African Journal of Emerging Issues
Peer reviewed | Double blind | Interdisciplinary

African Journal of Emerging Issues (AJOEI)
Online ISSN: 2663 - 9335
Available at: https://ajoeijournals.org

ENTREPRENEURSHIP

SOCIAL ENTREPRENEURSHIP AND FINANCIAL PERFORMANCE OF REGULATED MICROFINANCE INSTITUTIONS IN KENYA

[*1]Moses Banda, [2]Dr. Peter Ngatia, [3]Prof. Robert Gichira & [4]Dr. Joseph Gitari Ndururi

[1]PhD Scholar, Entrepreneurship, Jomo Kenyatta University of Agriculture and Technology, Kenya

[2]Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

[3]Lecturer, Jomo Kenyatta University of Agriculture and Technology, Kenya

[4]Lecturer, The Catholic University of Eastern Africa (CUEA)

***Email of the Corresponding Author: bandamoses@rosmoltd.com**

Publication Date: April 2025

ABSTRACT

Purpose of the Study: The purpose of the study was to establish the influence of social entrepreneurship on the financial performance of regulated microfinance institutions in Kenya.

Statement of the Problem: Microfinance Institutions (MFIs) in Kenya play a crucial role in providing financial services to underserved populations but face challenges in balancing financial and social sustainability. The integration of social entrepreneurship presents both opportunities and challenges for MFIs in achieving social impact.

Research Methodology: Descriptive and correlational research designs were adopted. The target population comprised 265 MFI managers and heads of departments, while the sample size of 160 was determined using Slovin's formula.

Findings: The descriptive results revealed strong support for social entrepreneurship, reflecting MFIs' commitment to social impact. Positive correlations suggest social entrepreneurship contributes to improved financial performance outcomes. The findings indicate MFIs should prioritize social entrepreneurship by fostering community engagement, financial inclusivity, and socially responsible products.

Conclusion: The study concludes that social entrepreneurship significantly contributes to MFIs' overall financial performance by strengthening customer trust, client relationships, and loan repayment rates.

Recommendation: It is recommended that MFIs integrate social entrepreneurship strategies to achieve both financial sustainability and social impact.

Keywords: *Financial Performance, Social Entrepreneurship, Regulated Micro Finance Institutions*

INTRODUCTION

Social entrepreneurship, a key pillar of sustainable entrepreneurship, focuses on addressing societal challenges through innovative and financially sustainable business models. Unlike traditional businesses that prioritize profit maximization, social enterprises integrate social impact into their core operations, striving to improve community well-being while maintaining economic viability (Wangui, 20124). This approach is rooted in corporate social responsibility (CSR) and the broader Environmental, Social, and Governance (ESG) framework, which encourages businesses to operate ethically and inclusively (Bacq & Lumpkin, 2020). By prioritizing fair labor practices, community development, and financial inclusion, social entrepreneurship fosters economic empowerment, especially in underserved populations, and contributes to long-term societal progress (Singh, 2024).

In financial institutions, social entrepreneurship plays a crucial role in promoting inclusive economic development and ethical investment practices. Banks, microfinance institutions (MFIs), and impact investors increasingly integrate ESG principles into their strategies to enhance financial inclusion, improve access to capital for marginalized communities, and drive social innovation (Madialo, 2022). For instance, MFIs leverage social entrepreneurship to provide small loans and financial services to low-income individuals, fostering economic self-sufficiency and poverty alleviation (Mina, 2017). Additionally, financial institutions support social enterprises through impact investing, ensuring capital is directed toward businesses that generate positive societal outcomes (Mcike et al., 2018). By embedding social entrepreneurship within financial systems, institutions can build trust, enhance stakeholder engagement, and contribute to equitable economic growth (Kickul & Lyons, 2020).

Further, social entrepreneurship strengthens financial institutions by improving governance, transparency, and ethical decision-making. Businesses that prioritize social impact are more likely to attract socially conscious investors, customers, and employees who value corporate integrity and sustainability (Onsongo, 2019). Socially responsible practices, such as fair employee treatment, diversity, and community engagement, enhance an organization’s reputation and long-term competitiveness (Carraher et al. 2016). The demand for ESG-aligned investments continues to grow, pushing financial institutions to integrate social considerations into their operations (Karim et al., 2022). By embracing social entrepreneurship, financial institutions not only contribute to societal well-being but also secure long-term profitability, demonstrating that ethical business practices and financial success can coexist (Saebi et al.

2019).

RESEARCH OBJECTIVE

The general objective of the study was to establish the influence of social entrepreneurship on financial performance of regulated microfinance institutions in Kenya.

RESEARCH HYPOTHESIS

H_{01}: Social entrepreneurship has no statistical influence on financial performance of regulated microfinance institutions in Kenya.

THEORETICAL REVIEW

The Diffusion of Innovation (DOI) Theory, conceptualized by Everett M. Rogers in 1962, provides a valuable framework for understanding the adoption of innovations within social systems. The theory categorizes adopters into five groups: innovators, early adopters, early majority, late majority, and laggards (Rogers, 1962). This categorization helps to explain the variation in how individuals or organizations adopt new ideas, technologies, or practices over time. DOI is particularly useful for studying the integration of sustainable entrepreneurship practices within microfinance institutions (MFIs) in Kenya, where innovations such as green finance or mobile financial services are being introduced to improve social, economic, and environmental outcomes (Madialo, 2022).

According to DOI, the diffusion process unfolds in five stages: knowledge, persuasion, decision, implementation, and confirmation (Rogers, 1962). An innovation's perceived relative advantage, ease of trial, and compatibility with existing practices are crucial in accelerating adoption (Praszkier & Munik, 2023). For regulated MFIs in Kenya, the adoption of sustainable practices such as offering green loans or mobile-based financial products—requires that these innovations demonstrate clear benefits, be easy to experiment with, and align with the values and needs of the target community (Bacq & Lumpkin, 2020). The success of social entrepreneurship within MFIs depends on the willingness of different adopter categories to embrace such innovations and their perceptions of these innovations' advantages (Rahim & Mohtar, 2015).

While DOI offers a useful model for understanding the adoption of innovation, it has been criticized for its linear and technology-centric approach (Maina, 2017). This perspective overlooks the cultural, economic, and contextual factors that may influence adoption in diverse settings, such as those found within Kenyan MFIs. For example, the barriers to adopting sustainable entrepreneurship practices may include challenges like limited access to capital or entrenched traditional behaviors (Brown, 2018). These challenges are particularly relevant for institutions targeting the late majority and laggards, who may be more resistant to change due to financial constraints or skepticism about the long-term benefits of sustainability (Saebi et al. 2019).

In the context of MFIs in Kenya, the DOI framework offers a practical tool for understanding how social entrepreneurship can influence financial performance. For instance, financial innovations such as mobile banking or renewable energy financing are more likely to succeed when they are trailable and observable (Singh, 2021). MFIs that focus on early adopters can leverage their influence to increase the likelihood of broader adoption, eventually reaching a critical mass that fosters long-term sustainability (Bacq Lumpkins, 2020). By integrating social entrepreneurship innovations, MFIs can not only improve financial inclusion but also contribute to achieving broader social and environmental goals, enhancing both their financial performance and their impact on the triple bottom line (Kickul & Lympkins, 2020).

Therefore, the DOI Theory provides an effective framework for understanding the influence of social entrepreneurship on the financial performance of regulated MFIs in Kenya. However, its linear approach may need to be adapted to account for the unique barriers and challenges faced in the Kenyan microfinance context (Rogers, 1962). The adoption of sustainable innovations by MFIs, when successfully implemented, can lead to positive financial and social outcomes, contributing to the achievement of Kenya's sustainable development goals (Singh, 2021).

CONCEPTUAL MODEL

A conceptual framework is a concise description of the phenomenon under study accompanied by a graphical or visual description of the major variables of the study. This is a conceptual framework is a diagrammatic representation that shows the relationship between the dependent variable and independent variables. This study's conceptual framework sought to demonstrate the relationship between social entrepreneurship and financial performance of regulated MFIs in Kenya.

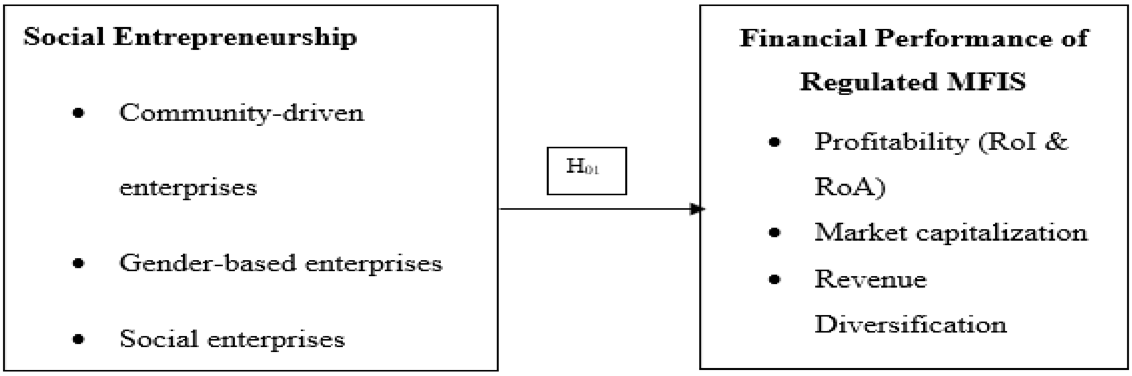

Figure 1: Conceptual Framework

Social entrepreneurship focuses on community-driven enterprises, gender-based enterprises, and social enterprises to ensure financial inclusivity and social impact (Praszkier & Munik, 2023). The Dependent Variable (DV) – Financial Performance of Regulated MFIs measures the financial health of microfinance institutions, as they must balance profitability with their social mission (Carraher et al. 2016). The three sub-variables selected profitability (ROA & ROE), market capitalization, and revenue diversification are commonly used financial metrics in evaluating MFI performance. Profitability indicators, such as Return on Assets (ROA) and Return on Equity (ROE), assess financial efficiency (Wangui, 2024; Madialo, 2022) capitalization reflects the financial strength and investor confidence in an MFI (Onsongo, 2019; Maina, 2017; Saebi et al. 2019). Revenue diversification, which refers to generating income from multiple financial products, ensures financial resilience and reduces risk exposure (Bacq & Lumpkin, 2020). These indicators collectively provide a comprehensive measure of financial performance.

RESEARCH METHODOLOGY

This study adopted a positivist research philosophy, which emphasized knowledge grounded in observable facts, empirical analysis, and hypothesis testing (Wangui, 2024). The positivist approach enabled researchers to establish causality and derive fundamental laws by operationalizing concepts and using statistical methods (Saebia et al., 2019). The study employed a descriptive and correlational research design to explore the relationship between social entrepreneurship dimensions and the financial performance of regulated microfinance institutions (MFIs) in Kenya. Descriptive research provided a comprehensive overview of MFIs, while correlational research identified associations between key variables (Rahim

&NMohtar, 2015; Bacq & Lumpkin, 2020). The study targeted 14 regulated MFIs in Kenya, with managers and heads of departments serving as key respondents, ensuring diverse perspectives and enhancing the study's validity (CBK, 2024). A stratified sampling technique was used to ensure proportional representation, with a final sample size of 167 respondents.

The study collected both primary and secondary data. Primary data was gathered through self-administered questionnaires, structured with a 5-point Likert scale to measure sustainable entrepreneurship dimensions and MFI performance. This method ensured data consistency and reliability, as demonstrated in previous financial sector studies. Secondary data was sourced from reports, policy documents, and statistical databases to complement primary findings and enhance research credibility.

Quantitative data analysis included descriptive statistics such as mean and standard deviation, and frequency distributions to summarize key trends. Inferential analysis, including correlation and regression techniques, assessed relationships between social entrepreneurship and microfinance institutions' (MFIs) financial performance. The study utilized correlation coefficients to determine the strength and direction of relationships, ensuring a robust and generalizable conclusion about the impact of social entrepreneurship dimensions on MFIs' financial performance in Kenya.

RESEARCH FINDINGS

Descriptive Statistics for Social Entrepreneurship

The study examined the influence of social entrepreneurship on the financial performance of regulated MFIs in Kenya, revealing a strong organizational commitment to community-driven enterprises, gender equity, and social cohesion initiatives. Descriptive statistics indicated high levels of agreement across key dimensions, with a composite mean of 4.288, reflecting proactive engagement in corporate social responsibility and structured budget allocations for community initiatives. Institutions that invest in social enterprises experience improved market capitalization, revenue diversification, and enhanced customer loyalty, positively impacting Return on Investment (RoI) and Return on Assets (RoA). Gender inclusivity and anti-discrimination measures were found to boost employee morale and attract diverse investors, strengthening financial stability. While MFIs showed consistent efforts in social entrepreneurship, variability in partnerships and collaborations suggested opportunities for improvement. Strengthening strategic collaborations could enhance social cohesion, expand funding streams, and further drive profitability and sustainability in the sector.

Table 1: Descriptive Statistics for Social Entrepreneurship

Statement	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Mean	Std. Dev
We do have initiatives undertaken to support local community development	0.9	2.1	12.8	21.3	59.9	4.498	.321
There is an annual budget allocated to community development activities	7.4	0.8	11.8	22.1	57.9	4.355	.387
We have gender representation at different levels within your organization	2.0	3.8	5.3	24.5	64.4	4.213	.486
We do address gender-based discrimination and harassment in the workplace	5.4	4.5	9.1	18.2	62.8	4.465	.172
We do promote social cohesion within the communities we serve	1.0	4.8	5.3	24.5	64.4	4.213	.211
We have partnerships and collaborations with other organizations aimed at enhancing social cohesion	5.3	2.6	13.6	22.1	45.8	3.987	.439
Composite						4.288	0.326

Regression Analysis

A multiple linear regression model is developed to examine the relationship between Social Entrepreneurship (SE) sub-variables community-driven enterprises, gender-based enterprises, and social enterprises and the financial performance (FP) of regulated MFIs. The R-value (0.693) indicates a strong positive correlation between social entrepreneurship (SE) sub-variables; community-driven enterprises, gender-based enterprises, and social enterprises and the financial performance (FP) of regulated MFIs. The R-Square (0.480) suggests that 48.0% of the variance in financial performance is explained by these social entrepreneurship factors, while the Adjusted R-Square (0.467) accounts for the number of predictors in the model and provides a more refined estimate of the explanatory power. The Standard Error of the Estimate (0.25214) represents the average deviation of actual financial performance values from the predicted values, indicating the model’s accuracy in predicting financial performance based on social entrepreneurship variables. The findings suggest that social entrepreneurship activities significantly impact financial performance, demonstrating that businesses driven by community needs, gender inclusivity, and social impact can achieve financial sustainability. Previous research supports this assertion, with studies indicating that socially responsible enterprises often gain competitive advantages, attract loyal customers, and secure long-term financial growth (Wangui, 2024; Madialo, 2022; Fadlipe et al. 2022; Maina, 2017). The results also align with the Triple Bottom Line (TBL) framework, which posits that social and financial goals are not mutually exclusive but rather complementary (Elkington, 2017).

Table 2: Model Summary for Social Entrepreneurship and Financial Performance

Model	R	R-Square	Adjusted R-Square	Std. Error of the Estimate
1	0.693	0.480	0.467	0.25214

The ANOVA (Analysis of Variance) test assesses the overall significance of the regression model, determining whether the independent sub-variables (community-driven enterprises, gender-based enterprises, and social enterprises) collectively explain a significant proportion of the variation in financial performance. The F-statistic (44.276) is high, with a p-value of 0.000, which is well below the 0.05 threshold. This indicates that the regression model is statistically significant, meaning that at least one of the independent variables has a significant impact on financial performance. These results reinforce the argument that social entrepreneurship significantly influences financial performance in regulated MFIs. The significant F-statistic confirms that businesses integrating social impact strategies such as gender inclusivity, community involvement, and social enterprise initiatives tend to perform better financially (Singh, 2024). This aligns with previous findings that social enterprises not only address societal challenges but also drive sustainable financial success through increased stakeholder trust and expanded market opportunities (Onsongo, 2019). Thus, regulated MFIs should embrace social entrepreneurship principles to enhance profitability while fulfilling broader societal goals.

Table 3: ANOVA for Social Entrepreneurship and Financial Performance

Model	Sum of Squares	df	Means Square	F-ststsistic	Sign. (p-value)
Regression	8.952	3	2.984	45.376	0.000
Residual	8.264	129	0.064		
Total	17.216	132			

The general form of the multiple regression model is.;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

where:

Y = Financial Performance (dependent variable); Measured by Profitability (RoI & RoA), Market Capitalization, and Revenue Diversification

X_1= Community-driven enterprises

X_2= Gender-based enterprises

X_3= Social enterprises

β_0 = Intercept

$\beta_{1....}\beta_3$ = Coefficients showing the impact of each SE factor

ϵ = Error term

$Y = 1.187 + 0.372X_1 + 0.428X_2 + 0.315X_3 + \varepsilon$

The regression results indicate a strong and positive relationship between social entrepreneurship and the financial performance of regulated MFIs. The significant intercept (β_0 = 1.187, p = 0.001) suggests that even without social entrepreneurship factors, MFIs maintain a baseline level of financial performance. However, community-driven enterprises (β_1 = 0.372, p = 0.000), gender-based enterprises (β_2 = 0.428, p = 0.000), and social enterprises (β_3 = 0.315, p = 0.000) all show significant positive effects, with gender-based enterprises exhibiting the strongest impact. The high t-statistics (above 4.0) and low standard errors confirm the reliability of these estimates, while the Variance Inflation Factor (VIF) values (ranging from 1.18 to 1.33) indicate no multicollinearity, ensuring the independent variables contribute unique explanatory power. These findings suggest that MFIs investing in social entrepreneurship models experience enhanced financial performance through increased profitability, market expansion, and revenue diversification.

These results align with existing studies emphasizing the financial benefits of social entrepreneurship. Research by Madialo (2022) and Maina (2017) highlights how social enterprises create sustainable business models that improve both financial stability and social impact. Gender-based enterprises, in particular, have been widely recognized as financially resilient, with studies showing that women-led businesses prioritize reinvestment, risk management, and long-term financial planning Saebi et al. 2019). Similarly, community-driven enterprises foster economic inclusivity and financial empowerment, leading to increased market stability and profitability for MFIs. Given these insights, MFIs should expand their support for gender-focused enterprises, enhance investment in community-driven businesses, and integrate social enterprises into their financial strategies. By doing so, they can strengthen their competitive positioning, achieve sustainable growth, and maximize their dual financial and social impact.

Table 4: Social Entrepreneurship and Financial Performance

Predictor Variable	Coefficient (β)	Std. Error	t-Statistic	p-Value	VIF
Intercept	1.187	0.298	3.98	0.001	-
Community-driven enterprises (β_1)	0.372	0.082	4.54	0.000	1.21
Gender-based enterprises (β_2)	0.428	0.089	4.81	0.000	1.33
Social enterprises(β_3)	0.315	0.076	4.14	0.000	1.18

Discussion

The findings reveal a strong positive relationship between social entrepreneurship dimensions—community-driven enterprises, gender-based enterprises, and social enterprises—and the financial performance of regulated MFIs, with an R-value of 0.693 and an R-Square of 0.480, indicating that 48% of financial performance variance is explained by these factors. Gender-based enterprises ($\beta_2 = 0.428$, $p = 0.000$) exhibited the highest impact, emphasizing the role of gender inclusivity in enhancing financial resilience, as supported by Mcike et al. (2018), who found that women-led enterprises prioritize reinvestment and risk management. Community-driven enterprises ($\beta_1 = 0.372$, $p = 0.000$) also significantly contributed to financial performance, corroborating research by Bacq and Lumpkins (2020) that highlights economic inclusivity as a driver of business sustainability. The significant F-statistic (44.276, p = 0.000) confirms the model's robustness, aligning with Fadlikpe et al. (2022), who argue that social enterprises gain financial benefits through stakeholder trust and market expansion. These results support Elkington's (1997) Triple Bottom Line framework, demonstrating that social and financial goals complement each other rather than conflict.

CONCLUSION

The study confirms that social entrepreneurship through community-driven enterprises, gender-based enterprises, and social enterprises significantly enhances the financial performance of regulated MFIs in Kenya. The findings indicate a strong positive relationship, with social entrepreneurship factors explaining a substantial portion of financial performance variations. Among these, gender-based enterprises demonstrated the highest impact, emphasizing the financial benefits of gender inclusivity, while community-driven and social enterprises also contributed meaningfully. These results align with prior studies, reinforcing the argument that integrating social objectives with financial strategies enhances business sustainability. Further, the findings support the Triple Bottom Line framework, illustrating that social responsibility and financial growth can be mutually reinforcing rather than conflicting.

RECOMMENDATION

Based on these insights, MFIs should strengthen their commitment to social entrepreneurship by increasing investment in gender-inclusive financial products, supporting community-driven businesses, and expanding social enterprise initiatives. Specifically, they should develop targeted financial programs for women entrepreneurs, establish strategic partnerships to enhance community development projects, and integrate social impact metrics into performance evaluations. Policymakers should also introduce regulatory incentives such as tax benefits or funding opportunities to encourage socially responsible business models. Future research should explore the long-term financial sustainability of social entrepreneurship in MFIs and assess its impact across different economic contexts. By embedding social entrepreneurship into their core strategies, MFIs can achieve both financial success and meaningful social impact, driving inclusive economic growth and long-term sustainability.

REFERENCES

Carraher, S. M., Welsh, D. H., & Svilokos, A. (2016). Validation of a measure of social entrepreneurship. *European Journal of International Management*, *10*(4), 386-402.

Elkington, J. (1997). *Cannibals with Forks: The triple bottom line of 21st century business* Mankato, MN: Capstone.

Fadikpe, A. A. A., Danquah, R., Aidoo, M., Chomen, D. A., Yankey, R., & Dongmei, X. (2022). Linkages between social and financial performance: Evidence from Sub-Saharan Africa microfinance institutions. *Plos one*, *17*(3), e0261326.

Macke, J., Sarate, J. A. R., Domeneghini, J., & da Silva, K. A. (2018). Where do we go from now? Research framework for social entrepreneurship. *Journal of cleaner production*, *183*, 677-685.

Madialo, L. O. (2022). *An Evaluation of the effect of prudential regulations on the social and financial performance of Microfinance Banks in Kenya* (Doctoral dissertation, Strathmore University).

Maina, L. (2017). *The Effect of Corporate Social Entrepreneurship Practices on the Performance of Commercial Banks in Nairobi, Kenya* (Doctoral dissertation, University of Nairobi).

Onsongo, E. (2019). Institutional entrepreneurship and social innovation at the base of the pyramid: the case of M-Pesa in Kenya. *Industry and Innovation*, *26*(4), 369-390.

Praszkier, R., & Munnik, P. (2023). social entrepreneurship. In *The Palgrave Encyclopedia of the Possible* (pp. 1508-1517). Cham: Springer International Publishing.

Rahim, H. L., & Mohtar, S. (2015). Social entrepreneurship: A different perspective. *International Academic Research Journal of Business and Technology*, *1*(1), 9-15.

Rogers, E. M. (1962). *Diffusion of Innovations*. (1. Aufl.) New York: Free Press.

Saebi, T., Foss, N. J., & Linder, S. (2019). Social entrepreneurship research: Past achievements and future promises. *Journal of management*, *45*(1), 70-95.

Singh, K. (2024). Social performance, financial risk and financial performance in microfinance institutions. *International Journal of Bank Marketing*, *42*(4), 768-793.

Wangui, C. (2024). *Influence of social missions on the performance of microfinance institutions in Kenya* (Doctoral dissertation, Strathmore University).