). Before elaborating these theories, it is necessary to clarify a conceptual distinction that underpins the entire framework. Microfinance socio-economic services—microloans, savings facilities, business training, advisory support, and insurance—are the interventions provided by microfinance institutions (MFIs). Business expansion, job creation, income growth, and poverty reduction, by contrast, are the intermediate firm- and household-level outcomes through which these services are theorised to operate. The number of employees—the study's dependent variable—is the terminal, observable outcome that these intermediate processes ultimately produce. Each theory below is therefore used to trace a specific causal pathway: from MFI service, through an intermediate outcome, to a measurable change in employment within welding enterprises in Kitui County.

Pecking Order Theory (POT)

Developed by Myers and Majluf (1984), POT posits that firms follow a financing hierarchy in which internally generated funds are preferred first, followed by debt, with external equity as the least preferred option, because firms seek to minimise information asymmetry, transaction costs, and loss of ownership control (Djabang et al., 2025; Jansen et al., 2023). Applied to welding enterprises, most of which are owner-managed and averse to relinquishing control, POT predicts that owners will exhaust retained earnings before turning to microfinance. Once internal

funds are depleted, however, microcredit becomes the next preferred source, and its uptake triggers a specific causal sequence: microloans finance the purchase of welding machines, generators, and raw materials (business expansion); expanded production capacity requires additional labour to operate new equipment and meet higher order volumes; and the enterprise hires additional workers (employment growth). A parallel pathway links microfinance-facilitated income growth to employment: as microloans and advisory services improve productivity and profit margins, owners reinvest surplus earnings into wages for additional apprentices or skilled hands, rather than distributing all profit as personal income.

In Kitui County, where formal collateral is scarce and welding businesses typically rely on informal savings groups before approaching MFIs, POT's financing-hierarchy logic is particularly salient; however, the theory says little about why some enterprises, despite reaching the microfinance stage, still fail to translate borrowed capital into hiring, a gap addressed by the subsequent theories.

H1 (Business Expansion): POT predicts that as internal funds are depleted, welding enterprises will substitute microfinance capital for equipment and stock purchases, and the observable implication is that firms recording higher microfinance-financed asset or stock growth will report a correspondingly higher number of employees.

H3 (Income Growth): POT predicts that microfinance uptake, occurring after internal funds are exhausted, raises enterprise income by financing productivity-enhancing inputs, with the observable implication that enterprises reporting higher microfinance-attributable income will retain and add more paid staff.

POT has been criticised, however, for concentrating narrowly on the internal-versus-external financing decision while overlooking institutional support, financial literacy, market access, and social capital—factors that shape whether Kitui's welding artisans can access or productively deploy microfinance at all (Djabang et al., 2025). The framework therefore requires supplementation by theories that address the cost–benefit calculus and structural barriers surrounding external financing.

Trade-Off Theory of Capital Structure

Emerging from the Modigliani and Miller (1958) propositions and subsequently refined by Ai et al. (2020) and Nicodano and Regis (2019), the Trade-Off Theory holds that firms select a financing structure that balances the benefits of debt, access to capital and, where applicable, tax advantages, against the costs of financial distress and default risk. Applied to welding enterprises, this theory traces a distinct causal chain: an owner weighs the operational benefit of a microloan (funding a new welding bay or additional workstation) against the repayment burden it imposes; where the anticipated marginal revenue from additional capacity exceeds the cost of debt service, the owner borrows and expands operations (job creation); the resulting capacity increase is realised specifically through hiring, since welding output is constrained by the number of hands available to operate machines and fabricate simultaneously.

A second pathway links this borrowing decision to household- and community-level poverty reduction: as employment expands and wages are paid to previously idle or underemployed youth, household incomes rise and local economic vulnerability declines.

For welding enterprises in Kitui County, this trade-off aspect is shaped by local conditions rarely captured in the theory's original formulation; that is, the seasonality of demand for agricultural tools and gates, fluctuating input prices for steel and welding rods, and the absence of formal credit histories, all of which raise the perceived risk of default and may cause owners to under-borrow relative to the theory's predicted optimum.

H1 (Business Expansion) and H2 (Job Creation): The Trade-Off Theory predicts that welding owners will borrow via microfinance only when the expected returns from expanded capacity and additional hires exceed repayment risk, with the observable implication that enterprises with favourable loan terms and manageable repayment schedules will show both measurable capacity expansion and a higher number of employees.

H4 (Poverty Reduction): The theory predicts that debt-financed employment growth raises household incomes among workers and owners alike, with the

observable implication that welding enterprises with more employees will be associated with improved household welfare indicators among their workforce.

The Trade-Off Theory nonetheless assumes that financing decisions are driven primarily by rational cost–benefit analysis, underweighting behavioural factors such as risk aversion, trust in formal institutions, and entrepreneurial disposition, as well as regional and institutional variation in how debt is perceived and used (Ai et al., 2020). Financial Constraint Theory addresses this gap by examining the structural barriers that prevent enterprises from reaching the financing decision in the first place.

Financial Constraint Theory (FCT)

Originally proposed by Frazzini et al. (1988) and later refined by Kaplan and Zingales (2015), FCT argues that firms face significant obstacles to external finance arising from information asymmetry, collateral requirements, transaction costs, and perceived risk, distinguishing between internal constraints (insufficient retained earnings) and external constraints (restricted access to credit) (Bakhtiari et al., 2020). FCT is particularly apt for welding enterprises in Kitui County, most of which are small, lack formal collateral, and operate with thin or non-existent credit histories.

The theory traces the following pathway: microfinance socio-economic services, microcredit, group-based savings, and advisory or literacy training, directly ease the collateral, information, and transaction-cost barriers that would otherwise exclude welding enterprises from credit markets, to relieved of these constraints, enterprises can purchase modern equipment, diversify product lines (e.g., moving beyond gates and doors into agricultural implements), and meet larger orders (business expansion), to meeting these larger orders requires hiring additional welders and apprentices to sustain output, producing measurable employment growth.

A second, related pathway connects eased financial constraints directly to job creation: once working-capital constraints are relieved, enterprises can maintain a larger, more stable workforce year-round rather than shedding labour during input-price shocks or seasonal demand troughs, a particularly relevant dynamic given Kitui's fluctuating agricultural-tool demand cycle.

H1 (Business Expansion) and H3 (Income Growth): FCT predicts that reducing collateral and information barriers through microfinance enables welding enterprises to acquire productive assets and raise output-driven income, with the observable implication that enterprises reporting reduced financing constraints will show both expanded productive capacity and higher recorded income, alongside a larger workforce.

H2 (Job Creation) and H4 (Poverty Reduction): FCT predicts that relieved working-capital constraints allow enterprises to sustain and grow employment through demand fluctuations, thereby improving household income security, with the observable implication that enterprises with greater access to microfinance-based working capital will retain more employees and report improved household welfare among workers.

FCT has been criticised, however, for over-attributing enterprise performance to financial access while underplaying managerial skill, market dynamics, technological adoption, and regulatory conditions; factors that, in Kitui's welding sub-sector, may constrain employment growth even where financing barriers have been resolved (Bakhtiari et al., 2020).

Synthesis

Integrated, the three theories yield a coherent, multi-stage causal model linking MFI services to employment outcomes in welding enterprises: POT explains why and when welding owners turn to microfinance rather than internal funds; the Trade-Off Theory explains how owners weigh the resulting benefits of expansion and hiring against repayment risk; and FCT explains which structural barriers microfinance services must overcome before either financing decision becomes possible at all. Read together, these theories trace a single pathway from MFI socio-economic service to relieved constraint and financing decision, to intermediate outcomes, then to change in the number of employees—that directly underlies the study's four hypotheses and situates them within the specific institutional and economic

conditions of welding enterprises in Kitui County, Kenya. This is summarised in Figure 1.

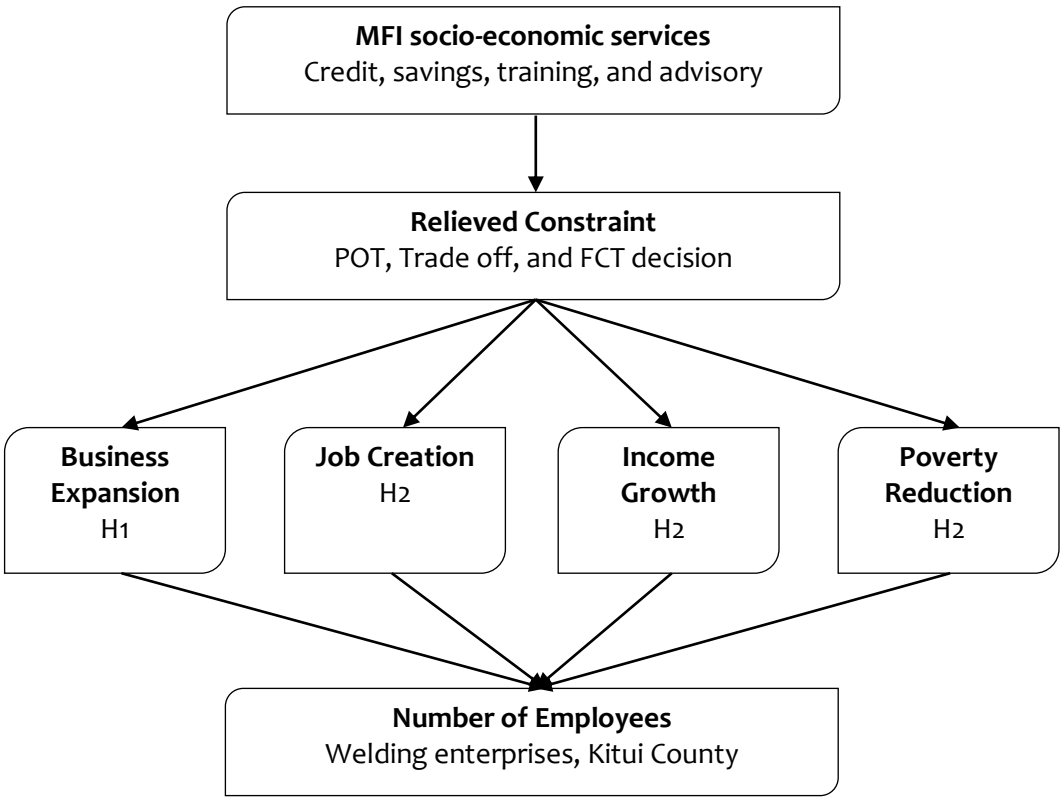

Figure 1: Conceptual Framework of the Study
Source: Author, 2026

METHODOLOGY

This study adopted a quantitative research approach to examine the influence of microfinance socio-economic services on the growth of welding enterprises in Kitui County, Kenya. The quantitative approach was appropriate because it enabled the collection of numerical data and the objective testing of relationships between microfinance socio-economic services and the growth of welding enterprises in Kitui County, Kenya, using statistical techniques (Creswell & Creswell, 2022). The study was guided by the positivist research philosophy, which emphasises objective measurement, empirical observation, hypothesis testing, and statistical analysis to establish relationships between variables. Positivism assumes that reality is objective, measurable, and independent of the researcher, and that knowledge can be generated through systematic collection and analysis of quantitative data. This philosophy is particularly appropriate for studies that seek to test predefined hypotheses and explain cause-and-effect relationships using scientific methods.

A correlational research design was employed to determine the direction and strength of the relationship between microfinance socio-economic services and the number of employees in welding enterprises. The design was considered appropriate because it enabled the study to establish the extent to which variations in microfinance socio-economic services were associated with variations in enterprise growth without manipulating the study variables.

The study targeted 848 registered welding enterprises operating in Kitui Town, Zombe Town, Kabati Town, Kwa Vonza, Mutomo Town, and Mwingi Town. Using Yamane's (1967) formula (cited in Ahmed, 2024) with a 95 per cent confidence level and a 5 per cent margin of error, a sample size of 272 welding enterprises was obtained.

$$n = \frac{N}{(1+N(e)^1)} = \frac{848}{(1+848(0.05)^1)} = \frac{848}{(3.12)} = 271.7 \text{ or } 272$$

The 272 welding enterprises were selected because this sample size was considered statistically representative of the target population of 848 registered welding enterprises, providing sufficient precision to generalise the study findings while minimising sampling error. Stratified random sampling was used, whereby enterprises were first grouped by location and then randomly selected in proportion to each stratum. This sampling method was chosen because it ensured that all geographical strata were adequately represented in the sample, thereby improving the representativeness and precision of the findings compared with simple random or convenience sampling methods.

Primary data were gathered through a structured questionnaire with closed-ended questions rated on a 4-point Likert scale. The questionnaire collected data on business expansion, job creation, income increases, poverty alleviation, and the number of employees in welding firms. Data analysis was conducted using IBM SPSS Version 27, as the software provides robust statistical tools for data management and descriptive and inferential analyses, making it appropriate for testing the study hypotheses and examining the relationships among the study variables. Descriptive statistics summarised the data, while multiple regression analysis evaluated how microfinance socio-economic services influenced welding enterprise growth. Ethical protocols included Ethical approval from the Mount Kenya University Ethics Review Committee, research clearance from the National Commission for Science, Technology and Innovation (NACOSTI), informed consent from participants, voluntary participation of respondents, confidentiality and anonymity of participants' information, and data storage and restriction through password-secured folders and restriction of data to academic purposes.

The regression model for the study was:

$$WEGrowth = \beta_0 + \beta_1 BusiExp + \beta_2 JobCre + \beta_3 IncGrth + \beta_4 PovRed + \varepsilon$$

Where *WEGrowth* was the growth of the welding enterprise, measured by the Number of Employees (2020-2025). *BusiExp* was business expansion, *JobCre* was job creation, *IncGrth* was income growth, and *PovRed* was poverty reduction.

FINDINGS AND DISCUSSION

Response Rate

A total of 272 questionnaires were distributed to owners of welding enterprises in Kitui Town, Zombe Town, Kabati Town, Kwa Vonza, Mutomo Town, and Mwingi Town to assess the influence of microfinance socio-economic services on the number of employees in welding enterprises in Kitui County, Kenya. The response rate is presented in Table 1.

Table 1: Response Rate

	Description	Frequency	Percent
General response rate	Sample Size of the Study	272	100.00
	Fully filled questionnaires	259	95.22
	Partially filled questionnaires	13	4.78
Response rate by welding enterprises' location	**Location**	**Frequency**	**Percent**
	Kabati Town	15	5.8
	Kitui Town	121	46.7
	Kwa Vonza	11	4.2
	Mutomo Town	16	6.2
	Mwingi Town	77	29.7
	Zombe Town	19	7.3
	Total	**259**	**100.0**

Note. Data source: Primary research data (2026)

Results show that of the 272 questionnaires distributed, 259 were fully completed and returned, representing a response rate of 95.22 per cent, while 13 (4.78 per cent) were either not returned or incomplete and were therefore excluded from the analysis. This high response rate indicates that the data collection process was administered effectively and that the questionnaire was clear, accessible, and well understood by respondents. Consistent with acceptable thresholds in survey research, where response rates above 70 per cent are considered adequate for minimising non-response bias (Al Khalaf et al., 2022), the achieved response rate of 95.22 per cent strengthens the reliability and internal validity of the study findings.

Regarding the distribution of respondents, Kitui Town recorded the highest number of completed responses with 121 (46.7 per cent), followed by Mwingi Town with 77 (29.7 per cent). Zombe Town accounted for 19 (7.3 per cent), Mutomo Town for 16 (6.2 per cent), Kabati Town for 15 (5.8 per cent), and Kwa Vonza for 11 (4.2 per cent). This distribution indicates that the majority of respondents were concentrated in the more commercially active towns, which may reflect variations in SME density and business activity across the study locations.

Demographic Information

Table 2 presents the demographic characteristics of the respondents, including gender distribution, age groups, and level of education.

Table 2: Owners of Welding Enterprises

Demographic Variable	Category	Frequency	Percentage (%)
Gender	Female	175	67.6
	Male	84	32.4
	Total	**259**	**100.0**
Age	18 – 27 years	21	8.1
	28 – 37 years	70	27.0
	38 – 47 years	99	38.2
	48 – 57 years	38	14.7
	Above 57 years	31	12.0
	Total	**259**	**100.0**
Level of Education	Primary Education	46	17.8
	Secondary Education	118	45.6
	Tertiary Education	78	30.1
	Any Other (Specify)	17	6.6
	Total	**259**	**100.0**

Most participants were women (175, 67.6%), with men totalling 84 (32.4%), indicating greater female involvement in the sampled SME activities. This points to women playing a key role in business ownership and management in this context, highlighting increasing female economic participation in local enterprise growth. The high number of female respondents also improves the study's inclusiveness and provides a more balanced perspective on SME performance across genders.

Most respondents were between 28 and 47 years old, with 70 (27.0%) in the 28–37 range and 99 (38.2%) in the 38–47 range. This shows that most SME operators are in the active, economically productive age group. This pattern is consistent with SME studies in Kenya, where middle-aged entrepreneurs often dominate due to their experience, financial stability, and established networks. The younger respondents, aged 18–27, made up 21 (8.1%), indicating lower youth participation in SME ownership. Those aged 48–57 numbered 38 (14.7%), and those 57 and above totalled 31 (12.0%), reflecting the ongoing involvement of older entrepreneurs who bring experience, stability, and support for long-term business continuity.

Regarding education, most respondents had secondary education (118, 45.6%), followed by 78 (30.1%) with tertiary education. Those with primary education accounted for 46 (17.8%), while 17 (6.6%) reported other forms of education. This distribution indicates that a significant proportion of SME operators have at least basic to moderate levels of formal education, which may enhance their ability to manage business operations, adopt financial practices, and respond to market demands. The presence of a considerable number of tertiary-educated respondents further suggests increasing professionalisation within the SME sector.

Descriptive Statistics of Independent and Dependent Variables

Table 3 presents the descriptive statistics for the dependent variable (Average Number of Employees (2020-2025)) and the independent variables (Business Expansion, Job Creation, Average Income Growth, and Poverty Reduction).

Table 3: Descriptive Statistics

Independent and Dependent Variables	Mean	Std. Deviation	N
Average Number of Employees (2020-2025)	4.3037	1.17383	272
Business Expansion	3.3634	0.37075	272
Job Creation	3.3504	0.36666	272
Income Growth	3.3548	0.37728	272
Poverty Reduction	3.3490	0.36298	272

Note. Data source: Primary research data (2026).

Table 3 presents the descriptive statistics for both the dependent variable, measured as the average number of employees (2020–2025), and the independent variables, namely business expansion, job creation, income growth, and poverty reduction. The results indicate that the average number of employees was 4.3037, with a standard deviation of 1.17383, suggesting moderate variation in employment levels across the sampled enterprises over the study period.

For the independent variables, the mean scores are relatively close, ranging from 3.3490 to 3.3634, indicating a generally similar level of agreement among respondents regarding business performance outcomes. Business expansion recorded a mean of 3.3634 (SD = 0.37075), while job creation had a mean of 3.3504 (SD = 0.36666). Income growth showed a mean of 3.3548 (SD = 0.37728), and poverty reduction had a mean of 3.3490 (SD = 0.36298). The relatively small standard deviations across all independent variables suggest low dispersion in responses, indicating that respondents had fairly consistent views regarding the impact of the studied factors.

Correlations of the Independent Variables

Table 4 presents correlations of independent variables (Business Expansion, Job Creation, Income Growth Average, and Poverty Reduction).

Table 4: Correlations of Independent Variable

		Business Expansion Average	Job Creation Average	Income Growth Average	Poverty Reduction Average
Business Expansion Average	Pearson Correlation	1	0.004	0.067	0.031
	Sig. (2-tailed)		0.944	0.267	0.611
Job Creation Average	Pearson Correlation	0.004	1	0.079	0.034
	Sig. (2-tailed)	0.944		0.197	0.582
Income Growth Average	Pearson Correlation	0.067	0.079	1	0.036
	Sig. (2-tailed)	0.267	0.197		0.558
Poverty Reduction Average	Pearson Correlation	0.031	0.034	0.036	1
	Sig. (2-tailed)	0.611	0.582	0.558	

Note. Data source: Primary research data (2026).

Table 4 presents the Pearson correlation results among the independent variables: business expansion, job creation, income growth, and poverty reduction. The results show very weak and statistically insignificant relationships between all pairs of variables. The correlation coefficients range from 0.004 to 0.079, indicating an almost negligible linear association among the predictors.

Specifically, business expansion has a near-zero correlation with job creation ($r = 0.004$, $p = 0.944$), income growth ($r = 0.067$, $p = 0.267$), and poverty reduction ($r = 0.031$, $p = 0.611$). Similarly, job creation shows weak and insignificant correlations with income growth ($r = 0.079$, $p = 0.197$) and poverty reduction ($r = 0.034$, $p = 0.582$). Income growth and poverty reduction also exhibit an extremely weak relationship ($r = 0.036$, $p = 0.558$).

These results indicate that there is no strong linear interdependence among the independent variables, meaning that each construct measures a distinct aspect of SME performance outcomes. Importantly, the low correlation values also suggest that multicollinearity is unlikely to be a concern in subsequent regression analysis. Since none of the correlation coefficients is high (e.g., above 0.70) and all are statistically insignificant, the independent variables can be safely included together in a multiple regression model without risking distortion of estimates due to overlapping effects.

Thus, the results confirm that regression analysis with the dependent variable (number of employees) and these independent variables is appropriate for assessing their individual and combined influence on SME performance outcomes.

Diagnostic Statistics

Diagnostic tests, that is, normality, linearity, homoscedasticity, multicollinearity, and autocorrelation, were used to validate the role of microfinance socio-economic services (Business Expansion, Job Creation, Income Growth Average, and Poverty Reduction) on the dependent variable (Number of Employees (2020-2025)).

Normality Tests

A histogram of standardised regression residuals for the dependent variable (number of employees) was used to assess the normality of the data. Figure 1 shows the results.

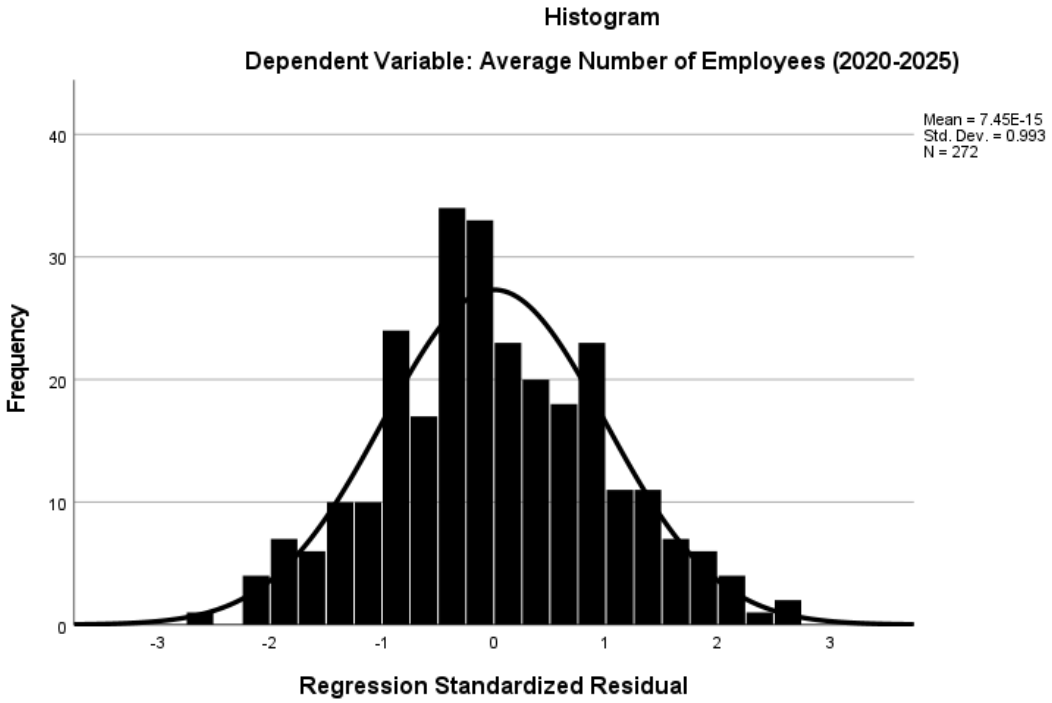

Figure 2: Normality Test
Note. Data source: Primary research data (2026)

As illustrated in Figure 2, the distribution closely resembled a bell curve, indicating that the residuals were roughly normally distributed. The histogram showed a tight clustering around the mean, which was nearly zero (Mean = 7.45E-15), with the frequency tapering off on both sides. This symmetry suggested minimal skewness and a balanced data set. Additionally, the standard deviation of 0.993 was very close to 1, aligning with expectations for standardised residuals and supporting the normality assumption. Most residuals also fell within the typical range of about -3 to +3, with no significant outliers or abnormal peaks observed. This implied that the model errors were randomly distributed and unbiased. According to

Field's (2024) guidelines, these results confirmed the normality assumption was met. As a result, the regression model predicting the number of employees was reliable, and the coefficients could be confidently interpreted.

Linearity and Homoscedasticity Tests

A scatterplot plotting standardised regression residuals against standardised predicted values for the dependent variable (Number of Employees (2020-2025)) was used to assess linearity and homoscedasticity. Results are presented in Figure 3.

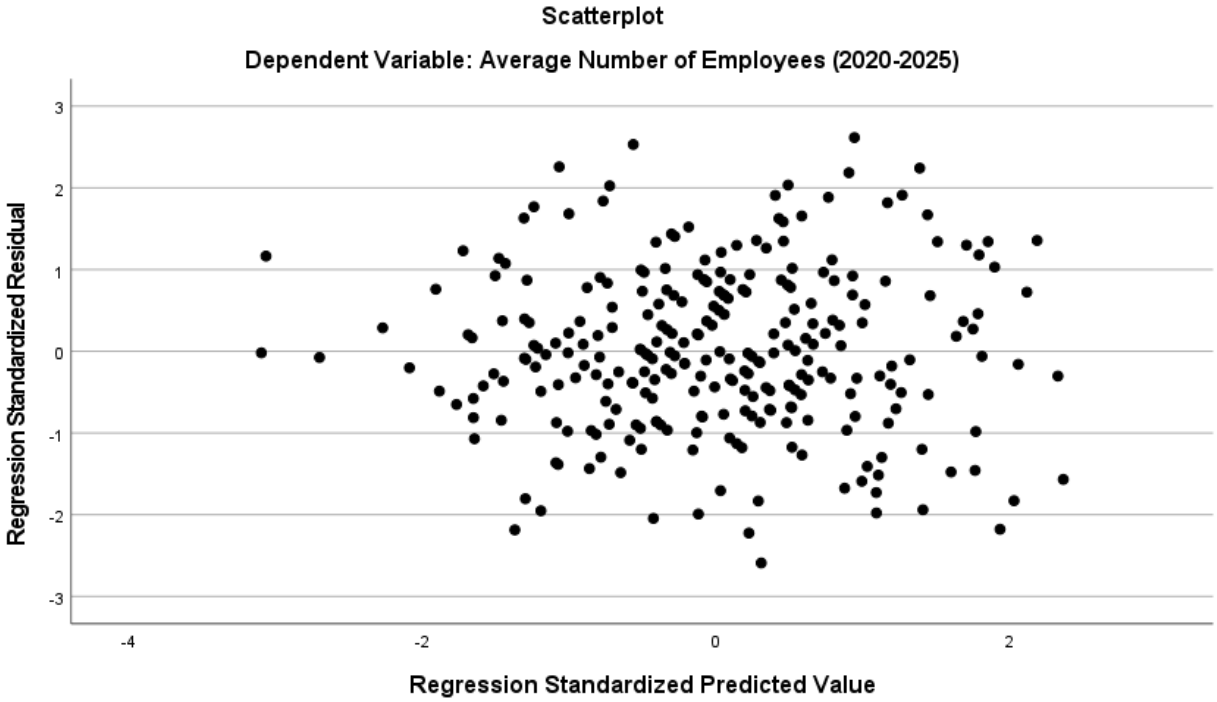

Figure 3: Linearity and Homoscedasticity Tests

Note. Data source: Primary research data (2026)

The scatterplot in Figure 2 shows a random, even dispersion of residuals around zero, with no clear pattern or systematic structure, indicating that the regression model adequately captures linear relationships between variables. Residual spreads remain fairly constant across predicted values, suggesting homoscedasticity. Most residuals fall within the range of -3 to +3, showing no serious outliers.

Overall, the plot confirms that the assumptions of linearity and homoscedasticity were satisfied, supporting the reliability of the regression model in predicting the average number of employees between 2020 and 2025.

Multicollinearity Tests

Variance Inflation Factor (VIF) was used to test for multicollinearity in the Number of Employees (2020-2025) model. Table 5 shows the results.

Table 5: Multicollinearity Tests

Coefficients	Tolerance	VIF
Business Expansion Average	0.995	1.006
Job Creation Average	0.993	1.007
Income Growth Average	0.988	1.012
Poverty Reduction Average	0.997	1.003

Note. Data source: Primary research data (2026)

Table 5 shows that all independent variables in the Number of Employees (2020–2025) model have very high tolerance values and low Variance Inflation Factor (VIF) scores. Specifically, Business Expansion Average had a tolerance of 0.995 (VIF = 1.006), Job Creation Average had a tolerance of 0.993 (VIF = 1.007), Income Growth Average had a tolerance of 0.988 (VIF = 1.012), and Poverty Reduction Average had a tolerance of 0.997 (VIF = 1.003). Tolerance values close to 1 indicate that these predictors are not linearly correlated, suggesting minimal shared variance. Likewise, VIF values near 1 indicate no multicollinearity. According to Field's (2024) standards, tolerance values above 0.1 and VIFs below 10 (or more conservatively, below 5) show that multicollinearity is not an issue. The values in this table are well within these thresholds, confirming the absence of multicollinearity. Business expansion, job creation, income growth, and poverty reduction each uniquely contributed to the model, enabling confident interpretation of the regression coefficients and supporting the study's robustness.

Autocorrelation Tests

The Durbin–Watson statistic was used to assess the presence of autocorrelation in the residuals of the number-of-employees (2020-2025) model. The results are presented in Table 6.

Table 6: Autocorrelation Tests

Durbin-Watson	1.940

Note. Data source: Primary research data (2026).

The Durbin–Watson statistic in Table 6 is 1.940, very close to the ideal value of 2. This suggests that the residuals in the Number of Employees (2020–2025) model are not serially correlated. Values near 2 imply no autocorrelation, while those near 0 indicate positive autocorrelation, and values near 4 suggest negative autocorrelation. Since 1.940 falls within the acceptable range, it confirms that autocorrelation is unlikely to be an issue. This reinforces the reliability of the regression estimates and supports the validity of the model.

Undue Influence

Mahal. Distance and Cook's Distance were used to assess the presence of undue influence in the residuals of the model for the number of employees (2020-2025). The results are presented in Table 7.

Table 7: Undue Influence

Tests	Minimum	Maximum	Mean	Std. Deviation	N
Mahal. Distance	0.018	15.515	3.985	2.752	272
Cook's Distance	0.000	0.041	0.004	0.006	272

Note. Data source: Primary research data (2026)

Table 7 shows that Mahalanobis Distance and Cook's Distance were used to assess the presence of undue influence in the residuals of the Number of Employees (2020–2025) model. The results indicate that Mahalanobis Distance values ranged from 0.018 to 15.515, with a mean of 3.985 and a standard deviation of 2.752 across 272 observations. These values suggest that most cases fall within acceptable limits, with no extreme outliers exerting disproportionate influence on the model. Similarly, Cook's Distance values ranged from 0.000 to 0.041, with a mean of 0.004 and a standard deviation of 0.006. Since Cook's Distance values well below the conventional threshold of 1 indicate that no single observation unduly influences the regression results, the findings confirm that the model is robust.

Regression Results

Classical linear regression analysis was used to assess the relationship between the dependent variable (Number of Employees (2020-2025)) and the independent variables (Business Expansion, Job Creation, Average Income Growth, and Poverty

Reduction). Regression analysis includes model summary, ANOVA results, and regression coefficients.

Model Summary

Table 8 summarises the regression model used to estimate the effects of Business Expansion, Job Creation, Average Income Growth, and Poverty Reduction on the number of employees in welding enterprises.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
Number of Employees	0.816[a]	0.665	0.660	0.68424

Note. Data source: Primary research data (2026).

Table 8 presents the regression model summary, showing the relationships among Business Expansion, Job Creation, Income Growth, Poverty Reduction, and the number of employees in welding enterprises. The results indicate that the model has a strong positive correlation coefficient (R = 0.816), suggesting a strong relationship between the independent variables (Business Expansion, Job Creation, Income Growth, and Poverty Reduction) and the dependent variable (number of employees in welding enterprises).

The coefficient of determination (R Square = 0.665) indicates that 66.5 per cent of the variation in employee numbers in welding enterprises is accounted for by Business Expansion, Job Creation, Income Growth, and Poverty Reduction. This reflects the model's strong explanatory power. The Adjusted R Square of 0.660 suggests that, after considering the number of predictors, about 66.0 per cent of the variation remains explained by these variables. The minimal difference of 0.005 between R Square and Adjusted R Square shows the model is stable and that the predictors significantly contribute to explaining changes in employee numbers.

The standard error of the estimate is 0.68424, meaning the predicted employee count typically varies from the actual by about 0.684. This relatively small standard error indicates that the regression model makes fairly accurate predictions. Overall, the results show that Business Expansion, Job Creation, Income Growth, and Poverty Reduction collectively account for a large part of the variation in the number of employees in welding enterprises, highlighting their significant influence on employment levels.

Analysis of Variance (ANOVA)

Table 9 shows the ANOVA results for the regression model estimating the effects of *business expansion*, *job creation*, *income growth*, and *poverty reduction* on the number of employees in welding enterprises.

Table 9: Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
Number of Employees	Regression	248.396	4	62.099	132.638	0.000[b]
	Residual	125.005	267	0.468		
	Total	373.402	271			

Note. Data source: Primary research data (2026)

Table 9 presents the Analysis of Variance (ANOVA) results for the regression model that examined the influence of business expansion, job creation, income growth, and poverty reduction on the number of employees in welding enterprises. The ANOVA results indicate that the regression model is statistically significant, with an F-statistic of 132.638 and a significance value of 0.000 ($p < 0.05$). This implies that the independent variables jointly have a significant effect on the number of employees in welding enterprises.

The regression sum of squares was 248.396, while the residual sum of squares was 125.005, giving a total sum of squares of 373.402. This indicates that a substantial proportion of the variation in the number of employees is explained by the regression model. The regression mean square was 62.099, compared with a residual mean square of 0.468, yielding an *F*-ratio of 132.638.

Since the calculated *p*-value (0.000) is less than the conventional significance level of 0.05, the null hypothesis that business expansion, job creation, income growth, and poverty reduction have no significant effect on the number of employees is rejected. The results confirm that the regression model fits the data well and that the chosen predictors significantly account for variations in the number of employees at welding enterprises.

This indicates that advancements in business growth, job creation, income increase, and poverty reduction are linked to changes in employment levels within these enterprises.

Regression Coefficients

Table 10 presents regression coefficients for the model estimating the effects of business expansion, job creation, income growth, and poverty reduction on the number of employees in welding enterprises.

Table 10: Regression Coefficients

Coefficient	B	Std. Error	Beta	t	Sig.
(Constant)	10.354	0.753		13.741	0.000
Business Expansion	1.862	0.112	0.588	16.564	0.000
Job Creation	1.354	0.114	0.423	11.902	0.000
Income Growth	1.039	0.111	0.393	9.360	0.024
Poverty Reduction	1.191	.115	.368	10.386	0.000

Note. Data source: Primary research data (2026)

Table 10 presents the regression coefficients for the model that examines the effects of business expansion, job creation, income growth, and poverty reduction on the number of employees in welding enterprises. The results show that all independent variables have a positive and statistically significant effect on the number of employees, as indicated by *p*-values < 0.05.

The constant term was 10.354 (p = 0.000), implying that when all the predictor variables are held constant at zero, the expected number of employees in a welding enterprise would be 10.354. The regression equation derived from the model is:

Business expansion had the strongest positive influence on the number of employees (β = 0.588, B = 1.862, t = 16.564, p = 0.000). This indicates that a one-unit increase in business expansion is associated with an increase of 1.862 employees, holding other factors constant. The finding suggests that expanding business operations significantly contributes to employment growth in welding enterprises.

Job creation also had a positive and significant effect on the number of employees (β = 0.423, B = 1.354, t = 11.902, p = 0.000). This implies that a one-unit increase in job-creation activities leads to approximately 1.354 additional employees in welding enterprises, all else being equal.

Income growth was found to have a positive and significant effect on the number of employees (β = 0.393, B = 1.039, t = 9.360, p = 0.024). This suggests that enterprises experiencing higher income growth are likely to employ more workers due to increased financial capacity to support business operations and workforce expansion.

Similarly, poverty reduction had a positive and statistically significant effect on the number of employees (β = 0.368, B = 1.191, t = 10.386, p = 0.000). A one-unit increase in poverty reduction is associated with an increase of 1.191 employees, indicating that improved economic well-being among enterprise owners contributes to greater employment opportunities.

Based on the standardised beta coefficients, business expansion (β = 0.588) was the most influential predictor of the number of employees, followed by job creation (β = 0.423), income growth (β = 0.393), and poverty reduction (β = 0.368). Overall, the findings demonstrate that business expansion, job creation, income growth, and poverty reduction significantly and positively contribute to increased employment in welding enterprises.

Discussion

The Role of Microfinance-Related Business Expansion on the Number of Employees

The findings of this study revealed that microfinance-related business expansion had a positive and statistically significant influence on the number of employees in welding enterprises in Kitui County (β = 0.588, B = 1.862, *p* = 0.000), leading to the rejection of H1. Among all the predictor variables, business expansion emerged as the strongest determinant of employee growth. The results indicate that enterprises that experienced greater expansion with microfinance support were more likely to increase their workforce. Expansion enables welding enterprises to acquire additional equipment, increase production capacity, diversify products, and access new markets, thereby creating a need for more employees to support expanded operations.

These findings are consistent with previous empirical studies. Audu et al. (2021) found that microfinance services, including microloans and business support programs, significantly enhanced SME growth through increased sales, profitability, and market expansion. Similarly, Amakom and Amagwu's (2020) study reported that microfinance services positively influenced enterprise growth by enabling business owners to expand operations and improve performance. In East Africa, Mrombo and Ronald's (2018) study found that improved access to microfinance services enhanced SME growth, enabling enterprises to increase production and hire additional workers. The current findings extend these studies by providing direct evidence that business expansion significantly increases employment in welding enterprises.

The results also support the Pecking Order Theory, which posits that enterprises seek external financing when internal resources are insufficient to fund growth. Through microfinance services, welding enterprises gain access to the capital required for expansion, thereby increasing labour demand. The findings further align with the Financial Constraint Theory, which argues that access to finance removes barriers to business growth and enables enterprises to undertake productive investments that support employment creation.

The Role of Microfinance-Related Job Creation on the Number of Employees

The study found that microfinance-related job creation had a positive and statistically significant effect on the number of employees in welding enterprises (β = 0.423, B = 1.354, p = 0.000), leading to the rejection of H2. The findings suggest that microfinance services facilitate the creation of employment opportunities within welding enterprises by providing financial resources and support services that enable businesses to recruit additional workers. As enterprises gain access to capital and operational support, they are better positioned to expand their activities and meet growing customer demand, necessitating workforce growth.

The findings are consistent with Erhardt's (2017) study, which found that microcredit programs for small businesses in Bulgaria led to significant employment growth, with participating enterprises hiring additional workers after receiving financial support. Similarly, Brixiová et al. (2020) found that SMEs with access to financing experienced higher employment growth than enterprises without such access. Costantino and Mbamba (2023) also found that microfinance services positively influenced job creation among SMEs in Tanzania, even where improvements in capital and income were relatively modest.

The results reinforce the Trade-Off Theory of Capital Structure, which argues that enterprises can utilise external financing to support expansion and workforce recruitment when the benefits of borrowing outweigh associated costs. By accessing microfinance services, welding enterprises acquire resources to create jobs and strengthen their productive capacity. The findings further support Financial Constraint Theory, which suggests that reducing financial barriers allows enterprises to invest

in labour and other productive resources necessary for business growth.

The Role of Microfinance-Related Income Growth on the Number of Employees

The study found that microfinance-related income growth had a positive and significant effect on the number of employees in welding enterprises (β = 0.393, B = 1.039, p = 0.024), leading to the rejection of H3. The results indicate that enterprises experiencing higher income growth are more likely to increase their workforce. Increased income improves business liquidity and financial stability, enabling enterprise owners to meet operational costs, invest in production activities, and hire additional employees. As enterprises generate more income, they gain greater capacity to sustain existing workers and recruit new ones to support growth.

These findings are consistent with Onuwa's (2022) study that found that microfinance services significantly improved SME productivity and profitability through access to credit and advisory support. Likewise, Fomum and Opperman (2023) reported that financial inclusion services enhanced profitability and operational performance among MSMEs, thereby creating favourable conditions for business growth.

Also, Endris and Kassegn (2023) established that access to credit, advisory services, and business support programs significantly improved enterprise profitability and sustainability. Within Kenya, Munyao's (2021) study found that microsavings positively contributed to SME growth, while Arora's (2024) study demonstrated that mobile savings services improved financial performance and investment capacity.

The findings support the Pecking Order Theory, which posits that enterprises utilise available financial resources to improve operational performance and business growth. Increased income generated through microfinance support strengthens enterprises' financial position and enables further investment in human resources. The results also support Financial Constraint

Theory, which argues that access to financial resources enhances enterprise productivity and profitability, creating opportunities for employment expansion.

The Role of Microfinance-Related Poverty Reduction on the Number of Employees

The findings revealed that microfinance-related poverty reduction had a positive and statistically significant effect on the number of employees in welding enterprises (β = 0.368, B = 1.191, p = 0.000), resulting in the rejection of H4. The results suggest that poverty reduction initiatives supported through microfinance services contribute to employment growth by improving the economic well-being of enterprise owners and their households. Improved welfare increases business resilience, strengthens investment capacity, and enhances entrepreneurs' ability to sustain and expand their enterprises, thereby creating additional employment opportunities.

The findings concur with Tmava and Bellaqa's (2025) study, which found that microfinance services contributed to poverty reduction through employment generation and improved economic participation. Similarly, Pomi's (2019) study reported that participation in microfinance enhanced household welfare, income-generating activities, education, and healthcare outcomes, thereby strengthening entrepreneurial activities. In Kenya, Shakir's (2022) study found that microfinance services contribute to poverty reduction by supporting SME development and self-employment opportunities, particularly when financial assistance is complemented by training and business support services.

The results support the Trade-Off Theory of Capital Structure, which suggests that enterprises can use external financing to improve productivity and economic welfare while managing financial risks. The findings also align with Financial Constraint Theory, which argues that access to microfinance services reduces financial barriers, improves household and business welfare, and enables enterprises to expand operations.

Consequently, poverty reduction contributes to employment growth by strengthening enterprise sustainability and increasing welding businesses' capacity to recruit additional workers. Overall, the findings demonstrate that microfinance-supported

poverty reduction plays an important role in enhancing employment levels in welding enterprises in Kitui County.

CONCLUSION AND RECOMMENDATIONS

Conclusion: This study explored how microfinance socio-economic services- such as expanding businesses, creating jobs, increasing income, and reducing poverty- affect the number of employees in welding enterprises in Kitui County, Kenya. By emphasising employment growth as a key measure of enterprise development, the research offers insights into how these services support workforce expansion and local economic progress.

The results add to the growing literature on microfinance, showing that socio-economic services go beyond just providing financial aid and significantly contribute to improving employment opportunities in small businesses.

The results showed that all four aspects of microfinance socio-economic services significantly and positively affected the number of employees in welding businesses. Business expansion was the most influential factor for employee growth, with job creation, income increase, and poverty alleviation following.

The findings indicate that microfinance services help enterprises to grow their operations, enhance productivity, boost incomes, strengthen household well-being, and generate more jobs. Overall, the study affirms that microfinance institutions play a vital role in promoting employment and business development in the welding industry.

The study contributes to the existing body of knowledge by providing empirical evidence that microfinance socio-economic services significantly enhance the growth of welding enterprises through business expansion, job creation, income growth, and poverty reduction.

Recommendations: Based on these findings, microfinance institutions should prioritise financing and support programmes that promote business expansion, as it was the strongest predictor of employment growth. They should also strengthen initiatives that encourage job creation and increase enterprise incomes through affordable credit, business development services, and market linkages. In addition, policymakers should integrate poverty reduction strategies with entrepreneurship development programmes to improve the economic well-being of enterprise owners.

Such targeted interventions will enhance enterprise sustainability, generate employment opportunities, and foster inclusive economic development in Kitui County and similar contexts.

Conflict of Interest Statement

The authors declare no conflicts of interest and confirm that no personal, professional, financial, or funding influences affected the research, analysis, or publication.

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