MEDIATING ROLE OF MANAGEMENT PRACTICES IN THE RELATIONSHIP BETWEEN FINANCIAL MOTIVATION AND POVERTY OF MICRO ENTERPRISE OWNERS IN HOMA-BAY SUB-COUNTY, KENYA

BY

CAINAN A. OJWANG

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DEPARTMENT OF BUSINESS ADMINISTRATION

MASENO UNIVERSITY

ABSTRACT

The average level of poverty in Kenya is 52% while the level of poverty in Homa-Bay County stands at 77.49%. Studies reveal that three out of five micro-enterprises (MEs) in Kenya fail within the first one year of operation. This study investigated the mediating role of management practices in the relationship between financial motivation and poverty among micro enterprise owners (MEOs) in Homa-Bay Sub County, Kenya. The specific objectives were: to establish levels of poverty, financial motivation, management practices and to investigate the relationship between financial motivation and poverty among the MEOs. The study was guided by resource based view of the firm and equity theories. The study adopted survey research design due to its cost effectiveness. The population of the study comprised 1200 MEOs. Through stratified random sampling, a sample size of 240 MEOs was picked. Questionnaires were used to collect the primary data. Secondary data were obtained from the Homa Bay County Trade and Development Office in the records of Kenya National Bureau of Statistics. Prior to data collection, the survey instrument was reviewed by the experts for content and construct validity. The reliability coefficient of the questionnaires using Cronbach's Alpha was 0.6. Descriptive statistics namely means and standard deviations were used and presented in form of tables and figures. Data was analysed by confirmatory factor analysis (CFA) and structural equation modelling (SEM). The models were compared using regression weights and Model Fit indices. Findings revealed that both income and consumption had a low mean (μ= 2.3) indicating high poverty. Micro-credit, micro-saving, trade credit and loan guarantee also had a low mean (μ= 2.6) indicating low financial motivation. Risk management, customer service, human resource, training and target setting had low mean (μ= 2.2) indicating that management practices were low. The Goodness-of-Fit Indices for financial motivation, poverty and management practices (CMIN/DF=1.901, CFI=0.994, TLI=0.964 and RMSEA=0.036) indicated successful factor loading and positive relationship between financial motivation and poverty among the MEOs. The relationship between financial motivation and poverty had a path coefficient of 0.66. Management practices reduced the path coefficient from 0.66 to 0.02 indicating that management practices mediated the relationship making it more parsimonious than before. The conclusions are: poverty is high while financial motivation and management practices are low among the MEOs. Management practices mediate the relationship between financial motivation and poverty among the MEOs. The study recommends that MEOs should undergo training to improve income of their micro enterprises (MEs) to help reduce their poverty. The government should guarantee the ME loans to increase the MEOs' level of financial motivation. MEOs should improve their management practices. The findings may be used by policy makers, academicians, micro-credit practitioners, donors and MEOs to help them improve on their management practices.

CHAPTER ONE: INTRODUCTION

This chapter provides an overview of the background of the study, statement of the problem, purpose of the study, objectives of the study, research questions, and scope of the study, significance of the study and the conceptual framework of the study.

1.1 Background of the Study

Micro enterprises have been accepted worldwide as the engine of economic growth and for promoting equitable development and poverty alleviation among the micro enterprise owners (Kozan, Oksoy & Ozsoy, 2006). The MEs constitute over 90% of total enterprises in most economies of the world and are credited with generating the highest rates of employment growth. They also account for a major share of industrial production and exports hence they contribute significantly to poverty alleviation (Zimmerer & Scarborough, 2008)

The findings on the effect of the MEs on economic growth and poverty alleviation among the MEOs show mixed results. On one hand, research has revealed that the MEs are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports and hence, contribute significantly to poverty alleviation (Zimmerer & Scarborough, 2008). On the other hand, studies by Von Pischke (2006) indicate that poverty is still rampant among the MEOs in most of the developing countries. Studies by Hulme and Moore (2007) and Kuratko (2003) reveal that three out of five MEs in Kenya fail within the first one year of operation and this failure rate contributes to poverty among the MEOs.

MEs are seen as avenues for job creation and as engine for economic growth within the devolved systems of governance. Trade is one of the fourteen devolved functions in the Kenyan government. Coming at the tail end of the first term of the devolved governance in Kenya, this study serves as an evaluation tool for policies intended to spur the growth of MEs. The review of empirical literature on MEs and economic growth give much attention to the general poverty level in the developing countries. The studies indicate that the general level of poverty in Kenya is 52%. It is also reported that the poverty level in Homa-Bay County in general stands at 77.49%. This study was specific and it sought to establish only the level of poverty among the MEOs in Homa-Bay Sub County as opposed to the general level of poverty in the county. The study was carried out in Homa-Bay Sub County since it has more concentration of the MEs than any other Sub County in Homa-Bay County, Kenya.

Financial motivation is a term used to refer to the activity of provision of financial services to MEOs who are excluded from the traditional financial system on account of their lower economic status (Cook et al., 2001). The services take the form of micro-credit and micro saving. The concept lies in the joint liability of the clients. Normally, groups of individuals form an association to apply for loans. Other members of the group approve and guarantee loans to an individual within the group, and therefore the whole group is jointly responsible for the loan repayment (Ferdous, 2007). This arrangement has enabled the MEOs in the developing countries to enjoy banking services that was not possible earlier due to lack of collateral security, steady employment or verifiable credit history (Benzing, Chu & Kara, 2009).

Moreover, studies by Kuratko (2003) spell out that micro credit programmes like FINCA, ACCION and Grameen Bank in rural Bangladesh have made remarkable success in availing credit (financial motivation) to the poor MEOs in Asia and Latin America, hence changing their lives and alleviating poverty.

Empirical studies give mixed results on the effect of financial motivation on the success of the MEs and poverty alleviation. On one hand, the research has stressed that when MEOs have access to micro-credit services or financial motivation their role in decision-making and business operations are enhanced (Kabeer, 2004). On the other hand, Karlan and Zinman (2010) point out that micro-credit or financial motivation should not be treated as a remedy, but as a drug that can be prescribed to micro enterprises. The studies reveal that if used improperly, micro-credit or financial motivation among MEOs, can harm business operations and have unintended negative consequences (Cameron, 2005). The studies by Ferdous (2007) indicate that even when the poor MEOs enjoy access to financial services, their empowerment as a result of those services is not guaranteed.

The empirical studies have recognized the efforts made by the development agencies and donors in channelling their funds to micro-credit institutions for onward lending to the poor MEOs. The main focus of the studies has been to establish how the MEOs could access the micro-credit facilities. Despite the efforts of the development agencies and donors, poverty is still rampant among the MEOs. The studies give the general view of how the funds can be channelled to the MEOs without finding out whether this move can contribute positively or negatively to the financial well being

of the MEOs. The studies only give the general view of the access to financial services by the MEOs without considering the level of financial motivation involved among them. This study therefore sought to assess the level of financial motivation among the MEOs in Homa-Bay Sub County, Kenya.

Studies carried out in Slovakia by Zuzana and Matej (2007) on the importance of management practices in the general performance of MEs indicate that, within any given year, close to one million MEs were started in Slovakia and 40% of them failed within the first one year while more than 80% would be out of business within 5 years. Studies by Shabir and Gregorio (2006) reveal that the failures of the MEs come due to the management practices of the MEOs. Moreover, Coy, Shipley, Omer and Rao (2007) argue that the impact of MEs can only be felt in the world's economies if they can be managed effectively. Countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices (Cook et al., 2001).

Starting and operating a micro enterprise includes a possibility of success as well as failure and because of their small size, a simple management mistake is likely to lead to the collapse of a micro enterprise (Longenecker, 2006). Tushabomwe (2006) conducted a study on managerial deficiencies of MEs in Uganda. Findings of the study revealed that, even basic management functions like planning; organizing, directing, controlling and coordinating of resources were not properly practiced in most of the MEs in Uganda. The MEOs did not have clear plans for future development, production process, marketing and financial practices. The study also

found that most of the MEOs acted as managers handling all the responsibilities by themselves without delegating some of their responsibilities and authorities to other people.

Empirical studies have established that most MEs fail within the first one year of their operation. The rate of failure of the MEs is attributed to lack of management skills and knowledge on the part of the MEOs. It could be possible that even basic management functions like planning, organizing, directing, controlling and coordinating of resources are not properly practiced by the MEOs. Some MEs may not even have clear plans for future development, production process, marketing and financial practices. Studies indicate that a simple management mistake is likely to lead to the collapse of a micro enterprise. Studies have also revealed that many MEOs do not treat their MEs as distinct legal entities. They see no difference between the MEOs and MEs. They draw from the accounts of their MEs without substitution. This common practice affects the MEs and eventually leads to their failure. The impact of MEs can be felt in the world's economies only if they can be managed effectively. Countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices and this alleviated their poverty. This study therefore sought to establish the management practices of the MEOs in Homa-Bay Sub County, Kenya.

Empirical literature show mixed results on the relationship between financial motivation and poverty of the MEOs. On one hand, the studies by Benzing, Chu and Kara (2009) reveal that when MEOs have access to micro-credit services or financial motivation, their business operations are always enhanced and this alleviates their

poverty. On the other hand, studies by Karlan and Zinman (2010) point out that micro-credit or financial motivation should not be treated as a remedy, but as a drug that can be prescribed to micro enterprises. The studies reveal that, if used improperly, micro-credit or financial motivation among the MEOs can harm business operations and have unintended negative consequences resulting to poverty among the MEOs. Cameron (2005) and Harper (2008) further emphasize that even when the poor MEOs enjoy access to financial services, their empowerment as a result of those services is not guaranteed.

Available studies reveal that when MEOs access micro-credit services or financial motivation, their business operations are enhanced and this alleviates poverty. Other studies reveal that when the poor MEOs enjoy access to financial services, their empowerment as a result of those services is not guaranteed. Successful businesses require people with some entrepreneurial ability and not financial motivation alone. If used improperly, micro-credit or financial motivation among the MEOs may harm some business operations and have unintended negative consequences thereby resulting in poverty among the MEOs. Since empirical studies have concentrated much on establishing access to financial motivation by the MEOs and poverty is still rampant among the MEOs, this study therefore sought to establish the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County, Kenya.

Studies on the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs give mixed results. On the one

hand, the studies by Zuzana and Matej (2007) reveal that the rate of failure of the micro enterprises in the developing countries is always high due to lack of management skills and knowledge on the side of the MEOs and this leads to poverty among them. On the other hand studies by Longenecker (2006) indicate that the majority of the micro enterprise owners dislike the management practices where weekly meetings are held because such meetings are considered to be time consuming. Group guarantee is also unpopular, as the MEOs find it difficult to take into account the behaviour of others who cannot promptly repay their loans (Ghatak, 2010).

Armendariz and Morduch (2007) argue that the impact of MEs can be felt in the world's economies only if they can be managed effectively. Other studies argue that starting and operating micro enterprises include possibilities of success as well as failure and because of their small size; a simple mistake in management is likely to cause the collapse of a micro enterprise (Longenecker, 2006). The studies by Benzing, Chu and Kara (2009) support the management practices of the MEOs that use an integrated approach where, in the group meetings, issues of health, hygiene, sanitation, reproductive health, agriculture, literacy and religion are disseminated. They argue that this management practice approach is geared towards a holistic development of the participants. In North East Brazil for example, the UNDP has been supporting a methodology called participatory management for entrepreneurship development. The projects train MEOs in business management and technology (Zuzana & Matej, 2007).

The impact of micro enterprises can be felt in the world's economies only if they can be managed effectively. A simple mistake in management is likely to cause the collapse of a micro enterprise. Countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices and this alleviated their poverty. However, the management practices where group guarantee by the MEOs is unpopular as the MEOs find it difficult to take into account the behaviour of borrowers who cannot promptly repay their loans. Existing studies have revealed the significance of having participatory management for entrepreneurship development focusing on an approach geared towards a holistic development of the MEs. The studies have focused their attention on the access to micro-credit (financial motivation) of the MEOs and poverty alleviation among the MEOs. This study sought to investigate the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County, Kenya.

1.2 Statement of the Problem

Studies reveal that the general level of poverty in Kenya is 52%. It is also reported that poverty level in Homa-Bay County in general stands at 77.49%.This poverty level is high and alarming. Studies also reveal that three out of five MEs in Kenya fail within the first one year of operation and this failure rate contributes to poverty among the MEOs in the country. Despite many studies on poverty, none has covered the level of poverty, level of financial motivation, management practices of the MEOs and the relationship between financial motivation and poverty of the MEOs in Homa-Bay Sub-County, which therefore has remained unknown. The general objective of this study was to investigate the mediating role of management practices in the

relationship between financial motivation and poverty among MEOs in Homa-Bay Sub County, Kenya.

1.3 Purpose of the Study

The purpose of the study was to investigate the mediating role of management practices in the relationship between financial motivation and Poverty among the MEOs in Homa-Bay Sub County, Kenya.

1.4 Objectives of the Study

The specific objectives of the study were to:

(i) Establish the level of poverty among the MEOs in Homa-Bay Sub County.

(ii) Assess the level of financial motivation among the MEOs in Homa-Bay Sub County.

(iii) Establish the management practices of the MEOs in Homa-Bay Sub County.

(iv) Determine the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County and

(v) Investigate the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County.

1.5 Research Questions

The research sought to answer the following questions:

(i) What is the level of poverty among the MEOs in Homa-Bay Sub County?

(ii) What is the level of financial motivation among the MEOs in Homa-Bay Sub County?

(iii) What are the management practices of the MEOs in Homa-Bay Sub County?

(iv) What is the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County?

(v) What is the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County?

1.6 Scope of the Study

This study was conducted in Homa-Bay Sub-County in Kenya. Homa-Bay Sub County was chosen since it has more concentration of the MEs than any other Sub County in Homa-Bay County. Data was collected from micro enterprises in the Sub-County for the study period 2010-2015. The respondents consisted of MEOs drawn from the four categories of business enterprises such as wholesale enterprises, general retail enterprises, service enterprises and manufacturing enterprises. The respondents were interviewed to investigate the mediating role of management practices in the relationship between financial motivation and poverty in their business enterprises.

1.7 Significance of the Study

The results of this study will be of importance to policy makers, academicians, micro-credit practitioners, donors and MEOs in Homa-Bay Sub-County. Findings of this study will be used to advise the MEOs to undergo training in order to improve the management practices of their micro enterprises. This would reduce failure of the MEs and alleviate poverty among the MEOs. This study contributes new knowledge to the existing literature. It will stimulate further research in the areas of entrepreneurship and small business management.

1.8 Conceptual framework

Figures 1and 2 are structural models that constitute the conceptual framework used in the study. The variables in the conceptual framework are explained as follows: The directly observable variables (measured variables) are enclosed in rectangular boxes. The unobservable variables (latent constructs) are enclosed in circles. Exogenous observable variables are represented by x's. Endogenous observable variables are represented by y's. The single-headed arrows represent structural parameters. The endogenous variables are distinguished from the exogenous variables by having directional arrows pointing towards them, while exogenous variables appear only at the tails of directed arrows. The latent exogenous variables in the models are represented by ξ's (Greek xi). The latent endogenous variables are symbolized by η's (Greek eta). The γ's (Greek gamma) are structural parameters (regression coefficients) relating the endogenous variables to the exogenous variables and to one another. The λ's (Greek lambda) represent regression coefficients (also called factor loadings) relating observable indicators to latent variables. The ε's (Greek epsilon) represent

measurement errors (structural disturbances) in the endogenous indicators. The measurement errors (structural disturbances) associated with exogenous indicators in the models are represented by δ's (Greek delta). Model 1 in Figure 1 is a structural model showing the relationship between financial motivation and poverty. Model 2 in Figure 2 is a structural model showing management practices as mediator in the relationship between financial motivation and poverty. The two models are compared using Model Fit indices such as Relative chi-Square (CMIN/DF), Comparative Fit Index (CFI), Tucker-Lewis Index (TLI) and Root Mean Square Error of Approximation (RMSEA). The hypothesis is that Model 2 would provide a better Fit, which is more parsimonious than Model 1 since it has management practices as mediating variable, which Model 1 lacks. Data was analyzed using Confirmatory Factor Analysis (CFA) and Structural Equation Modelling (SEM) to determine the factor loadings of the measured variables onto their respective latent constructs and to determine the structural relationships among the three latent constructs respectively as shown in Figures 1.1 and 1.2.

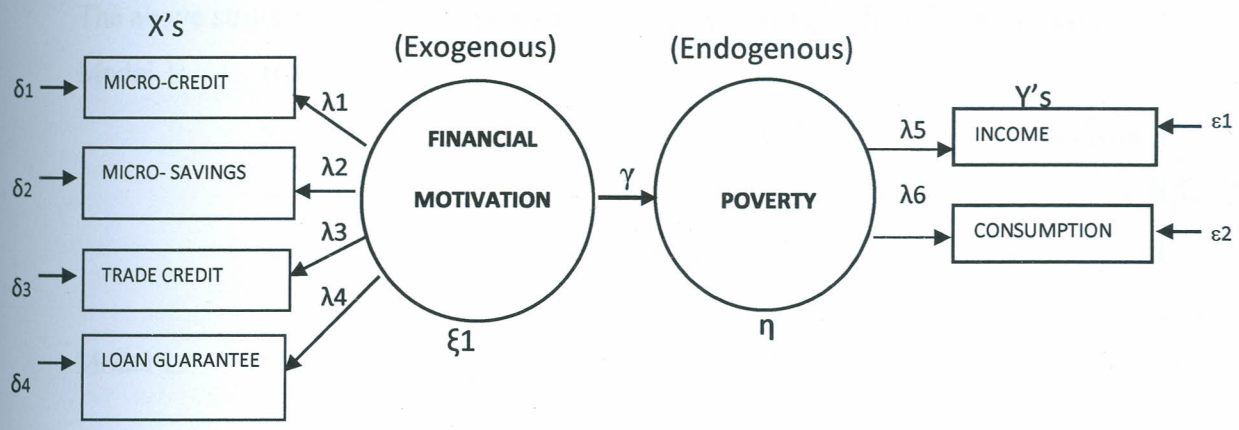

Figure 1.1: Structural model showing the relationship between financial motivation and poverty
Source: Adapted from Hu and Bentler, 1999.

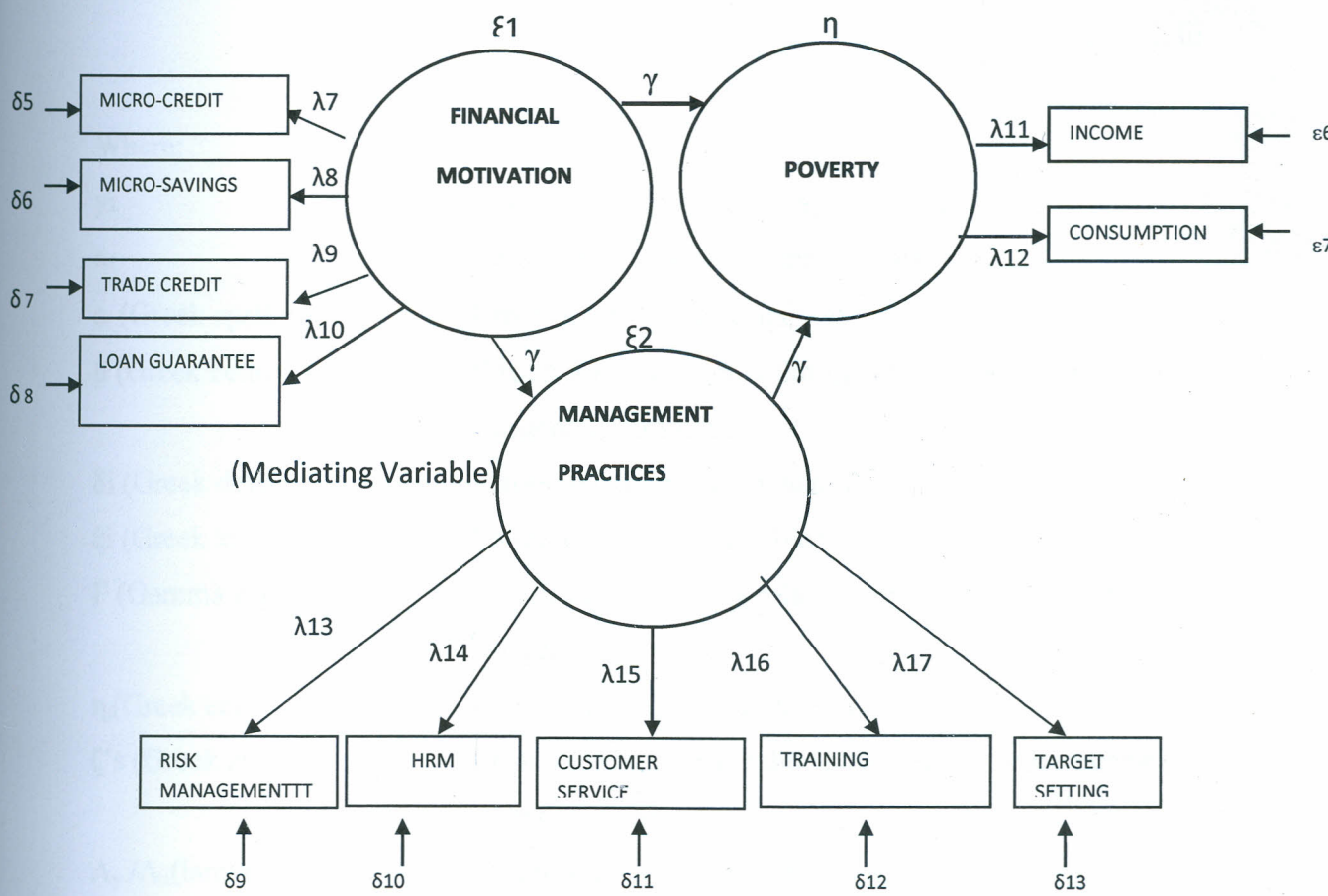

Figure 1.2: Conceptual framework showing management practices as mediator in the relationship between financial motivation and poverty
Source: Adapted from Hu and Bentler, 1999.

The above structural models may also be expressed through the following equations:

Model 1: (CFA)

$y_i = \Lambda_y \eta_i + \varepsilon_i$ for $_i = 1,2$ i

$x_i = \Lambda_{x1} \xi_{ti} + \delta_{ti}$ for $_i = 1,2,3,4$..... ii

$x_{i2} = \Lambda_{x2} \xi_{i2} + \delta_{i2}$ for $_i = 1, 2,3,4,5$ iii

Model 1: (SEM)

$\eta_i = \Gamma \xi_i + \zeta$

Model 2: (SEM)

$\eta_i = \Gamma_1 \xi_1 + \zeta_1$ i

$\eta_i = \Gamma_2 \xi_2 + \zeta_2$ ii

$\xi_2 = \Gamma_3 \xi_1 + \zeta_3$ iii

Where:

yi	=	Indicators of latent endogenous variables
x_i	=	Indicators of latent exogenous variables
ε_i (Greek epsilon)	=	Errors in endogenous indicators
β (Greek beta)	=	Structural parameters relating latent endogenous to exogenous variables
δi (Greek delta)	=	Errors in exogenous indicators
ξi (Greek xi)	=	Latent exogenous variables
Γ (Gamma capital)	=	Structural parameters relating latent endogenous to exogenous variables
η_i(Greek eta)	=	Latent endogenous variables (for observation i)
ζ's (Greek zeta)	=	Error variables, also called structural disturbances or errors in equations.
Λ_y /Λ_x(lambda capital)	=	Factor loadings relating indicators to latent variables. They represent the column matrices of the small lambdas.

CHAPTER TWO: LITERATURE REVIEW

INTRODUCTION

This chapter provides an overview of the theoretical studies, resource based view of the firm theory, equity theory, empirical studies, level of poverty among the MEOs, level of financial motivation among the MEOs, management practices in micro enterprises, relationship between financial motivation and poverty among the MEOs and management practices as mediator in the relationship between financial motivation and poverty among the MEOs. It also provides a description of the fit indices used in the study.

2.1 Theoretical Studies

This review explores the theoretical foundations of the study. It highlights the theories that guided the study and defines the concepts and variables. According to Kerlinger (1973), a theory is a set of interrelated constructs, concepts, definitions, and propositions that present a systematic view of phenomena thereby specifying relations among variables, the aim is to explain and predict the phenomena. The concepts of financial motivation, poverty and management practices are anchored on the resource based view of the firm and equity theories.

2.1.1 Resource Based View of the Firm Theory

The theory of the resource based view (RBV) of the firm was advanced by Prahalad and Hamel (1990). It postulates that resources internal to the firm are sources of competitive advantage. Such resources should be valuable. Valuable resources are those that are rare, unique and difficult to substitute. The resources believed to be

valuable are those that are capable of facilitating conception or implementation of strategies that improve performance of business enterprises (Barney, 1991). The RBV emphasizes the internal organizational capabilities in formulating strategies to achieve competitive advantage. Day (1984) suggests that intangible assets such as knowledge management, organizational learning and market orientation allow an organization to develop those abilities that enhance competitive advantage and lead to superior business performance.

Since the RBV emphasizes the internal organizational capabilities in formulating strategies to achieve competitive advantage, it was paramount for this study to investigate the poverty levels, financial motivation and management practices of the MEs. It was also important to establish the relationship between financial motivation and poverty and the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County, Kenya.

The central proposition of the RBV is that firms are heterogeneous in terms of the strategic resources that they own and control. It is generally suggested that this heterogeneity is an outcome of business resources, resource immobility and firms' inability to alter their accumulated stock of resources over time (Carroll, 1993, Barney, 1991). In this regard, each firm can be conceptualized as having a unique bundle of tangible and intangible resources and capabilities (Wernerfelt, 1984). Resources which are the basic unit of analysis for RBV can be defined as those assets that are tied to the firm (Mahoney, 1995). They include financial, physical, human,

commercial, technological, and organizational assets utilized by firms to develop, manufacture, and deliver products and services to its customers (Barney, 1991). We can classify resources as tangible (financial or physical) or intangible (i.e., employee's knowledge, experiences and skills, firm's reputation, brand name and organizational procedures). Capabilities, in contrast, refer to a firm's capacity to deploy and coordinate different resources, usually in combination, using organizational processes, to affect a desired end (Prahalad & Hamel, 1990). The theory of the resource based view (RBV) of the firm is applicable and contributes to this study since financial motivation and management practices, which are being investigated, are considered to be both tangible and intangible resources respectively which can be applied in micro enterprises to increase their productivity.

2.1.2 Equity Theory

Equity theory introduced by Adams (1963) is based on the idea that individuals in any business organization are motivated by fairness. Therefore if they identify inequities in the input or output ratios of themselves and their referent group, they will seek to adjust their input to reach their perceived equity. The mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County is perceived to create some degree of fairness in the overall productivity of the micro-enterprises in the Sub-County. A study by Kabeer (2004) revealed that when entrepreneurs have access to micro-credit services or financial motivation such as loans, savings, micro-finance training and insurance, their role in decision-making and business operations are enhanced. Adams (1963) argued that higher individual's perception of equity results in more motivation and

that, if any business enterprise perceives an unfair environment, it will be de-motivated to carry out any business activity.

The studies by Ferdous (2007) have established the efforts made by the development agencies and donors in channeling their funds to micro-credit institutions in Kenya for onward lending at subsidized rates to motivate the poor MEOs financially. Coy, Shipley, Omer and Rao, (2007) also argue that the impact of MEs can be felt in the world's economies only if they can be managed effectively. It is evident that countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices (Cook et al., 2001) The contribution of equity theory to this study therefore calls for fairness in the application of financial motivation and management practices among the MEOs in Homa-Bay Sub-County for higher productivity of the MEs and for eventual reduction of Poverty among the MEOs in the Sub-County.

2.2 Empirical Studies

2.2.1 Level of Poverty among the MEOs

Poverty exists in different levels and various forms across the world. At the current threshold of $1.25 a day, the World Bank estimates that around 25% of the populations in developing regions live below the poverty line. This figure translates to 1.3 billion people living in poverty, or about 20% of the global population (The World Bank Group 2010). As the World Bank broadly defines it, poverty is a "pronounced deprivation in well-being". The poor are deprived of basic necessities in life, such as food, shelter, clothing, and clean drinking water. They also lack access to health care,

quality education, and employment opportunities that are important for improving their human capital and facilitating social mobility. Due to the profound impact that poverty has on the well being of the poor, efforts have been made by various multilateral organizations such as the United Nations, to address these problems and combat poverty (Khandker & Khan, 2008).

Through the years, different poverty reduction strategies and instruments have been developed in order to improve the standard of living of the poor and help the people break the vicious cycle of poverty. One such poverty alleviation tool is microfinance (financial motivation), which has gained worldwide recognition since the 1990s and has been proven to have positive effects on poverty levels in developing countries (Hossain et al., 2008). Alleviating poverty remains one of the key challenges in many developing economies. In Kenya, a recent nation-wide survey, the 2006 Kenya Integrated Household and Budget Survey (KIHBS), found that 46% of the total Kenyan population is absolutely poor, i.e. they live below the poverty line, whereas 49% of the rural population is absolutely poor.

In many cases, poverty has been defined and measured in economic welfare terms such as income or consumption. An individual is poor if he or she falls below a predetermined level of economic welfare deemed to constitute a reasonable minimum in some absolute level or by the standards of a specific society (Christen & Robert, 2001). The challenge of addressing poverty has remained almost in all of Kenya's development strategies since independence (GoK, 2007). Three quarters of the Kenyan poor are found in the rural areas while the majority of the urban poor live in

slum and peri-urban settlements (GoK, 2004). According to the Welfare Monitoring Survey of 1994, the incidence of poverty in Kenya was 47% in the rural areas and 29% in urban areas. The absolute poverty line was Ksh.980 per month for the rural areas and Ksh.1490 per month for urban areas.

The findings on the effect of the MEs on economic growth and poverty alleviation among the MEOs show mixed results. On one hand, research has revealed that the MEs are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports and hence, contribute significantly to poverty alleviation (Zimmerer & Scarborough, 2008). On the other hand, studies by Von Pischke (2006) indicate that poverty is still rampant among the MEOs in most of the developing countries. Studies by Hulme and Moore (2007) and Kuratko (2003) reveal that three out of five MEs in Kenya fail within the first one year of operation and this failure rate contributes to poverty among the MEOs.

MEs are seen as avenues for job creation and as engine for economic growth within the devolved systems of governance. Trade is one of the fourteen devolved functions in the Kenyan government. Coming at the tail end of the first term of the devolved governance in Kenya, this study serves as an evaluation tool for policies intended to spur the growth of MEs. The review of empirical literature on MEs and economic growth give much attention to the general poverty level in the developing countries. The studies indicate that the general level of poverty in Kenya is 52%. It is also reported that the poverty level in Homa-Bay County in general stands at 77.49%. This study was specific and it sought only to establish the level of poverty among the

MEOs in Homa-Bay Sub County as opposed to the general level of poverty in the county.

2.2.2 Level of Financial Motivation among the MEOs

Many entrepreneurial researchers agree that scarcity of financial resources is one of the major problems faced by MEOs in the developing countries (Lussier and Pfeiffer, 2001). The capacity for micro-enterprises to fulfil their potential in an economy depends on the availability of financial resources (Whincop, 2001). The success of a small business can be defined as its ability to survive and financial motivation plays a major role (Lussier & Pfeiffer, 2001). Kuratko (2003) argues in his studies carried out in Australia, Canada and Mexico that the problem of lack of access to financial resources (financial motivation) is more severe in the developing countries. A study by Kabeer (2004) found that, when entrepreneurs have access to financial services such as loans, savings, micro-finance training and insurance, their role in decision-making is always enhanced.

Financial motivation is a term used to refer to the activity of provision of financial services to MEOs who are excluded from the traditional financial system on account of their lower economic status (Cook et al., 2001). The services take the form of micro-credit and micro saving. The concept lies in the joint liability of the clients. Normally, groups of individuals form an association to apply for loans. Other members of the group approve and guarantee loans to an individual within the group, and therefore the whole group is jointly responsible for the loan repayment (Ferdous, 2007). This arrangement has enabled the MEOs in the developing countries to enjoy

banking services that was not possible earlier due to lack of collateral security, steady employment or verifiable credit history (Benzing, Chu & Kara, 2009). Moreover, studies by Kuratko (2003) spell out that micro credit programmes like FINCA, ACCION and Grameen Bank in rural Bangladesh have made remarkable success in availing micro-credit (financial motivation) to the poor MEOs in Asia and Latin America, hence changing their lives and alleviating poverty.

The empirical studies give mixed results on the effect of financial motivation on the success of the MEs and poverty alleviation of the MEOs. On one hand, the research has stressed that when MEOs have access to micro-credit services or financial motivation, their role in decision-making and business operations are enhanced (Kabeer, 2004). On the other hand, Karlan and Zinman (2010) point out that micro-credit or financial motivation should not be treated as a remedy, but as a drug that can be prescribed to micro enterprises. The studies reveal that if used improperly, micro-credit or financial motivation among MEOs, can harm business operations and have unintended negative consequences (Cameron, 2005). The studies by Ferdous (2007) indicate that even when the poor micro enterprise owners have access to financial services, their empowerment as a result of those services is not guaranteed.

The empirical studies on financial motivation of the MEOs have recognized the significance of access to micro-credit (financial motivation) and efforts have been made by the development agencies and donors in channelling their funds to micro-credit institutions for onward lending to the poor MEOs. The main focus of the studies has been to establish how the MEOs could access the micro-credit facilities.

Despite this effort, poverty is still rampant among the MEOs. The studies give the general view of how the funds can be channelled to the MEOs without finding out whether this move can contribute positively or negatively to the financial well being of the MEOs. The studies only give the general view of the access to financial services as opposed to considering the level of financial motivation involved among the MEOs. This study therefore sought to assess the level of financial motivation among the MEOs in Homa-Bay Sub County, Kenya.

2.2.3 Management Practices of the MEOs

Studies on micro-enterprises indicate that management practices of entrepreneurs can influence relevant organizational outcomes such as productivity and profitability of the enterprises (Okech, 2000). Chu, Benzing and Kara (2009) consider management abilities of the entrepreneurs and the environmental factors as key to the success of MEs. Abraham (2011) assessed the financial management skills of MEOs in South Africa. The study revealed that financial management practices of most of the MEOs were very weak. It was observed that most of the MEOs did not calculate total expenses, total revenue and profit. They did not also keep their account records systematically. They did not provide welfare facilities and retirement benefits to motivate their employees.

Coy, Shipley, Omer and Rao (2007) investigated the factors that were crucial for the success of small business enterprises in Bangladesh. Their findings revealed that the entrepreneurs' previous experience, access to capital, management skills, hard work and customer service orientation were important drivers of the performance of small

businesses. In their study on psychological success factors of small-scale businesses in Namibia, Frese, Brantjes and Hoorn (2002), came up with their findings that psychological factors like attitude towards risk, innovativeness, and planning skills had a critical impact on performance of micro enterprises. Hussain and Windsperger (2010) argued that the experience and knowledge of the local market could also play key role in the success of MEs.

Cetindamar, Phaal and Probert (2009) investigated the Turkish market and their findings revealed that the entrepreneurs in Turkey faced serious problems due to the bureaucratic attitude of public authorities and unstable government policies. Chu,Benzing and Kara (2009) shared the same opinion. In their comparative analysis of Ghanaian and Kenyan entrepreneurial motivations, they reported that the MEOs faced long waiting times for approval of licenses and registrations of their business enterprises. Generally, these bureaucratic hurdles and delays result in increased cost of doing business activities, which is a disincentive to small business enterprises.

Gray (1997) and Kiggundu (2002) argued that 90.9% of MEs were serving the customers who lived and worked in the same town or city. Their argument was that, with globalization, businesses need to look beyond their local catchment areas. Globalization is also a reality and a challenge that MEs have to contend with since it presents both challenges and opportunities. In the review of government policies for the promotion of micro-enterprises in Kenya, Ronge (2002) argues that, as much as MEs remain local, they need to think global and target markets beyond their regional boundaries.

Studies carried out in Slovakia by Zuzana and Matej (2007) on the importance of management practices in the general performance of MEs indicate that, within any given year, close to one million MEs were started in Slovakia and 40% of them failed within the first year while more than 80% would be out of business within 5 years. Studies by Shabir and Gregorio (1996) reveal that the failures of the MEs come due to the management practices of the MEOs. Moreover, Coy, Shipley, Omer and Rao (2007) argue that the impact of MEs can only be felt in the world's economies if they can be managed effectively. Countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices (Cook et al., 2001).

Starting and operating a micro enterprise includes a possibility of success as well as failure and because of their small size, a simple management mistake is likely to lead to the collapse of a micro enterprise (Longenecker, 2006). Tushabomwe (2006) conducted a study on managerial deficiencies of MEs in Uganda. Findings of the study revealed that, even basic management functions like planning; organizing, directing, controlling and coordinating of resources were not properly practiced in most of the MEs in Uganda. The MEOs did not have clear plans for future development, production process, marketing and financial practices. The study also found that most of the MEOs acted as managers handling all the responsibilities by themselves without delegating some of their responsibilities and authorities to other people.

Empirical studies have established that most MEs fail within the first one year of their operation and that the rates of failure of the MEs come due to lack of management skills and knowledge on the part of the MEOs. Some MEs do not even have clear plans for future development, production process, marketing and financial practices. Studies indicate that a simple management mistake is likely to lead to the collapse of a micro enterprise. Studies have revealed that many MEOs do not treat their MEs as distinct legal entities. They see no difference between the MEOs and MEs. They withdraw from the accounts of their MEs without substitution. This common practice affects the MEs and eventually leads to their failure which eventually leads to poverty among the MEOs. The impact of MEs can be felt in the world's economies only if they can be managed effectively. This study therefore sought to establish the management practices of the MEOs in Homa-Bay Sub County, Kenya.

2.2.4 Relationship between Financial Motivation and Poverty among the MEOs

Microfinance (financial motivation) among the MEOs is considered as very important topic in global poverty reduction debates. Many studies suggest the possibility of positive impacts of financial motivation on poverty reduction. The provisions of financial services to micro enterprises (MEs) provide an enormous potential to support the economic activities of the poor entrepreneurs thereby contributing to poverty alleviation among the MEOs (Kring, 2004). Widespread experiences and research have shown the importance of savings and credit facilities for the MEOs. This puts emphasis on the sound development of microfinance as vital ingredient for investment, employment and economic growth. The conscious actions of national

governments, NGOs and donors view microfinance (financial motivation) as an effective tool for MEs and poverty alleviation.

Meekers, Schulers and Hashemi (2002), carried out a study in Bangladesh on the effect of micro-credit on small business enterprises. Their findings revealed that raising proportion of credit triggers more rapid increase on the income of small business owners and enables them to start and manage their business enterprises and alleviate poverty in the long run. Rogers (2000) came up with an argument for emphasizing access to credit in poverty alleviation strategies by stating that, having little or no savings or assets of their own, the poor are cut off from credit sources at market rates and are forced to borrow at higher interest rates from landlords or informal sector and local money lenders.

Murdoch and Haley (2002) point out that, while a regular financial institution may charge 10-15% interest on a loan depending on credit history of the borrower, micro-credit institutions charge interest rates of 40-60%. Such high rates discourage the MEOs from borrowing, and take away a significant portion of their profits if they are able to successfully start a business. The findings of a study by Coleman (2005) on financial motivation of MEOs reveal that issues of low income and lack of credit are related. For example, hawkers usually have to borrow to buy the items that they hawk and repay the loans in the evening, which cuts into their profits and further reduces their incomes. Any emergency ranging from sickness to a social obligation such as marriage or funeral or even a bad day can push them further into debt that eventually erodes their income.

The arguments against micro credit (financial motivation) in the Third World may be summarized as: it does not reach the poorest members of a population, it is not financially sustainable for institutions, it is potentially harmful to women (domestic abuse may result from husbands jealous of their wives' new financial power), it can create a large debt for the poor and it is not universal in application (Lard & Barres, 2007). In a study of thirteen micro-credit institutions in seven developing countries in Asia, Africa and Latin America Ghatak (2010) found that micro-credit programs which targeted higher income households had a greater impact on household income. Those below the poverty line were not assisted much and the poorest were somewhat negatively affected.

Empirical studies therefore show mixed results on the relationship between financial motivation and poverty among the MEOs. On one hand, studies by Benzing, Chu and Kara (2009) reveal that when entrepreneurs have access to micro-credit services or financial motivation, their business operations are enhanced and this alleviates poverty. On the other hand, studies by Karlan and Zinman (2010) point out that micro-credit or financial motivation should not be treated as a remedy, but as a drug that can be prescribed to micro enterprises. Cameron (2005) and Harper (2008) further emphasize that even when the poor MEOs have access to financial services, their empowerment as a result of those services is not guaranteed.

The above studies reveal that when MEOs have access to micro-credit services or financial motivation, their role in decision-making and business operations are improved. Their business operations are also enhanced and this helps them in their quest to alleviate poverty. However, other studies reveal that successful businesses

require people with some entrepreneurial ability and not financial motivation alone. If used improperly, micro-credit or financial motivation among the MEOs may harm some business operations and have unintended negative consequences thereby resulting in poverty among the MEOs. Despite the efforts of the development agencies and donors in channelling their funds to micro-credit institutions for onward lending to the MEOs, poverty is still rampant among the MEOs. This study therefore sought to establish the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County, Kenya.

2.2.5 Management practices as mediator in the relationship between financial motivation and poverty

Mediator variables specify how or why a particular effect or relationship occurs. Baron and Kenny (1986) suggest that mediators explain how external events take on internal psychological significance. Statistically, after some basic conditions are met, mediation is indicated when the relationship between the predictor and criterion is non-significant after controlling for the effect of the mediator. Figure 2.3 explains the concept of the mediator variables.

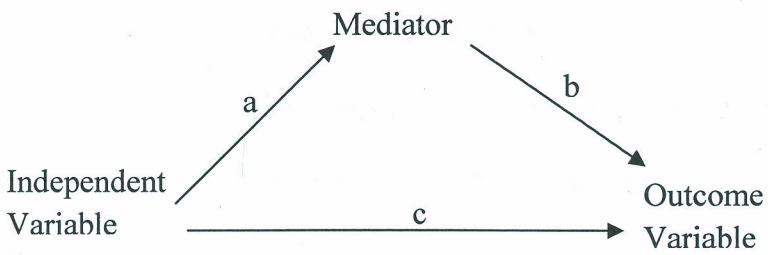

Figure 2.1: Concept of the Mediator Variable
Source: Adapted from Baron and Kenny (1986)

A variable functions as a mediator when it meets the following conditions: (i) variations in levels of the independent variable significantly account for variations in

the presumed mediator ie. Path a. (ii) Variations in the mediator significantly account for variations in the dependent variable ie. path b (iii) when paths a and b are controlled, a previously significant relation between the independent and dependent variables is no longer significant, with the strongest demonstration of occurring when path c is zero. When path c is reduced to zero, we have strong evidence for a single, dominant mediator. A more realistic goal is to seek mediators that significantly decrease path c rather than eliminate the relation between the independent and dependent variables altogether. From a theoretical perspective, a significant reduction demonstrates that a given mediator is indeed strong.

Studies on the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs give mixed results. On the one hand, the studies by Zuzana and Matej (2007) reveal that the rate of failure of the micro enterprises in the developing countries is always high due to lack of management skills and knowledge on the side of the MEOs and this leads to poverty among them. On the other hand studies by Longenecker (2006) indicate that the majority of the micro enterprise owners dislike the management practices where weekly meetings are held because such meetings are considered to be time consuming. Group guarantee is also unpopular, as the micro enterprise owners find it difficult to take into account the behaviour of others who cannot promptly repay their loans (Ghatak 2010).

Armendariz and Morduch (2007) argue that the impact of MEs can be felt in the world's economies only if they can be managed effectively. Longenecker (2000) says that starting and operating micro enterprises include possibilities of success as well as

failure and because of their small size; a simple mistake in management is likely to cause the collapse of a micro enterprise. The studies by Benzing, Chu and Kara (2009) support the management practices of the MEOs that use an integrated approach where, in the group meetings, issues of health, hygiene, sanitation, reproductive health, agriculture, literacy and religion are disseminated. They argue that this management practice approach is geared towards a holistic development of the participants. In North East Brazil for example, the UNDP has been supporting a methodology called participatory management for entrepreneurship development. The projects train MEOs in business management and technology (Zuzana & Matej 2007).

The impact of micro enterprises can be felt in the world's economies only if they can be managed effectively. Countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices and this alleviated their poverty. However, the management practices involving group guarantee by the MEOs is unpopular as the MEOs find it difficult to take into account the behaviour of borrowers who cannot promptly repay their loans. Existing studies have revealed the significance of having participatory management for entrepreneurship development focusing on an approach geared towards a holistic development of the MEs. The studies have focused their attention on the access to micro-credit (financial motivation) of the MEOs and poverty alleviation among the MEOs. This study sought to investigate the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County, Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

This chapter provides the methodology adopted in the study. It also highlights the research design, study area, target population, sample size and sampling procedure, data type and collection procedure, data collection instruments, validity and reliability tests for data collection instruments, as well as methods of data analysis and presentation.

3.1 Research Design

This study adopted a survey research design. It was specifically intended to investigate the mediating role of management practices in the relationship between financial motivation and poverty among MEOs in Homa-Bay Sub County, Kenya. This design is appropriate for the study since it facilitates the collection of information from a sample of a population in order to describe their characteristics as they relate to the fact (Fraenkel & Wallen, 2006). Moreover, Nachmias and Nachmias, (2009) suggest that surveys are cost-effective and exploratory enabling the researcher to make inferences.

3.2 Study Area

This study was carried out in Homa-Bay Sub County, Kenya. Homa-Bay Sub County borders Rachuonyo Sub County to the North and Rongo Sub County to the South. It also borders Suba Sub County to the West and Kisii South Sub County to the East. The Sub County has a small shoreline of approximately 16.2 km^2 to the North where it borders Lake Victoria. The Sub County covers an area of 1,169.9 km^2 including 30.0 km^2 of water surface. The Sub County is divided into six administrative

divisions, namely, Rangwe, Asego, Riana, Ndhiwa, Kobama and Nyarongi. The Sub County has two parliamentary constituencies namely Rangwe and Ndhiwa constituencies. Rangwe and Asego Divisions make up Rangwe constituency while Ndhiwa, Riana, Kobama and Nyarongi Divisions form Ndhiwa constituency. The Sub County has 27 trading centres and 1,200 registered Micro Enterprises.

3.3 Target Population

The target population consisted of 1,200 MEOs in Homa-Bay Sub County between 2010 and 2015 as per the records of the Homa-Bay County Strategic Plan 2010-2015 sourced from the Kenya National Bureau of Statistics GoK (2015). The business enterprises were categorised as wholesale, general retail, service and manufacturing. The MEOs were expected to be best placed to articulate issues in the study as they had the conceptual view of the enterprises (Elbana & Child, 2007), a view supported by Hambrick and Mason (1984) who argues that business strategy is shaped by perceptions and opinions of the business owners.

3.4 Sample Size

Stratified random sampling was done to select a sample size of 240 MEOs in the Sub County. Hair, et al., (2010) recommends a sample size of at least one hundred observations to achieve adequate power in structural equation modelling. Two hundred and forty (240) valid observations in this study, therefore proves sufficient for obtaining adequate power.

3.5 Sampling Procedure

The target population was stratified into four different business categories and simple random procedure was employed using Yamane (1967) formula to get a sample size of 240 observations as follows:

Business Categories	
Whole sale	110
General retail	936
Service	98
Manufacturing	56
Total	**1200**

$$n = \frac{N}{1 + N(e)^2}$$

$$n = \frac{1200}{1 + 1200(0.05)^2}$$

$$n = \frac{1200}{4}$$

$$n = 300$$

$$n = \frac{300}{1 + 300 - 1/1200}$$

$$n = \frac{300}{1.25}$$

$$n = 240$$

Where: n= Sample size

N= Population size

e = the level of precision

3.6 Data Type and Collection Method

3.6.1 Sources of Data

To achieve the objectives of the study, both primary and secondary data were collected. Primary data were collected using structured and unstructured questionnaires. Questionnaires were used since the study was concerned mainly with variables that could not be directly observed such as views, opinions, perceptions and feelings of the respondents. Such information is best collected through questionnaires (Jöreskog and Sörbom 1996). The target population was also largely literate and was unlikely to have difficulties responding to questionnaire items. The sample size was also large enough (240 MEOs in Homa-Bay Sub-County). Given the time constraint, questionnaire was the ideal tool for collecting the primary data. Secondary data was obtained from the Homa Bay County Trade and Development Office in the records of the Kenya National Bureau of Statistics GoK (2015).

3.6.2 Data Collection Procedure

A letter of introduction was obtained from the university. Scoping for the task then followed. These entailed arranging data collection materials, recruiting and training of the research assistants to help in the data collection exercise.

3.6.3 Data Collection Instrument

Structured and semi structured questionnaire was used to obtain primary data from the sample. The items regarding the theoretical constructs were developed based on the literature review. Each of the 3 (three) unobserved constructs were scored along a five (5) point Likert scale. The observed and latent variables were measured on a range of

items and scored along a "Strongly disagree" to "Strongly agree" five (5) point Likert scale. Likert scales were used because they communicate interval properties to respondents and therefore produce data that can be assumed to be interval scaled (Fraenkel & Wallen, 2006).

3.6.4 Reliability Test for Data Collection Instruments

Reliability refers to the extent to which an experiment, test, or any measuring procedure yields the same results on repeated trials. Reliability test was aimed at determining consistency and stability of the data collection instruments. Since there is little published guidance concerning how large a pilot study should be (Melody & Herztog, 2008), pilot test was conducted on 9 members of the population of 1,200 MEOs randomly selected from the four categories of business enterprises. Two MEOs were picked randomly from each of the four categories of micro enterprises apart from the retail enterprises where three MEOs were picked. Three MEOs were picked from the retail category of micro enterprises because they were the majority of the enterprise owners in the Sub-County.

It was ideal to test the reliability of the instruments by administering them to the pilot survey respondents twice. However, it was difficult to do this when dealing with business enterprises spread in a wide area as was the case (Sekaran, 2000). Therefore to check the reliability of the instruments in this study, Cronbach's Alpha was used (Cronbach, 1951). Alpha coefficient ranges in value from 0 to1. The higher the score, the more reliable the generated scale. According to suggestions by Hair et al (2010), the study considered a reliability coefficient of 0.5 in structural equation modelling

acceptable. Successful reliability analysis was conducted for the scales measuring financial motivation, poverty and management practices. Table 3.1 presents the results.

Table 3.1: Cronbach's Alpha Reliability Test Results for Financial Motivation, Poverty and Management Practices Instruments

Reliability test results for the instruments	Cronbach's Alpha	Number of items
Financial motivation	.507	18
Poverty	.886	3
Management practice	.508	7
Average	.600	28

Source: Pilot Survey Data (2014)

The Cronbach's Alpha Reliability test results for financial motivation, poverty and management practices instruments were .507, .886 and .508 respectively. The average Cronbach's Alpha result was .600. According to suggestions by Hair et al (2010), all the reliability coefficients were acceptable.

3.6.5 Validity Test for Data Collection Instrument

Validity implies the extent to which the constructs of the study or measures in the survey instrument represent the study concept and the degree to which it is free from subjective error (Nunally, 1978). Prior to data collection, the survey instrument was reviewed for content and construct validity. In the first stage, content validity was tested by use of ten purposively chosen expert researchers and practitioners in the field of the study. They were asked to assess the extent to which the indicators sufficiently addressed the subject area based on theoretical and practical

considerations (Dillman, 1978). On average, these experts agreed that the instrument addressed the research intention. Construct validity was assessed by involving experienced researchers who were asked to critique the questionnaire for certainty, clarity, and appropriateness of the items used. The questionnaires were also submitted to the supervisors to verify clarity and relevance. Simple, clear and precise words were used in the questionnaires for ease of communication. The instruments covered all the research questions and objectives of the study. To enhance clarity and analysis, scoring for positively stated statements (statements that support the construct under investigation) was developed in a numerically descending order (5, 4, 3, 2, 1) while scoring for negatively stated statements was developed in a numerically ascending order (1, 2, 3, 4, 5).

3.7 Methods of Data Analysis

Data collected through questionnaires were analyzed using descriptive statistics, confirmatory factor analysis (CFA) and structural equation modeling (SEM). Descriptive statistics were used to establish the levels of poverty, levels of financial motivation and management practices of the MEs (see objectives i, ii and iii). confirmatory factor analysis (CFA) was used to determine the factor loadings of the measured variables onto their respective latent constructs. Structural equation modeling (SEM) was used to determine the structural relationships among the three latent constructs namely financial motivation, poverty and management practices (see objectives iv and v). It was predicted that management practices would mediate the relationship between financial motivation and poverty. Structural equation modeling (SEM) technique was used and analysis of moment structures (AMOS) statistical

software analyzed quantitative data for this study. Structural equation modeling (SEM) serves purposes similar to multiple regression, but in a more powerful way by taking into account the modeling of interactions, regression weights, measurement errors and multiple latent independents (Garson, 2010).

The SEM process revolves around two steps namely validating the measurement model and fitting the structural model. The former is accomplished through confirmatory factor analysis (CFA), while the latter is accomplished through path analysis with latent variables. Kline (2005) proposes a two-step modelling process and urges SEM researchers to test the pure measurement model underlying a full structural equation model and if the Fit of the measurement model is found acceptable, then to proceed to the second step that involves testing the structural model.

3.7.1 The Measurement Model

The measurement model is that part of SEM which deals with the latent variables and their indicators. A pure measurement model is a confirmatory factor analysis (CFA) model. Kline (2005) argues that the purpose of CFA is twofold. First, it aims at obtaining estimates of the parameters of the model i.e. the factor loadings, the variances and covariance of the factor and the outstanding error variances of the observed variables. The second purpose is to assess whether the model itself provides a good fit to the data or not. The measurement model is evaluated like any other SEM model i.e. using Goodness of Fit measures (Baron & Kenny, 1986).

3.7.2 The Structural Model

The structural model is the set of exogenous and endogenous variables in the model, together with the direct effects that connect them, any correlations among the exogenous variables or indicators, and the disturbance terms for these variables (Boomsman, 1985). In SEM, it is assumed that the sample data follow a multivariate normal distribution, and that the means and covariance matrix contain all the information (Chou & Bentler 1995).

3.8 Goodness of Fit Indices used in the Study

Goodness of fit Indices determine if the model being tested should be accepted or rejected. If the model is accepted, the researcher will then go on to interpret the path coefficients in the model. The choice of which goodness-of-fit measures to be used is a matter of argument among methodologists (Chou and Bentler, 1995). This study adopted the following goodness of fit indices due to their reliability and consistency of estimation results: Relative Chi-Square (CMIN/DF), Comparative Fit Index (CFI), Tucker-Lewis Index (TLI) and Root Mean Square Error of Approximation (RMSEA). The descriptions of the Goodness of Fit Indices are as follows:

3.8.1 Relative Chi-square

Relative chi-square, also called normal or normed chi-square, is the chi-square fit index divided by degrees of freedom, in an attempt to make it less dependent on sample size. It is the minimum discrepancy, $\hat{C}$ divided by its degrees of freedom, d:

$$\frac{\hat{C}}{d}.$$

One rule of thumb is provided by Wheaton et al (1977) who proposed that a relative chi-square ($\frac{\chi^2}{df}$) should also be computed. Whereas they suggested a ratio of approximately five or less 'as beginning to be reasonable', Carmines and McIver, (1981) on the other hand, suggested that, if the index falls in the range of 3 to 1, then it is acceptable. Byrne (1989) asserted that if the ratio is greater than 2, then it is clear that the fit is inadequate. Ullman (2001) says 2 or less reflects good fit while Kline (2005) considers 3 or less as acceptable. Some researchers allow values as high as 5 to consider a model adequate fit while others insist that relative chi-square should be 2 or less. Less than 1.0 is poor model fit (Schumacker & Lomax 1996). This study accepted the models if the relative chi-square value was 3 or less but not less than 1 (Kline, 2005).

3.8.2 Comparative Fit Index (CFI)

The comparative fit index (CFI), which is also known as the Bentler Comparative Fit Index compares the existing model fit with a null model that assumes that the latent variables in the model are uncorrelated (Garson, 2010). It compares the covariance matrix predicted by the model to the observed covariance matrix, and compares the null model (covariance matrix of 0's) with the observed covariance matrix, to gauge the per cent of lack of fit, which is accounted for by going from the null model to the researcher's model. Bentler and Bonett (1990) developed the Comparative Fit Index, whose equation is as follows: $CFI=1-\frac{NCP}{NCP_b}$

Where NCP is the non centrality parameter of the model being evaluated and NCP_b is the non centrality parameter for the baseline model. CFI varies from 0 to 1 (if outside

this range it is reset to 0 or 1). CFI close to 1 indicates a very good Fit. By convention, CFI should be equal to or greater than .90 to accept the model, indicating that the given model can reproduce 90% of the variation in the data. This study accepted the models if CFI was equal to or greater than 0.90 (Garson, 2010).

3.8.3 Tucker-Lewis Index (TLI)

The Tucker-Lewis index (TLI) is also called the (Bentler-Bonett) non-normed fit index (NNFI), the Tucker-Lewis *rho* index, or *RHO2*. Marsh, Balla, and Hau (1988) found TLI to be relatively independent of sample size. The Tucker-Lewis coefficient was presented by Bentler and Bonett (1990) in the context of analysis of moment structures. Its equation is as follows:

$$TLI = \frac{\frac{\hat{C}_b}{d_b} - \frac{\hat{C}}{d}}{\frac{\hat{C}_b}{d_b} - 1}$$

Where $\hat{C}$ and d are the discrepancy and the degrees of freedom for the model being evaluated, and $\hat{C}_b$ and d_b are the discrepancy and the degrees of freedom for the base line model. The typical range for TLI lies between zero and one, but it is not limited to that range. TLI values close to 1 indicate a very good fit. This study accepted the models if TLI was equal to or greater than 0.90 (Hu & Bentler, 1999).

3.8.4 Root Mean Square Error of Approximation (RMSEA)

Root mean square error of approximation is also called discrepancy per degree of freedom. By convention there is adequate Fit if RMSEA is less than or equal to 0.08

(Schumacker & Lomax, 1996). RMSEA is a popular measure of Fit, partly because it does not require comparison with a null model and thus does not require the author to postulate as plausible a model in which there is complete independence of the latent variables as does, for instance, CFI. It is one of the Fit indices less affected by sample size, though for smallest sample sizes, it overestimates goodness of Fit (Fan, Thompson, & Wang, 1999). Steiger and Lind (2007) developed the formula for RMSEA in order to compensate for the effect of model complexity by dividing F_0 by the number of degrees of freedom for testing the model. Taking the square root of the resulting ratio gives the population "root mean square error of approximation". Thus, the formula is as follows: Population RMSEA=$\sqrt{\frac{F_0}{d}}$

$\sqrt{\frac{\hat{F}_0}{d}}$ Browne and Cudeck (1993) observed that a value of about 0.08 or less for the RMSEA would indicate a reasonable error of approximation. They further asserted that one would not want to employ a model with a RMSEA greater than 0.1. This study accepted the models if RMSEA was less than or equal to 0. 08 (Schreiber et al, 2008).

3.9 Threshold for Fit Indices in this Study

The Fit Indices used in this study were relative chi-square (CMIN/DF), Comparative Fit Index (CFI), Tucker-Lewis Index (TLI) and Root Mean Square Error of Approximation (RMSEA). The Models were considered acceptable if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 2005); (2) CFI was equal to

or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber et al, 2008).

3.10 The Cut-off Mean Scores for the Study

The mean scores were determined from a 5-point Likert scale as follows: 1=Very low, 2= Low, 3=Average, 4=High and 5= Very high. In this study, the cut-off scores were considered as Low or High. The scores from 1-3 were considered Low while scores from 3-5 were considered High.

3.11 Ethical Considerations

The basic guiding principle governing data collection is that physical, social and psychological well being of participants is ensured and should not be detrimentally affected by the results of the research. As such, in conducting this study, the following ethical issues were addressed: informed consent, no deception, privacy and confidentiality as well as accuracy. The MEOs were approached and briefed on the purpose of the study. Their permission was obtained and the study was conducted on condition that the researcher would ensure that minimal disruption was created in the operations of the enterprises and that the questionnaires would be self-administered. All the respondents were briefed on the purpose of the questionnaire and voluntary responses were solicited. They were also assured of compensation in case of any inconvenience caused. Participants were made aware that confidential handling of the questionnaire would be maintained and the fact that respondents returned the completed questionnaire anonymously helped to achieve this objective.

3.12 Data Editing and Coding

After collecting data from the entrepreneurs, editing of the data was undertaken in order to ensure no omission but completeness, and consistency. Editing is considered as part of the data processing and analysis (Zikmund, 2003). Following the recommendation of Sekaran (2000), this thesis included all respondents in the analysis who completed at least 75% of questionnaire answers; while those with more than 25% unanswered questions were excluded (i.e. 25 surveys were excluded). Any missing data was considered as missing value (Hair et al., 2010). Coding is used to assign numbers to each answer (Zikmund, 2003) and allows the transference of data from the questionnaire to SPSS. Such procedures can be undertaken either before the questionnaire is answered (pre-coding), or after (post coding) (DeVaus, 1995). In this thesis, establishing a data file in SPSS performed the coding procedure, and all items were pre-coded with numerical values (see questionnaire in Appendix 1). Data editing procedures were undertaken after data were entered into the data file in order to detect any errors in data entry. Out-of-range values in the data file were corrected by referring to the original questionnaire. As the first stage in the data analysis, screening for missing data, outliers, and normality was conducted. Data screening is useful in making sure that data have been correctly entered and that the distributions of variables, that are to be used in the analysis, are normal (Coakes, 2006). These preliminary analyses are discussed as follows:

3.13 Treatment of Missing Data

It is uncommon to obtain data sets without some missing data (Coakes, 2006). Missing data usually occurs when a respondent fails to answer one or more survey questions. Two ways have been recommended by Tabachnick and Fidell (2007) to

evaluate the degree to which data may miss. The first is to evaluate the amount of missing data, and the second is to evaluate what data are missing (the pattern). However, Tabachnick and Fidell (2007) argue that assessing the pattern of missing data may be more important than the amount of missing data, even though the latter is still necessary. This is because checking the pattern of missing data has an advantage in determining whether or not missing data occur randomly or relate to specific items. In this study, double data entry was done and two files compared from the questionnaires. Therefore, no missing observations resulting from data entry errors were possible. Instead, the major source of missing data resulted from respondents who did not fill the questionnaire. For these participants, SPSS was used to impute missing data using the mean replacement method. The mean replacement method was used typically as the nature of data collected were Likert-type data as recommended by Hair et al (2010). Cases where participants left many questionnaire items blank were omitted from the analysis.

3.14 Treatment of Outliers

In statistics, an outlier is an observation point that is distant from other observations. They may come due to variability in the measurement and may indicate experimental error. The latter are sometimes excluded from the data set. Outliers can occur by chance in any distribution, but they are often indicative of measurement error. From this study, outlier items for the three factors namely financial motivation, poverty and management practices were determined as part of the analysis (Hair *et al.*, 2010) and Box plots were used to determine their occurrence in the data. Box plots help in establishing the incidence of outliers in a data set by using the Inter-quartile Range. They generally indicate the occurrences of outliers by the use of asterisks.

CHAPTER FOUR: FINDINGS AND DISCUSSION

The purpose of this chapter is to report the findings of this study. The results are presented to reflect the dictates of the structural equation modelling (SEM) process which is to validate the measurement model and fit the structural model. The chapter gives the response rate, descriptive statistics and presents analyses of various responses on items of key variable constructs. The results are analysed and discussed based on the objectives of the study.

4.1 Response Rate

The respondents consisted of micro enterprise owners drawn from the four categories of business enterprises who did not take part in the pilot study. A total of 240 questionnaires were distributed including 22 to wholesale enterprises, 187 to general retail enterprises, 20 to service enterprises and 11 to manufacturing enterprises as shown in Table 4.1 which presents a summary of the response rate.

Table 4.1: Actual Response Received from Target Respondents

Category of Business	Actual Number	Responses	Response rate
Wholesale	22	22	100.0%
General retail	187	186	99.4%
Service	20	19	95.0%
Manufacturing	11	10	90.9%
Total	**240**	**237**	
Mean			**96.33%**

Source: Survey Data (2014)

The mean response rate was 96.3%. Fowler (2002) argues that the whole point of conducting a survey is to obtain useful, reliable, and valid data in a format that makes

it possible to analyse and draw conclusions about the target population. This conforms to the views of Johnson and Turner (2003) argue that a response rate of 20% is too low while a response rate of 80% meets the standard. The overall response rate of 96.3% was therefore within the required standard.

4.2 Outlier Results

From the findings, any observation point that was distant from other observations, (items with asterisk) was treated as an outlier and as suggested by Hair et al (2010), the items were removed. Figure 4.1 indicates the results with the outlier items and Figure 4.2 indicates the results after the removal of the outlier items for financial motivation. There were no outliers both in poverty and management practices items as indicated in Figures 4.3 and 4.4.

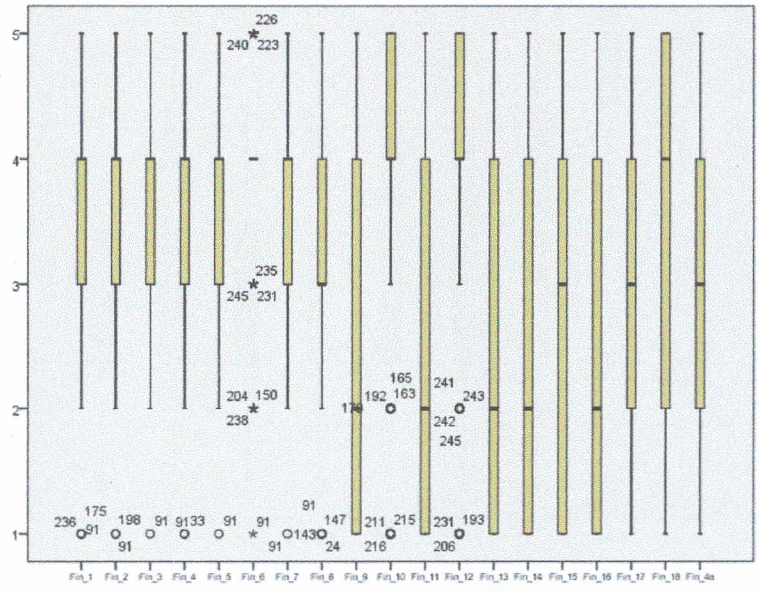

Figure 4.1: Box plot for financial motivation with the outlier items
Source: Pilot survey data (2014)

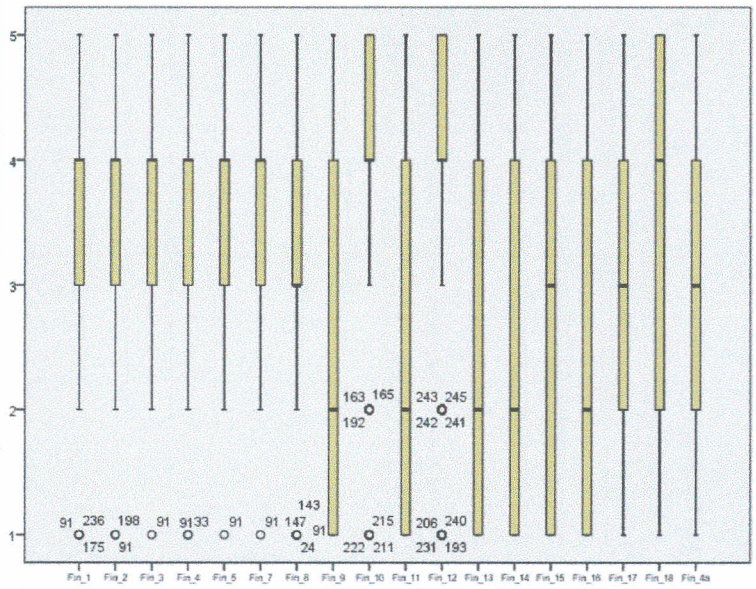

Figure 4.2: Box plot for financial motivation after removal of the outlier items
Source: Pilot survey data (2014)

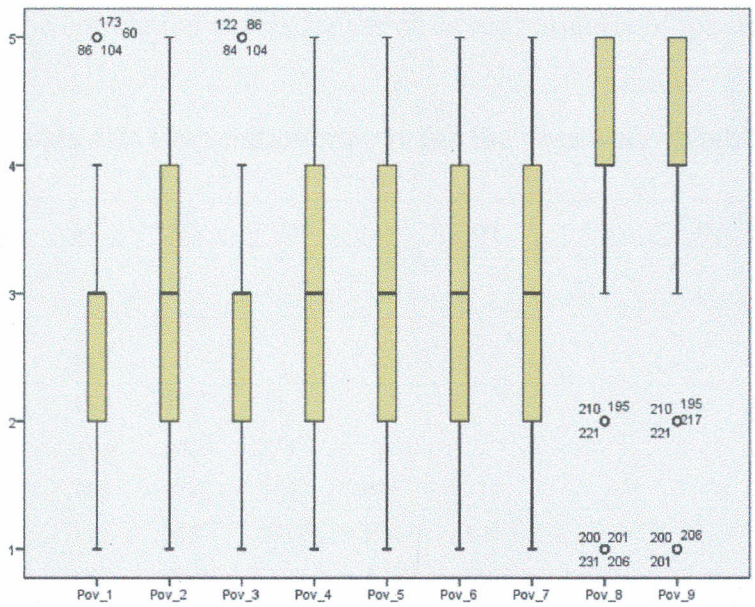

Figure 4.3: Box plot for poverty with no outlier items
Source: Pilot survey data (2014)

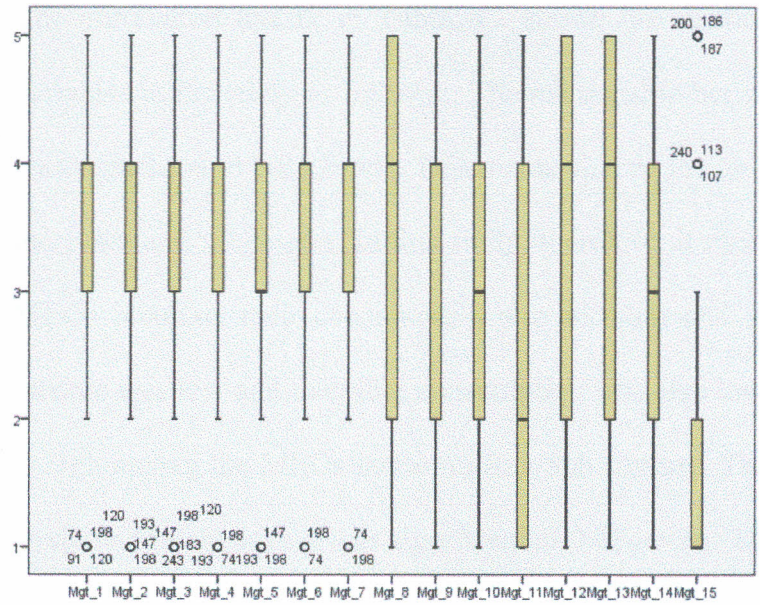

Figure 4.4: Box plot for management practices with no outlier items
Source: Pilot survey data (2014)

4.3 The correlation matrix for the observed variables of the study

The correlation matrix for the observed variables of the study is presented on Table 4.2.

Table 4.2: Correlation matrix for the observed variables of the study

	IN	MC	MS	TC	LG	RM	CS	HR	TR	TS	CO
IN	1										
MC	.009	1									
MS	.020	.143*	1								
TC	-.120	.073	.316**	1							
LG	-.022	-.016	.203**	.275**	1						
RM	.097	.008	.055	.132*	.074	1					
CS	.042	.147*	.225**	.201**	.034	.027	1				
HR	-.001	.061	.018	.111	-.029	.166*	.088	1			
TR	-.080	.047	.118	.071	.079	.069	.119	.081	1		
TS	-.093	.035	.044	.081	.138*	.018	-.021	.024	-.058	1	
CO	.469**	-.016	.112	.033	.029	.074	.114	.037	.021	-.096	1

**Significant at .01
*Significant at .05

Source: Survey data (2014)

Note: IN is Income, MC is Micro Credit, MS is Micro- Saving, TC is Trade Credit, LG is Loan Guarantee, RM is Risk Management, CS is Customer Service, HR is Human Resource, TR is Training, TS is Target Setting and CO is Consumption.

The correlation matrix in Table 4.2 shows the relationship between the observed variables in the study as follows: The relationship between income and consumption was significant at 0.01 levels. This means that as income increases, consumption also increases and vice-versa. In this study, therefore, it means that, as the income of the MEOs increase, their consumption also increase and vice versa. In this study, the income was low and therefore consumption was also low. This explains why poverty is high among the MEOs in Homa-Bay Sub-County. The relationship between micro credit and micro saving was significant at 0.05 levels. The same relationship was also true with customer services. This means that the more the MEOs save and have good customer services, the more they are likely to benefit from micro credit or financial motivation and vice-versa. The fact that micro-credit (financial motivation) is low among the MEOs in Homa-Bay Sub-County indicates that saving was low among the MEOs and the MEOs' customer services was inadequate. The relationship between micro saving and trade credit, loan guarantee and customer services were significant at 0.01 levels. This means that the MEOs can only practice micro saving when they have trade credit, loan guarantee and good customer services.

The relationship between trade credit and loan guarantee and customer service were significant at 0.01 levels. This means that trade credit can only be offered to the MEOs with loan guarantee and only MEOs with good customer services can be able to get trade credit. The relationship between trade credit and risk management was significant at 0.05 levels. This means that trade credit can only be offered to the MEOs who have risk management practices. The relationship between loan guarantee and target setting was significant at 0.05 levels. This means that MEOs can have loan

guarantee when they practice target setting in their enterprises. The relationship between risk management and human resource was significant at 0.05 levels. This means that the MEOs with good human resource practices are the ones who also have good risk management practices.

4.4 Level of Poverty among the MEOs

Poverty was measured using two observed variables namely income and consumption. Respondents were asked to rate how income and consumption were achieved within their business enterprises. Responses were obtained from a 5-point Likert scale (1-very low, 2-low, 3-average, 4-high, and 5-very high). These responses were then analysed using means and standard deviations. The results are shown in Table 4.3.

Table 4.3: Poverty among MEOs in Homa-Bay Sub County.

	N	Mean	Std. Deviation
Income	240	2.34	.47
Consumption	240	2.31	.50

Source: Survey data (2014)

The sample size was 240. The mean income was 2.34 with standard deviation of 0.47. Consumption had a mean of 2.31 with standard deviation of 0.50. The mean score for both variables stood at 2.325 on a scale of 1 to 5 scored from "very low" to "very high". This means that, the ratings in both cases were "low" which implies that both income and consumption were low hence an indication that poverty was high among the MEOs. Standard deviations (SD) indicated 0.47 and 0.50 both for income and

consumption respectively. This means that, there was minimal spread of responses as none was more than 1.00 point away from the mean.

The results are consistent with the figures of The Homa-Bay County Strategic Plan of 2010-2015 which indicates that poverty level among MEOs stands at 77.49% against the national average of 52%. Hulme and Moore (2007) argue that poverty levels among MEOs in Homa-Bay County continue to rise and that the poor MEOs in the County have increasingly become unable to afford adequate food and nutrition, access basic services like education, health, safe water and decent housing. This study sought to establish the level of poverty among the MEOs in Homa-Bay Sub-County.

Studies by Hulme and Moore (2007) and Kuratko (2003) reveal that three out of five MEs in Kenya fail within the first one year of operation. The high failure rate of the MEs could be as a result of lack of adequate management practices of the MEOs which could also be the reason for poverty among them. The studies by Zimmerer and Scarborough (2008), Wennekers (2000), Nzomo (2006) and Kring (2004) sought to determine the effect of MEs on poverty reduction in the developing economies. The studies generalized the poverty situation in the economies without establishing the specific poverty levels among the MEOs. This study was specific and sought to establish the level of poverty among the MEOs in Homa-Bay Sub-County,Kenya.

4.5 Level of financial motivation among the MEOs

Financial motivation was measured using four observed variables namely micro-credit, micro-saving, trade credit and loan guarantee. Respondents were asked to rate

the level of financial motivation using the four observed variables mentioned above in their business enterprises. Responses were obtained from a 5-point Likert scale (1-very low, 2-low, 3-average, 4-high, and 5-very high). These responses were then analysed using means and standard deviations. The results are shown on Table 4.4.

Table 4.4: Financial motivation among MEOs in Homa-Bay Sub-County

	N	Mean	Std. Deviation
Micro-credit	240	2.6	0.2
Micro-saving	240	2.9	0.6
Trade credit	240	2.3	0.9
Loan guarantee	240	2.5	0.3

Source: Survey data (2014)

The sample size was 240 micro enterprise owners. The mean of micro-credit was 2.6 with standard deviation of 0.2. Micro-saving had a mean of 2.9 with standard deviation of 0.6.Trade credit had a mean of 2.3 with standard deviation of 0.9 and loan guarantee had a mean of 2.5 with standard deviation of 0.3. The mean response scores for all the items were 2.575. This means that, the ratings in all the cases were "low" implying that financial motivation was "low" among the MEOs. Standard deviations (SD) indicated 0.2, 0.6, 0.9 and 0.3 for micro-credit, micro- saving, trade credit and loan guarantee respectively. This was an indication that there was minimal spread of responses as none was more than 1.00 point away from the mean.

These results compare and contrast with theoretical advances and a number of past studies. The success of a small business can be defined as its ability to survive of which financial motivation plays a major role (Lussier & Pfeiffer, 2001). Many entrepreneurial researchers agree that scarcity of financial resources is one of the

major problems faced by small business owners in the developing countries (Cook et al, 2001). A study by Shabbir and Gregorio (2006) on potential businesswomen in Pakistan to investigate the motivational factors behind their decision to start a new business venture revealed that the MEs were mainly motivated by financial security. Kuratko (2003) argues in his studies carried out in Australia, Canada and Mexico that the problem of lack of access to financial resources is more severe in the developing countries. Benzing, Chu and Kara (2009) argue that motivational factors can be divided into four categories such as economic factors, independence, internal satisfaction, and financial motivation. Financial motivation is rated highest among the other factors. A study by Kabeer (2004) found that when entrepreneurs have access to micro finance services such as loans, savings, micro-finance training and insurance, their role in decision-making is enhanced.

The main focus of empirical studies on the level of financial motivation among the MEOs has been to establish how the MEOs could access micro-credit facilities (financial motivation) with the hope of improving performance of their micro enterprises and alleviating poverty among them. Despite this effort, poverty is still rampant among the MEOs. The studies give the general view of how the funds can be channelled to the MEOs without finding out whether this move can contribute positively or negatively to the financial well being of the MEOs. The studies only give the general view of the access to financial services as opposed to considering the level of financial motivation of the individual MEOs at the micro level. This study therefore sought to assess the level of financial motivation among the MEOs in Homa-Bay Sub County, Kenya.

4.6 Management Practices of the MEOs

Management practices of the MEOs was measured using five observed variables namely, risk management, customer service, human resource, training and target setting. Respondents were asked to rate the management practices using the five variables mentioned above in their business enterprises. Responses were obtained from a 5-point Likert scale (1-very low, 2-low, 3-average, 4-high, and 5-very high). These responses were then analysed using means and standard deviations. The results are shown on Table 4.5.

Table 4.5: Management Practices of MEOs in Homa-Bay Sub-County

	N	Mean	Std. Deviation
Risk management	240	2.3	0.6
Customer service	240	2.7	0.3
Human resource	240	2.2	0.5
Training	240	1.9	0.5
Target setting	240	1.7	0.6

Source: Survey data (2014)

The sample size was 240 MEOs in Homa-Bay Sub-County. The mean of risk management was 2.3 with standard deviation of 0.6. Customer service had a mean of 2.7 with standard deviation of 0.3. Human resource had a mean of 2.2 with standard deviation of 0.5. Training had a mean of 1.9 with standard deviation of 0.5 and target setting had a mean of 1.7 with standard deviation of 0.6. The mean score for the variables stood at 2.16 on a scale of 1 to 5 scored from "very low" to "very high." This was below the cut-off mean of 3. The ratings in all the cases were "low". This means that management practices were "low" among the MEOs. Standard deviations (SD) indicated 0.6, 0.3, 0.5, 0.5 and 0.6 for risk management, customer service,

human resource, training and target setting respectively. This means that there was minimal spread of responses as none was more than 1.00 point away from the mean.

These results reflect arguments by Zuzana and Matej (2007) that carried out a study on the importance of management skills and knowledge in the general management of micro enterprises in Slovakia. The study revealed that within any given year, close to one million MEs were started in Slovakia and 40% of them failed within the first year and more than 80% would be out of business within 5 years. Their study further revealed that the rate of failure of the micro enterprises was high due to lack of management skills and knowledge on the side of the MEOs. Coy, Shipley, Omer and Rao (2007) argue in their study that the impact of MEs prove to be everlasting on the world's economy only if they can be managed effectively. They reasoned that countries like Taiwan, Japan and Korea developed on their ME undertakings due to their effective management practices.

Longenecker (2006) argues that starting and operating a micro enterprise includes a possibility of success as well as failure and because of their small size, a simple management mistake is likely to lead to the collapse of a micro enterprise. Studies on micro enterprises indicate that management practices of entrepreneurs can influence relevant organizational outcomes such as productivity and profitability (Okech, 2000). Baldwin (2007) examined the causes of business bankruptcy among MEOs in Canada. He found that the main reason for failure was inexperienced management. He further observed that managers of bankrupt firms had no experience, knowledge or vision to run their businesses.

The empirical studies on the management practices of the MEOs have established that most MEs fail within the first one year of their operation and that the rate of failure of the MEs come due to lack of management skills and knowledge on the part of the MEOs. Some MEs do not even have clear plans for future development, production process, marketing and financial practices. Studies indicate that a simple management mistake is likely to lead to the collapse of a micro enterprise. The studies have revealed that many MEOs do not treat their MEs as distinct legal entities. They see no difference between the MEOs and MEs. They withdraw from the accounts of their MEs without substitution. This common practice affects the MEs and eventually leads to their failure which eventually leads to poverty among the MEOs. The impact of MEs can be felt in the world's economies only if they can be managed effectively. This study therefore sought to establish the management practices of the MEOs in Homa-Bay Sub County, Kenya.

4.7 The Relationship between financial motivation and poverty among the MEOs

To determine the relationship between financial motivation and poverty among the MEOs, confirmatory factor analysis (CFA) for both financial motivation as well as that of poverty variables were done. The CFAs were done to establish the factor loading of the measured variables onto their latent constructs followed by structural equation modelling (SEM), which was done to assess the structural relationship between the two latent constructs namely financial motivation and poverty. Confirmatory factor analysis for financial motivation as a latent construct and its observed variables are presented in Figure 4.5.

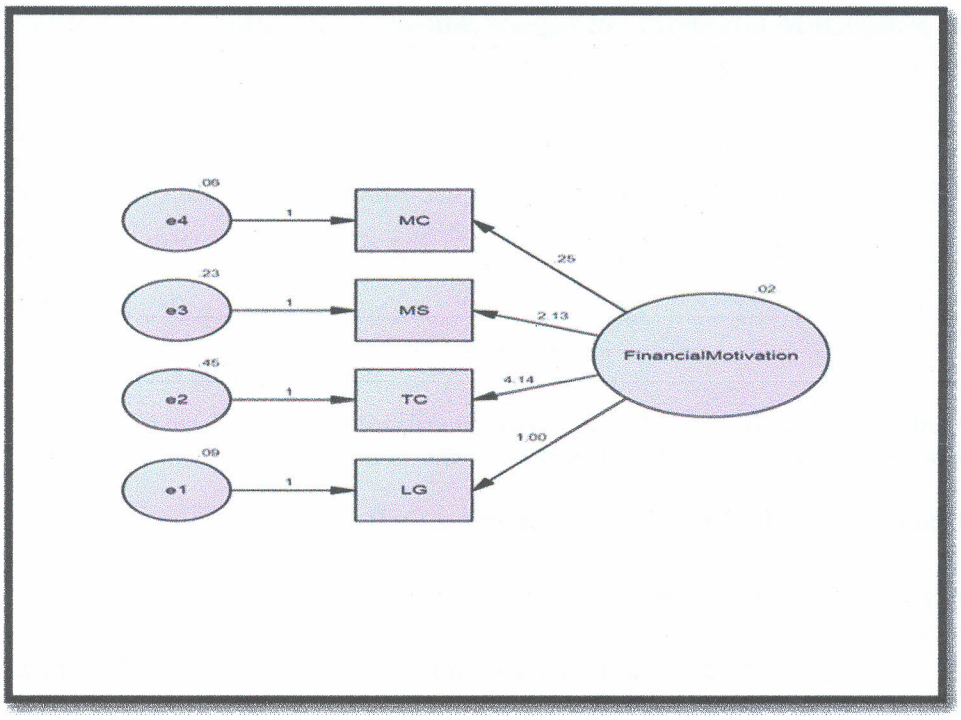

Figure 4.5: Confirmatory factor analysis for financial motivation and its observed variables
Source: Survey data (2014)

Note:
LG is Loan Guarantee, TC is Trade Credit, MS is Micro- Saving, MC is Micro-Credit, e1 to e4 are errors 1to 4.

The variables in the model were classified as observed or unobserved, and as either endogenous or exogenous. Observed, endogenous variables were loan guarantee, trade credit, micro-saving and micro-credit. Unobserved, exogenous variables were financial motivation, e1, e2, e3 and e4. The model is presented in Table 4.6 using the estimates of regression weights.

Table 4.6: Estimates of regression weight for Financial Motivation variables

			Estimate	S.E.	C.R.	P
LG	<---	Financial Motivation	1.00			
TC	<---	Financial Motivation	4.14	1.294	3.197	.001
MS	<---	Financial Motivation	2.13	.600	3.559	.001
MC	<---	Financial Motivation	.25	.166	1.497	.134

Source: Survey data (2014)

Note: LG is Loan Guarantee, TC is Trade Credit, MS is Micro- Saving, MC is Micro- Credit, S.E. is Standard Error, C.R. is Critical Ratio, and P is Probability of getting the corresponding Critical Ratio.

Table 4.6 indicates that the regression weight for financial motivation in the prediction of trade credit and micro-saving were both significantly different from zero at the 0.001 level (two-tailed). This means that trade credit facilities would only be available to the MEOs who are doing micro-saving. The regression weight for financial motivation in the prediction of loan guarantee was fixed at 1.00 based on sound economic theory which states that micro-credit or financial motivation can only be available to the MEOs when there is loan guarantee.

4.7.1 Model Fit results for financial motivation variables

The Model Fit results for Financial Motivation variables are presented in Table 4.7.

Table 4.7: Model Fit results for financial motivation variables

Model	CFI	TLI	RMSEA	CMIN/ DF
Default Model for Financial Motivation variables	0.969	0.908	0.055	1.734

Source: Survey data (2014)

Note: CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber et al, 2006).

The Model Fit results for financial motivation variables were as follows; CMIN/DF = 1.734; *TLI* = 0.908; the *CFI* = 0.969; the *RMSEA* = 0.055.

All the Goodness-of-Fit indices for financial motivation variables shown by the Model Fit statistics in Table 9 met the required standards and were therefore acceptable. This further confirmed that the factor loading for financial motivation variables were successful. The measured variables loaded successfully onto the latent construct (financial motivation).

Confirmatory factor analysis for poverty as a latent construct and its observed variables are presented in Figure 4.6.

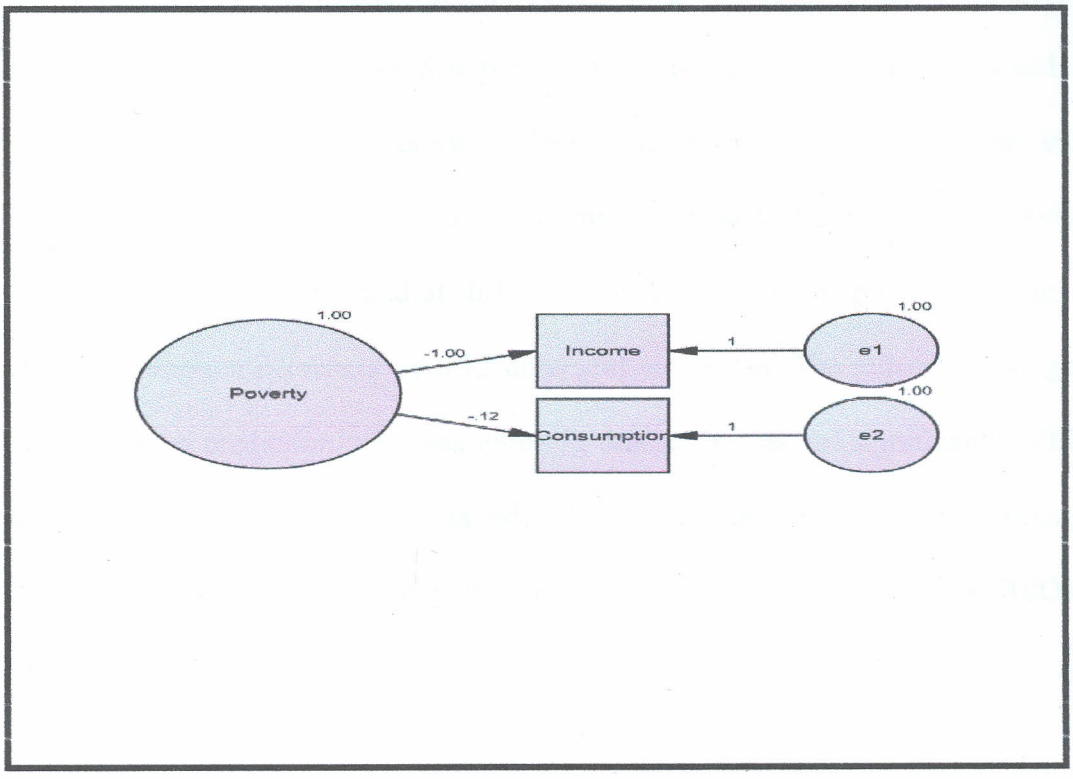

Figure 4.6: Confirmatory factor analysis for poverty and its observed variables
Source: Survey data (2014)

The variables in the model are classified as observed or unobserved, and as either endogenous or exogenous. Observed, endogenous variables are income and consumption. Unobserved; exogenous variables are poverty; e1and e2 .The model is presented in Table 4.8 using the estimates of regression weights.

Table 4.8: Estimates of regression weight for poverty variables.

			Estimate	S.E.	C.R.	P
Income	<---	Poverty	-1.000			
Consumption	<---	Poverty	-.12	.091	-1.369	.171

Source: Survey data (2014)

The regression weight of poverty in the prediction of income was fixed at -1.00, and this was therefore not estimated. The negative value was used based on the sound economic theory which states that poverty decreases as income increases and vice-versa other factors remaining constant. Thus, when poverty goes up by 1 unit, income goes down by 1unit and vice versa. The regression weight of poverty in the prediction of consumption was estimated at -0.12. This means that when poverty goes up by 1 unit, consumption decreases by 0.12 units and vice versa. The regression weight for poverty in the prediction of consumption in this study was not significantly different from zero at the 0.001 level (two-tailed). This means that poverty was high among the MEOs in Homa-Bay Sub-County and the rate of consumption among the MEOs was low.

4.7.2: Model Fit results for poverty variables

The confirmatory factor analysis (CFA) Fit results for poverty variables are presented by the Model Fit statistics in Table 4.9.

Table 4.9: Model Fit results for Poverty variables

Model	CFI	TLI	RMSEA	CMIN/ DF
Default Model for Poverty variables	1.000	0.905	0.049	1.472

Source: Survey data (2014)

Note: CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0.08 (Schreiber, Stage, King, Nora, & Barlow, 2006).

The CFA Model Fit results for poverty variables were as follows: CMIN/DF= 1.472; *TLI* = 0.905; the *CFI* = 1.000; the *RMSEA* = 0.049. All the Goodness-of-Fit Indices for Poverty variables met the required standards and therefore they were acceptable. This confirmed that Income and Consumption (measured variables of Poverty) had successful factor loading.

The structural equation model (SEM) for the two latent constructs namely financial motivation and poverty are presented in Figure 4.7.

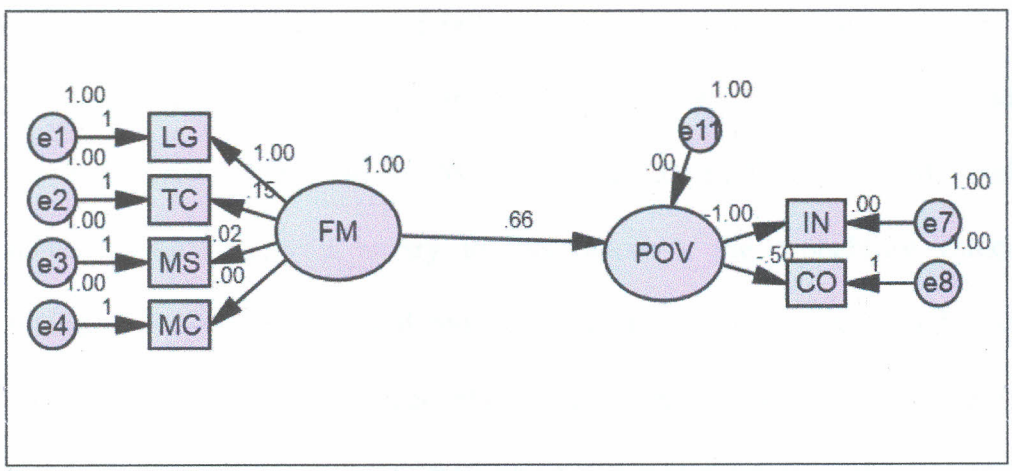

Figure 4.7 : Structural equation modelling for financial motivation and poverty variables

Source: Survey data (2014)

Note: LG is Loan Guarantee, TC is Trade Credit, MS is Micro-Saving, MC is Micro- Credit, FM is Financial Motivation, POV is Poverty, IN is Income, CO is Consumption and e1to e11 are errors 1to11.

The variables in the model were classified as observed or unobserved, and as either endogenous or exogenous. The observed, endogenous variables were, loan guarantee, trade credit, micro-saving, micro-credit, income and consumption. The unobserved, endogenous variable was poverty. Unobserved, exogenous variables were financial

motivation, e1, e2, e3, e4, e5, e6 and e7. The model is presented in Table 4.10 by the estimates of regression weights.

Table 4.10: Regression weight for financial motivation and poverty variables

			Estimate	S.E.	C.R.	P
POV	<---	FM	0.660	.025	26.777	.001
POV	<---	e11	0.000			
MC	<---	FM	0.000	.065	-.046	.963
MS	<---	FM	0.020	.065	-.239	.811
TC	<---	FM	0.150	.065	2.271	.023
LG	<---	FM	1.000			
IN	<---	POV	-1.000			
IN	<---	e7	0.000			
CO	<---	POV	-.500	.098	-5.099	.001

Source: Survey data (2014)

Note: POV is Poverty, MC is Micro- Credit, MS is Micro- Saving, TC is Trade Credit, LG is Loan Guarantee, IN is Income FM is Financial Motivation, e7and e11 are errors 7 and 11 respectively.

The regression weight for financial motivation in the prediction of poverty and trade credit was significantly different from zero at the 0.001 level (two-tailed). This means that trade credit offered to the MEOs as financial motivation could reduce their incidence of Poverty. Contrary to this outcome, the probability values for the relationship between financial motivation and both micro-credit and micro-saving were 0.963 and 0.811 respectively. This suggests that there was no significant relationship between financial motivation and micro-credit as well as micro-saving ($p>.001$ two-tailed). This is consistent with the studies by Karlan and Zinman (2010), Ferdous (2007) and Kabeer (2004) which point out that micro-credit or financial motivation should not be treated as a remedy, but as a drug that can be prescribed to the micro enterprises. The studies reveal that if used improperly, micro-credit or financial motivation among MEOs, can harm business operations and have unintended negative consequences resulting in poverty among the MEOs.

In a similar manner, the relationship between poverty and consumption was statistically significant (p>.001 two-tailed). This means that poverty among the MEOs in Homa Bay Sub-County increase with their Consumption. It means that the more the MEOs consume the more they are likely to become poor.

4.7.3 Model Fit results for both financial motivation and poverty variables

The Model Fit results for both financial motivation and poverty variables are presented in Table 4.11.

Table 4.11: Model Fit results for financial motivation and poverty variables

Model	CFI	TLI	RMSEA	CMIN /DF
Default Model for Financial Motivation and Poverty variables	.944	.930	.046	1.505

Source: Survey data (2014)

Note: CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0. 08 (Schreiber, Stage, King, Nora, & Barlow, 2006).

The SEM Goodness-of-Fit indices for financial motivation and poverty variables were: CMIN/DF=1.505, CFI=0.944, TLI=0.930 and MMSEA=0.046. The Fit Indices met the required standards and therefore they were acceptable. This means that there was a positive relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County.

Many entrepreneurial researchers agree that scarcity of financial resources is one of the major problems faced by micro enterprise owners in the developing countries (Cook, 2001). However, Karlan and Zinman (2010) pointed out that micro-credit or financial motivation should not be treated as a universal remedy, but as a drug that can be prescribed to micro enterprise owners. Their studies reveal that if used

improperly, micro-credit or financial motivation can harm business operations and have unintended negative consequences.

Cameron (2005) emphasized that even when the poor MEOs enjoy access to financial services; their empowerment as a result of those services is not guaranteed. He noted that while a regular financial institution may charge 10-15% interest rates on a loan depending on credit history of the borrower, micro-credit institutions charge interest rates of 40-60%. Murdoch and Haley, (2002) affirm that such high interest rates discourage the poor MEOs from borrowing. Harper (2008) argues that providing micro-credit alone may not be an answer since it is more difficult for micro-credit schemes to help poor people start significant new income generating activities. Laderchi (2008) puts it that successful businesses require people with some entrepreneurial ability and not financial motivation alone. In a study of thirteen Micro-Credit Institutions in seven developing countries in Asia, Africa and Latin America Ghatak (2010) found that micro-credit programmes which targeted higher income households had a greater impact on household income. Those below the poverty line were not assisted much and the poorest were somewhat negatively affected.

Existing literature on the relationship between financial motivation and poverty among the MEOs reveal that when MEOs have access to micro-credit services or financial motivation, their role in decision-making and business operations are improved. Their business operations are also enhanced and this helps them in their quest to alleviate poverty. However, other studies reveal that successful businesses

require people with some entrepreneurial ability and not financial motivation alone. If used improperly, micro-credit or financial motivation among the MEOs may harm some business operations and have unintended negative consequences thereby resulting in poverty among the MEOs. Despite the efforts of the development agencies and donors in channelling their funds to micro-credit institutions for onward lending to the MEOs, poverty is still rampant among the MEOs. This study therefore sought to establish the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County, Kenya.

4.8 Management practices as mediator in the relationship between financial motivation and poverty among the MEOs.

To investigate the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs, confirmatory factor analysis (CFA) for management practices was done in order to establish the factor loading of its measured variables. This was followed by SEM, which was used to determine the structural relationship between financial motivation and poverty with management practices as the mediating variable.

Confirmatory factor analysis (CFA) for management practices as a latent construct and its observed variables are presented in Figure 4.8.

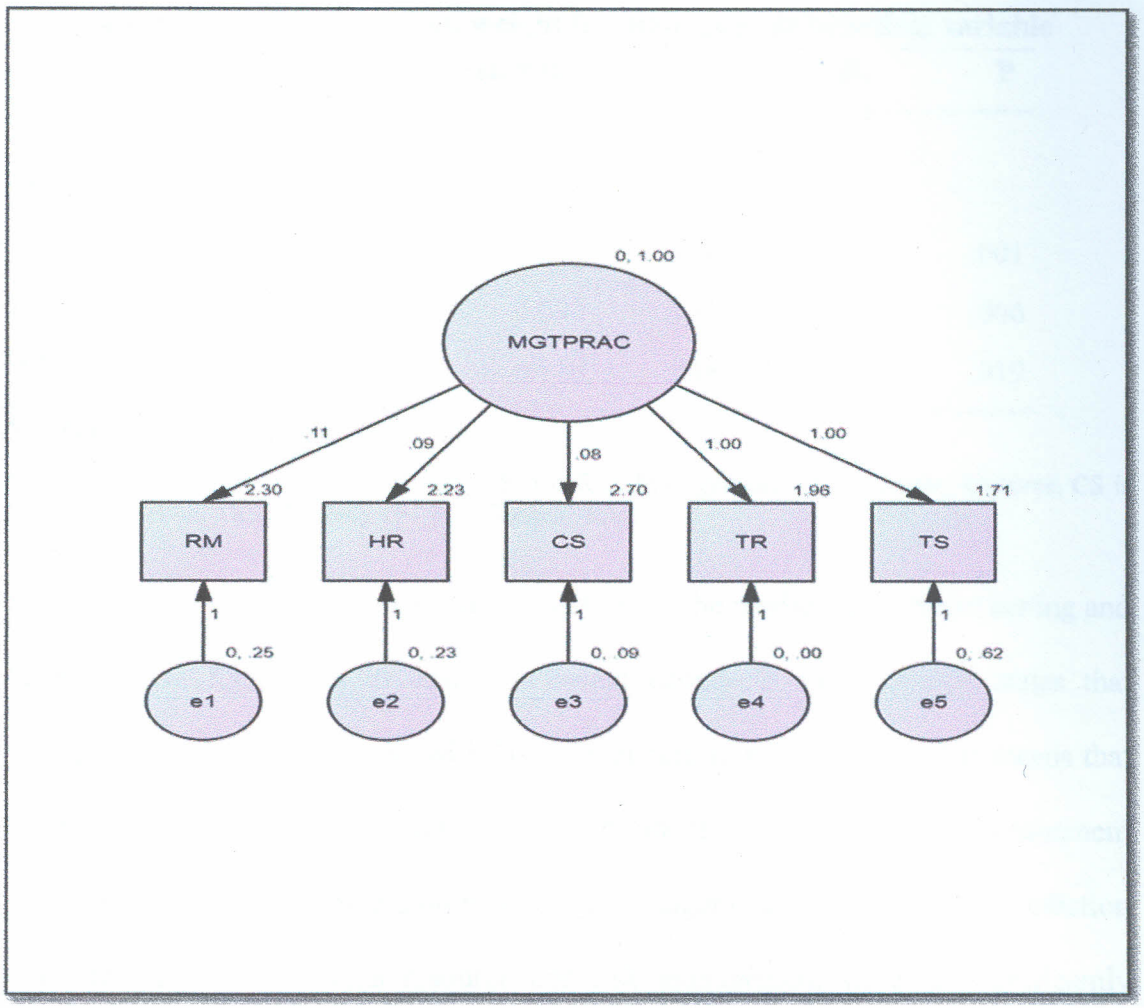

Figure 4.8: Confirmatory factor analysis for management practices and its observed variables
Source: Survey data (2014)

Note: MGTPRAC is Management Practices, RM is Risk Management, HR is Human Resource, CS is Customer Service, TR is Training, TS is Target Setting and e1to e5 are errors 1to5.

The variables in the model are classified as observed or unobserved, and as either endogenous or exogenous. The observed, endogenous variables are: target setting, training, customer service, human resource and risk management. Unobserved, exogenous variables are management practices, e1, e2, e3, e4 and e5. The model is presented in Table 4.12 by the estimates of regression weights.

Table 4.12: The CFA regression weight for management practices variable

			Estimate	S.E.	C.R.	P
TS	<---	MGTPRAC	1.000			
TR	<---	MGTPRAC	1.000			
CS	<---	MGTPRAC	0.080	.020	4.073	.001
HR	<---	MGTPRAC	0.090	.031	2.756	.006
RM	<---	MGTPRAC	0.110	.048	2.343	.019

Source: Survey data (2014)

Note: MGTPRAC is Management Practice, RM is Risk Management, HR is Human Resource, CS is Customer Service, TR is Training and TS is Target Setting.

The regression weight for management practices in the prediction of target setting and training were fixed at 1.00 based on sound economic theory which states that management practices increase with both target setting and training. This means that when the MEOs practice target setting and undergo training, their management practices improve. The regression weight for management practices in the prediction of customer service, human resource and risk management were all significantly different from zero at the 0.01 level (two-tailed). This means that when the MEOs have good customer service, human resource and risk management practices, their management practices improve. This was an indication that the observed variables (measured variables) of management practices had successful factor loading.

The structural relationship between financial motivation and poverty with management practices as mediator in the relationship is presented in Figure 4.9.

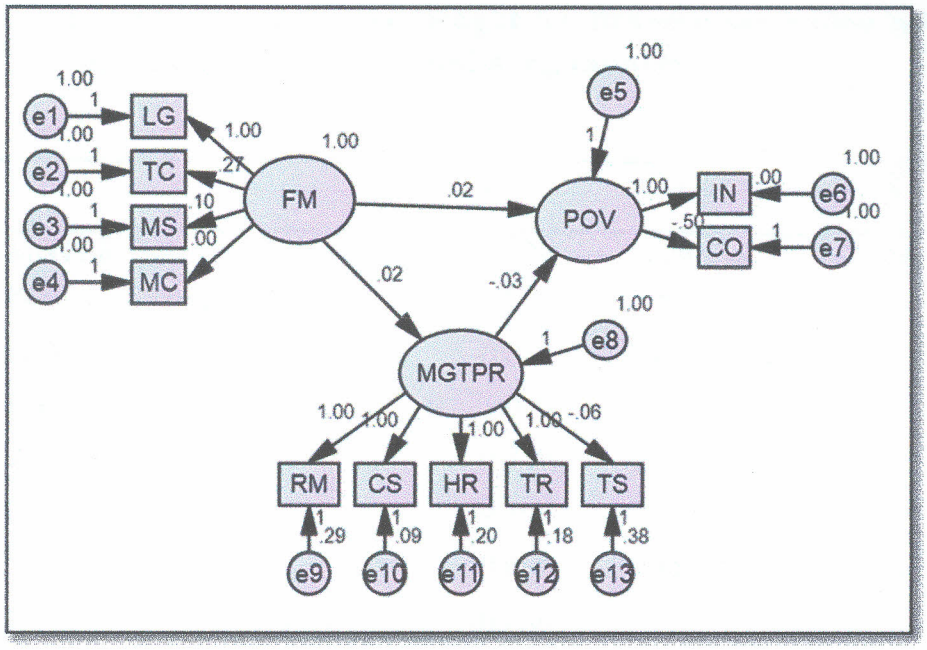

Figure 4.9: Structural equation modelling for financial motivation and poverty with management practices as mediator in the relationship.

Source: Survey data (2014)

Note: LG is Loan Guarantee, TC is Trade Credit, MS is Micro- Saving, MC is Micro- Credit, FM is Financial Motivation, POV is Poverty, IN is Income, CO is Consumption MGTPRAC is Management Practice, RM is Risk Management, HR is Human Resource, CS is Customer Service, TR is Training, TS is Target Setting and e1 to e13 are errors 1 to 13.

The variables in the model were classified as observed or unobserved, and as either endogenous or exogenous. The model had the following variables: The observed endogenous variables were loan guarantee, trade credit, micro-saving, micro-credit, target setting, training, customer service, human resource, risk management, income and consumption. The unobserved endogenous variables were management practices and poverty. Unobserved, exogenous variables were financial motivation, e1, e2, e3, e4, e5, e6, e7, e8, e9, e10, e11, e12 and e13.

The regression weight for financial motivation and poverty variables with management practices as the mediator in the relationship is presented in Table 4.13.

Table 4.13: The regression weight for financial motivation and poverty with management practices as the mediating variable

			Estimate	S.E.	C.R.	P
MGTPR	<---	FM	0.020	.246	2.148	.032
POV	<---	FM	0.020	2.838	-.036	.971
POV	<---	MGTPR	-0.030	5.071	-.013	.990
LG	<---	FM	1.000			
TC	<---	FM	0.270			
MS	<---	FM	0.100	.742	3.125	.002
MC	<---	FM	0.000	.157	2.101	.036
TS	<---	MGTPR	-0.060			
TR	<---	MGTPR	1.000			
CS	<---	MGTPR	1.000	.628	2.068	.039
HR	<---	MGTPR	1.000	.556	.990	.322
RM	<---	MGTPR	.016	.796	.020	.984
IN	<---	POV	-1.000			
CO	<---	POV	-0.500			

Source: Survey data (2014)

Note: MGTPR is Management Practice, POV is Poverty, LG is Loan Guarantee, TC is Trade Credit, MS is Micro-Saving, MC is Micro-Credit, TS is Target Setting FM is Financial Motivation, , IN is Income, CO is Consumption RM is Risk Management, HR is Human Resource, CS is Customer Service and TR is Training.

The regression weight for financial motivation in the prediction of management practices, micro-saving and micro-credit were significantly different from zero at the 0.001 level (two-tailed). This means that financial motivation works better for the MEOs when their management practices, micro-saving and micro-credit services are improved. However, the regression weight for financial motivation in the prediction of poverty was not significantly different from zero at the 0.001 level (two-tailed). This means that financial motivation alone without other factors such as management practices cannot predict poverty situation among the MEOs. The regression weight for

management practices in the prediction of customer service was significantly different from zero at the 0.001 level (two-tailed). This means that customer service was a good indicator of management practices among the MEOs.

The Model Fit results for financial motivation, poverty and management practices were then investigated to establish whether the Fit Indices would be acceptable or not.

The Model Fit results for financial motivation, poverty and management practices are presented in Table 4.14.

Table 4.14: Model Fit results for financial motivation, poverty and management practices variables

Model	CFI	TLI	RMSEA	CMIN/ DF
Default Model for Financial Motivation and Poverty variables	.994	.964	.036	1.901

Source: Survey Data (2014)

Note: CFI is Comparative Fit Index, TLI is Tucker-Lewis Index, RMSEA is Root Mean Square Error of Approximation and CMIN/DF is Relative Chi-Square. The researcher accepted the models if: (1) the relative chi-square value was 3 or less but not less than 1 (Kline, 1998); (2) CFI was equal to or greater than 0.90 (Garson, 2010); (3) TLI was equal to or greater than 0.90 (Hu & Bentler, 1999); and (4) RMSEA was less than or equal to 0. 08 (Schreiber, Stage, King, Nora, & Barlow, 2006).

The Goodness-of-Fit Indices for financial motivation, poverty and management practices variables were: CMIN/DF=1.901, CFI=0.994, TLI=0.964 and RMSEA=0.036. The Fit Indices met the required standards and therefore they were acceptable. This confirmed the positive relationship between financial motivation and poverty among the MEOs.

This study established the positive relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County both before and after the mediation by management practices latent construct. However, when comparing the two structural relationships, the relationship which was mediated by management practices was more parsimonious than the relationship which was not mediated. This is consistent with the study of Baron and Kenny (1986) which suggests that a more realistic goal for structural equation modelling is to seek mediators that significantly decrease path coefficient of the relationship between the independent and dependent variables.

A significant reduction of path coefficient demonstrates that a given mediator is indeed strong and parsimonious. In this study the relationship between financial motivation and poverty before the mediation had a path coefficient of 0.66. After the mediation, the path coefficient of the relationship between financial motivation and poverty reduced to 0.02. This indicates that management practices as mediator suppressed the path coefficient of the relationship hence making the relationship more parsimonious than before.

Empirical studies give mixed results on the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs. On the one hand, the studies have established the direct and positive relationship between financial motivation and poverty. On the other hand, studies reveal that the rate of failure of the micro enterprises in the developing countries is always high due to lack of management skills and knowledge on the part of the MEOs and this leads to

poverty among them. Studies indicate that successful business enterprises require people with some managerial and entrepreneurial ability. The studies reveal that even when the poor entrepreneurs enjoy access to financial services, their empowerment as a result of those services is not guaranteed without good management practices. The available studies have focused their attention only on how the MEOs could have access to micro-credit (financial motivation). This study sought to investigate the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub County, Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter summarizes the results of the study and reports the conclusions drawn. In addition, practical contributions of the study are discussed together with observed limitations. The chapter concludes by providing potential avenues for future research.

5.1 Summary of findings

Poverty was measured using two observed variables namely income and consumption. The mean of income was 2.3 with standard deviation of 0.47. Consumption had a mean of 2.3 with standard deviation of 0.50.The individual mean response scores for each of the items were below the average. Findings revealed that both income and consumption were low hence an indication that poverty was high among the MEOs. Standard deviations (SD) indicated that there was minimal spread of responses as none was more than 1.00 point away from the mean. This means that the micro enterprises had income and consumption practices more or less the same way.

Financial motivation was measured using four observed variables namely; micro-credit, micro-saving, trade credit and loan guarantee. The mean of micro-credit was 2.6 with standard deviation of 0.2. Micro-saving had a mean of 2.9 with standard deviation of 0.6.trade credit had a mean of 2.3 with standard deviation of 0.9 and loan guarantee had a mean of 2.5with standard deviation of 0.3. The individual mean response scores for each of the items were below the average. Findings revealed that the variables were low hence an indication that financial motivation was "low" among

the MEOs. Standard deviations (SD) indicated that there was minimal spread of responses as none was more than 1.00 point away from the mean. This means that the enterprises had micro-credit, micro-saving, trade credit and loan guarantee more or less the same way.

Management practices of the MEOs were measured using five observed variables namely risk management, customer service, human resource, training and target setting. The mean of risk management was 2.3 with standard deviation of 0.6. Customer service had a mean of 2.7 with standard deviation of 0.3. Human resource had a mean of 2.2 with standard deviation of 0.5. Training had a mean of 1.9 with standard deviation of 0.5 and target setting had a mean of 1.7 with standard deviation of 0.6. The individual mean response scores for each of the items were below the average. Findings revealed that the variables were low hence an indication that management practices were "low" among the MEOs. Standard deviations (SD) indicated that there was minimal spread of responses as none was more than 1.00 point away from the mean. This implies that the enterprises had risk management, customer service, human resource, training and target setting more or less the same way.

To determine the relationship between financial motivation and poverty among the MEOs, confirmatory factor analysis for both financial motivation as well as that of poverty variables were done. Both the CFAs were done to establish the factor loading of the measured variables onto their latent constructs followed by SEM, which was done to assess the structural relationship between the two latent constructs namely

financial motivation and poverty. The confirmatory factor analysis Fit results for both financial motivation and poverty variables were acceptable indicating that their measured variables had successful factor loading. The SEM Goodness-of-Fit Indices for financial motivation and poverty variables were: CMIN/DF=1.505, CFI=0.944, TLI=0.930 and RMSEA=0.046. The Fit Indices met the required standards and therefore they were acceptable. This means that there was a positive relationship between Financial Motivation and poverty among the MEOs in Homa-Bay Sub-County.

To investigate the mediating role of management practices in the relationship between financial motivation and poverty among the MEOs, confirmatory factor analysis (CFA) for management practices was done in order to establish the factor loading of its measured variables. This was followed by SEM, which was used to determine the structural relationship between the three latent constructs namely financial motivation, poverty and management practices with management practices as the mediating variable. The Goodness-of-Fit Indices for financial motivation, poverty and management practices variables were: CMIN/DF=1.901, CFI=0.994, TLI=0.964 and RMSEA=0.036. The Fit Indices met the required standards and therefore they were acceptable. This confirmed more parsimonious relationship between financial motivation and poverty among the MEOs.

This study established the positive relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County both before and after the mediation by Management Practices variable. However, when comparing the two

structural relationships, the relationship which was mediated by Management Practices was more parsimonious than the relationship which was not mediated. This is consistent with the study of Baron and Kenny (1986). A significant reduction of path coefficient demonstrates that a given mediator is indeed strong. In this study, the relationship between financial motivation and poverty before the mediation had a path coefficient of 0.66. After the mediation, the path coefficient of the relationship between financial motivation and poverty reduced to 0.02. This was an indication that management practices as the mediator suppressed the path coefficient of the relationship hence making the relationship more parsimonious than before.

5.2 Conclusions of the study

From the findings of the study, the following were the conclusions: poverty is high among the MEOs in Homa-Bay Sub-County. Secondly; financial motivation is low among the MEOs in Homa-Bay Sub-County. Thirdly, management practices are low among the MEOs in Homa-Bay Sub-County. Fourthly, there is positive relationship between financial motivation and poverty among the MEOs in Homa-Bay Sub-County. Lastly, management practices significantly mediate the relationship between financial motivation and poverty among the MEOs hence making the relationship more parsimonious than before.

5.3 Recommendations of the study

It is recommended that MEOs in Homa-Bay Sub-County should learn to save and make good use of trade credit facilities offered by other business partners and plough back their ME profits to reduce level of poverty among them. Secondly, the MEOs should have good customer services, loan guarantee and risk management practices in

order to access trade credit and micro-credit (financial motivation) so as to increase their level of financial motivation. Thirdly, management practices of the MEOs should be improved to meet the internationally accepted standards of good enterprise management practices. Fourthly, since there is positive relationship between financial motivation and poverty among the MEOs, enterprise financial training should be encouraged among the MEOs to enlighten them on how to manage the financial resources of their MEs. Lastly, management practices should always be considered as mediator in the relationship between financial motivation and poverty among the MEOs since it reduces the path coefficient of the relationship. It therefore makes the relationship between financial motivation and poverty among the MEOs more parsimonious than before.

5.4 Limitations of the study

A number of limitations were identified while conducting this study. First, the study used a survey research design. Survey research design is limited in accuracy due to the fact that it gives a snap shot at a point in time. Nevertheless, to enhance the accuracy and validity of results, the data obtained was scrutinized and cleaned before analysis. Secondly, the study limited its investigation to local micro enterprises. This compromised the global undertaking of the micro enterprises and restricted generalization of the results within this industry. Lastly, in the first visit to respondents, the study encountered a low response rate. This was attributed to the nature of the respondents. The study arranged repeat visits to counter this thereby achieving the desired response rate.

5.5 Suggestions for further research.

From the limitations above, this study has come up with the following suggestions for further research: Other mediator variables should be the focus of further conceptual research to establish the nature and strengths of their interrelationships. It is also suggested to academicians to conduct similar studies in other contexts and apply other research designs. It is suggested that further research should be carried out to investigate the moderating role of management practices in the relationship between financial motivation and poverty among the MEOs.

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