MICROFINANCE SERVICES AND CUSTOMER SATISFACTION
IN SELECTED MICROFINANCE INSTITUTIONS (MFIs)
IN KAKAMEGA TOWN, KENYA

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DECLARATION

"This thesis dissertation is my original work and has not been presented for a degree or any other academic award in any university or institution of learning.

Alenga Ebenezer Amadi

Name and Signature of Candidate

15/05/2016

Date
APPROVAL

"We confirm that the work reported in this thesis dissertation is by the candidate under our supervision".

Name and Signature of Supervisor

Date: 15/8/2016

Name and Signature of Supervisor

Date: ______________________________
DEDICATION

This work is dedicated to Dr. Edward Alenga, Mrs. Esther Alenga and Dr. Emmanuel Alenga. You have played a great role in ensuring my personal growth and most importantly appreciating each individual for their unique strengths and weaknesses. Acceptance of one's weaknesses doesn't make one ignorance rather a wise man knows it's prudent to build a support system around his weaknesses. These relevant lessons have enabled me to have better perspective in identifying gaps that need support systems to be built around them in the financial sector. The effort to accomplish my goals in academics has been inspired by your encouragement towards this pathway. Thank you for your support, this expedition would have been grim without you.
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Family cannot be forgotten for their immense support and encouragement through-out my education most especially for your material, spiritual and financial support throughout my studies. Asante!
ABSTRACT

Incessant investment in the financial sector has created pressure on the market share; such pressure sometimes results into neglect of core customers' interest. Research findings has indicated an influx of microfinance institutions with effort to outsmart each other, introducing newly packaged services to attract new customers. Consequently this has led to de-registration or multiple registration of customers to more than one microfinance due to neglect of customer needs leading to dissatisfaction. This study highlights the need of tracking customer satisfaction levels for microfinance institutions and indeed improvement of the quality of service based on identified gaps. The purpose of this study was to examine cause and effect relationship between Microfinance Services and Customer Satisfaction. The following research objectives were used to achieve the research purpose: To establish the level of microfinance services, to determine the level of customer satisfaction to microfinance services and to determine the relationship between microfinance services and customer satisfaction. Descriptive correlation strategies was employed to establish the relationship between the research variables. A sample size of 325 was computed through systematic random sampling from total population of 1561. The relationship between study variables was established through correlation matrix and regression model analysis. Research findings revealed that there is positive and significant correlation between microfinance services and customer satisfaction, indicating that a unit change of micro finance services would result into 0.492 change in customer satisfaction. As contribution to the financial sector, the study recommend that the financial institutions management should ensure proper communication to clients and development of an effective complaints management system where clients’ complaints are addressed swiftly. The need to be keen on the initial client training was highlighted, this being the entry point, customers’ expectations are founded on promised service from these institutions. If not handled well, financial institutions may raise customer’s expectation and fail to meet them, consequently leaving customers dissatisfied. Adoption of money disbursement channels (bank and mobile money transfers) was proposed in favor over disbursements though cheques, this was to address the need to reduce the turnaround time for disbursements. As noted the main product offered by MFIs are financial products. Regular evaluation of customer satisfaction should be conducted to determine areas of improvement in terms of service delivery and creation of new products that fit customers’ need.
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CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter provides historical background to the study, highlighting the key problem identified by the researcher that needs to be addressed in the financial sector. Building on the need to conduct this study key objectives were identified in guiding the research process and findings.

1.1 Background of the Study

High levels of competition in today’s business world has led to firms relying on loyal customers in order to survive. According to a research done by Rajdeep (2009) it was noted that; in order for a firm to have loyal customers, satisfaction levels play a critical role in maintaining the existing client base. Provision of exceptional customer service gives a firm competitive edge regardless of the nature of the business as a results of clientele maintenance influenced by the services offered. Lack of customer satisfaction plays a reverse role to the firm ability to maintain its customers, thus growth is hindered and this defeats the purpose of a running a business which is profit maximization. Companies are scrambling to boost customer satisfaction and keep their current customers rather than devoting additional resources to chase potential new customers. According to Arnold (2002), it costs five to eight times as much to get new customers than to hold on to old ones, this is key in understanding the drive toward benchmarking and tracking customer satisfaction.

Customer satisfaction is an evaluative process of measuring how a product or service meets, exceeds or thwarts consumer’s expectation. The ratings shows levels of consumption related fulfillment, including levels of under or over fulfillment Swaid (2007). Customer
satisfaction is captured as a positive feeling (satisfaction), indifference or negative feelings (dissatisfaction). This is a short-range attitude that readily changes given the present circumstances hence not a static idea, rather changes as soon a customer’s expectation is met with a different product or service. The highlight on customer satisfaction has resulted to multiple studies and groundbreaking approaches to assess customer behavior. Among the most well-known researchers Parasuraman assessed customer satisfaction using service quality model. Today, Service Quality model is used, with few adaptations, in multiple sectors to assess both service perceptions and expectations across a range of different service characteristics (European Commission, 2008). The original model was adapted in function of the researchers’ needs and “moved” from the non-financial sector to the financial sector. According to Perreault (2011) traditionally business had concentrated on production first, then once the good or service had been produced companies concentrated on selling what they produced. Few companies directly asked consumers what they wanted, goods and services were produced with little regard for consumer preference denoting that most companies were sales oriented.

The microfinance industry is characterized with stiff competition; commercial banks have begun to target the traditional small and medium enterprises and individuals below the middle class category, mostly referred to at the “un-bankable”. New microfinance institutions have continued to be created whereas the clientele base is becoming more sophisticated concerning the quality of service required or expected, Daubert (2002). The microfinance industry is losing customers because of both the aggressive competition and MFIs’ weakness to satisfy their clients. This simple description shows why MFIs should be concerned about the levels of customer satisfaction. It justifies why they must pay attention to understand their customers’ preferences and priorities IFAD (2007) to survive in a competitive environment. The microfinance industry is slowly becoming more “market
oriented” and it seems that customer satisfaction is one of the important tools to run a business and to achieve the mission statement (on sustainability and outreach) in this sector. Competitors that are prospering in the new global economy recognize that measuring customer satisfaction is key, its only by doing so that they can hold on to the customers they have and understand how to better attract new customers, Kotler (2006). Competitors who are successful recognize that customer satisfaction is a critical strategic weapon that can bring increased market share and increased profits. Customers make their choices based on perception of value offered by each company. Companies ought to set the right level of service a customer should expectation, if they set it too low, they may succeed in satisfying the customers but they won't be able to attract many customers. But again if they set the expectations of the customers too high, they could risk disappointing customers. Looking at the dynamics of Kakamega town and the number of new microfinance institutions sprouting, this study zooms in to identify the relationship between service levels and customer satisfaction levels in the financial sector.

1.2 Statement of the Problem

An increase in the number of microfinance institutions has created pressure on the market share sometimes results into neglect of core customers' interest, (Kenya Financial Sector Deepening, 2012 Report). Kirungi (2011) in his study confirms that client exits is on the rise in some MFI’s to join other financial institutions because clients are dissatisfied with the services provided. According to Biha: (2009) in satisfying a customer, a firm generates benefits beyond the present transaction and current period of time which can be translated to growth. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. In the Kenyan financial sector, introduction of newly packaged services
by financial institutions with an aim of outsmarting each other is driving the sector towards
the need to identify customer satisfaction levels so as to have a competitive edge in the
market.

The microfinance industry is faced with strong competition; commercial banks have begun
targeting traditional MFI customers, new MFIs have continued to be created in the
microfinance industry, microfinance clientele is becoming more sophisticated concerning
the quality of service they require or expect Daubert (2002). These factors may negatively
affect MFIs, in fact, the microfinance industry is losing customers because of both the
aggressive competition and weakness to satisfy clients. In this perspective, MFIs must focus
on customer satisfaction, studying and determining customer satisfaction levels and adjust
product features to suite customer needs. In light of the above scenario, the prevailing
problem which this study investigated was the lack of tracking customer satisfaction levels
to microfinance services leading to an increase of registration of clients to more than one
MFI and questionable exits.
1.3 Purpose of the Study

The purpose of this study was to examine cause and effect relationship between the level of microfinance services and customer satisfaction.

1.4 Specific Objectives

1. To establish the level of microfinance services for selected MFIs in Kakamega town, Kenya
2. To determine the level of customer satisfaction to microfinance services for selected MFIs in Kakamega town, Kenya
3. To determine the relationship between microfinance services and customer satisfaction for selected MFIs in Kakamega town, Kenya

1.5 Research Questions

This study sought to answer the following research questions:

1. What is the level of microfinance service for MFIs in Kakamega town, Kenya?
2. What is the level of customer satisfaction to microfinance services for selected MFIs in Kakamega town, Kenya?
3. Is there significant relationship between microfinance services and customer satisfaction for selected MFIs in Kakamega town, Kenya?

1.6 Null Hypotheses

H₀: There is no significant relationship between microfinance services and customer satisfaction for selected MFIs in Kakamega town, Kenya.
1.7 Scope

1.7.1 Geographical Scope

This study was conducted in selected MFIs in Kakamega which is the main town in Kakamega County, Kenya. Kakamega County is a county in the former Western Province of Kenya, its capital and largest town is Kakamega. The town lies about 30 km north of the Equator with a population of 99,987 (2019 census), largely dominated by small-scale farmers and small medium entrepreneurs, this makes it a target market for microfinance institutions. Kakamega is 52 km north of Kisumu, the third largest city in Kenya and a port city on Lake Victoria. The average elevation of Kakamega is 1,535 metres. Kakamega county is Kenya's second most populous county after Nairobi.

1.7.2 Content Scope

This study examined customer satisfaction to microfinance service, cause and effect relationship between the independent variables (microfinance services) and dependent variable (customer satisfaction). This study was conducted in selected microfinance institutions in Kakamega town, Kenya; thus findings are based on data collected from two financial institutions.

1.7.3 Theoretical Scope

Based on the Gap Model Parasuraman, Zeithaml & Berry (1985); this study aimed at identifying gaps in microfinance services that will inform recommendations for improvement on the quality of service. The model of service quality identifies 5 gaps that can cause problems in service delivery and influence customer evaluation of service quality, the authors proposed a conceptual model of service quality indicating that consumers' perception toward a service quality depends on the five gaps existing in organization: Gap 1 expounds on the distance between what customers expect and what managers think they
expect. *Gap 2* show the variance between management perception and the actual specification of the customer experience. *Gap 3* represents variance in experience specification and the delivery of the experience. *Gap 4* is the gap between the delivery of the customer experience and what is communicated to customers. Finally, *Gap 5* is the gap between a customer's perception of the experience and the customer's expectation of the service.

### 1.8 Significance of the Study

**Human resource managers** at Eclof Kenya and Vision-fund Kenya will be enabled to identify training needs/gaps for finance officers more specifically for their Kakamega branch. This will guide the department in the establishment of an in-house training program for staff, attentive to personal and career development. As a result staff motivation will increase evidenced by quality of service offered by staff.

The **microfinance institutions' core management team** will be in a position to gauge current measures of customer satisfaction therefore assess if customers satisfaction levels are within acceptable levels. Implementation of recommendations will lead to improvement on products and services offered.

Informed by the findings, **the communications and marketing department** will be able to create realistic customer expectation through honest, accurate communication about what the firm can provide.

**The researcher** will measure customers' satisfaction to microfinance services and come up with strategies that will ensure customer retention through creation of products that satisfy match market needs. **Future researchers** can also use information based on this study to carry out more research that will contribute to a dynamic shift in the financial sector.
1.9 Operational Definitions of Key Terms

For the purpose of this study, the following terms are defined as they are used in the study:

1.9.1 Customers Satisfaction levels

Perrault (2011) defines customer satisfaction as the judgment of a pleasurable level of consumption rated fulfillment, including levels of under fulfillment or over fulfillment. In this study customer satisfaction levels refers to the measure of gratification or displeasure in relation to services offered by microfinance institutions. A Linkert scale rating of 1-5 is used with 1 signifying the lowest level of fulfillment and 5 as the highest level of fulfillment.

1.9.2 Level of Microfinance Services

Microfinance can be defined as a source of financial services for entrepreneurs and small businesses lacking access to banking and related services. Delivery of services is guided by two mechanisms: (1) relationship-based banking for individual entrepreneurs and small businesses; and (2) group-based models, where several entrepreneurs co-jointly form a group which is registered there able to access loans products through co-guaranteeing. For purposes of this study, level of microfinance service refers to the quality of services offered to micro-entrepreneurs and small businesses that lack access to banking. Quality of service will be measured against microfinance services classified into three; customer care, group management and loan products.
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
Literature from various scholars related to this study was examined to shed light on the problem identified by the researcher. Empirical study showing findings related to this study was highlighted to show relevance of this research, further gaps to be addressed by this study were identified.

2.1 Theoretical Review
The gap model advanced by Parasuraman, is a model of service quality that identifies 5 gaps that can cause problems in service delivery and influence customer evaluation of service quality. According to Parasuraman (1985) this model offers an integrated view of the consumer-company relationship. It is based on substantial research amongst a number of service providers.
**GAP model of service quality**

![GAP model diagram](image)

**Figure 2.1: The Gap Model**

**Source:** Parasuraman, Zeithaml and Berry (1985)

In common with the Gronroos model, it shows the perception gap and outlines contributory factors. However, the GAP model goes further in its analysis of these key contributory factors. It not only provides a more rigorous description of the contributory Gaps, it lists key drivers for each gap and generic breakdown of each of these drivers. These are illustrated below;

1: The *perception gap* is formed when the customers' expectation of service provided by a firm does not match management's perception of its customer's expectation. This is mainly due to inadequate market research to match the expected service and the management perception of customer expectation.
2: The service standards gap results from a firm setting service standards which are not customer driven. This is triggered by the absence of customer driven standards; the element tends to set the standards without matching including the customers in setting them, inadequate service leadership and poor service design.

3: A service delivery gap is due to provision of a service that does not match a firm’s service standards expected by customers. Deficiency of human resource policies, failure to match supply and demand are discovered to be the lead cause resulting to a service delivery gap.

4: Communication gap occurs when a firm sets high expectation by its communication to its customers but does not live to it when the service is provided. This is caused by inefficient management of customer expectations, overpromising and inadequate horizontal communication.

5: Satisfaction gap is the gap between a customer's perception of the experience and the customer's expectation of the service.

In this case expected service is a function of word of mouth communication, personal need and past experience, and perceived service is a product of service delivery and external communications to consumers is a product of service delivery and external communication to customers. When anyone or more of these gaps are large service quality is perceived as low. As the gaps shrinks service quality improves. This level of detail allows powerful analysis of the contributory factors to a conception gap at a practical level. The model shows the importance of marketing, business leadership quality and HR systems in the management of the expectation.
The model developed by Parasuraman (1985) provides a basis for measurement of customer satisfaction by using the gap between the customer's expectation of performance and their perceived experience of performance. This provides the measurer with a satisfaction "gap" which is objective and quantitative in nature. Cronin and Taylor propose the "confirmation/disconfirmation" theory of combining the "gap" described by Parasuraman, as two different measures (perception and expectation of performance) into a single measurement of performance according to expectation.

In the current market dynamics customers are increasingly intolerant of poor service, more willing to switch providers with rising levels of expectation. Against this backdrop and in an increasingly competitive environment, meeting customer expectations is both more important than ever and more difficult to achieve. According to Kotler (2006), customers make their choices based on their perception of the value offered by each company. Companies have to be able to set the right level of expectation; if the set expectation is too low then they may succeed in satisfying customers but they won't be able to attract many customers. If they set expectations too high they could risk disappointing customers.

According to Ballantyne (1991) Customers satisfaction means-"Give the customers what they need" However people don't always do the logical and the obvious especially changing what they've done in the past. Production orientation is used to refer to a narrow thinking and lack of central focus in a business firm to achieve this; the firm has to have a guiding focus that the entire department has to adopt. Quality and efficiency are the driving forces behind the success of every call center. But when companies rely upon you to provide such an operation, and manage their most prized customer relations and potential sales prospects on their behalf; the standard of these services has to reach new heights in professionalism.
2.2 Conceptual Framework

The conceptual framework above shows the relationship between the independent variable (microfinance service) and the dependent variable (customer satisfaction level). The dependent variable (customer satisfaction) is classified into levels of rated fulfillment based on services offered by financial institutions. The judgment on satisfaction is an accumulative experience on the services provided by the microfinance institution, for the purpose of this study the independent variable (microfinance service) is categorized in to three sections, a. *customer care service* referring to the process of responding to inquiry, documentation, analysis and resolution of complaints by customers, in addition to client registration and exit. This is an important aspect of service since it’s the point of contact between a client and the financial institution. b. *group management* denotes the process of group formation registration and group handling by finance officers, microfinance institution provide loan products through registered groups owing to the level of risk that may lead to an increase in non-performing loans, these groups make up a loan portfolio.
which is managed by a credit/loan officer thus a significant area for a microfinance institution to measure levels of satisfaction and an avenue of getting feedback. Lastly c. 

**loan products** are the main services offered to the clients therefore an analysis on clients’ feedback will guide an institution in the development of market driven products. This framework indicates the reliance of customer satisfaction on products and services offered by a microfinance institution, this is because the level of fulfillment or displeasure is based on the customers experience with services offered.

### 2.3 Related Studies

This study zooms in to other related studies done by different scholars so as to identify existing research gaps in the microfinance industry narrowing it done to the Kenyan market. Guided by research objectives the review focused on microfinance services, customer satisfaction and the relationship between microfinance services and customer satisfaction.

#### 2.3.1 Microfinance Services

Microfinance refers to an array of financial services, including loans, savings and insurance, available to poor entrepreneurs and small business owners who have no collateral and wouldn't otherwise qualify for a standard bank loan. In Kenya, micro-finance movement gained momentum in the late 1980s as a result of exclusion of large proportion of the population from the formal financial institution mainly banks. Micro-finance emerged with the aim of filling the gap left by banks in providing credit to individuals, micro, small and medium enterprises which were on the rise during this period. Ogindo (2006).

Active research in the microfinance sector started in 1990’s, this was due to the shift from the traditional financial institutions’ targeted clients. A new breed on financial institutions ventured towards a new niche mostly referred to at the “un-bankable” due to the high risks and transaction cost involved. Being a new financial mode, this raised interest from
researchers in the financial sector in trying to understand the model. This sentiments are echoed by Brooks (2013) who indicates that most often, microloans are given to those living in still-developing countries and described as the supply of financial services to low income employees, which is closer to the retail finance model prevailing in mainstream banking. Kiiru (2007), in her work acknowledges the existence of few empirical studies focusing on this subject matter though there has been increased interest on the financial models used by microfinance institutions in addition to the incorporation of technology in the provision of these services.

Kiiru (2007) analyzed the impact of microfinance on household income as well as measure household vulnerability to poverty after access to microfinance. This has been an area of interest for the development world, more interestingly because the financial model has proven to work over the years. The results indicated a positive and significant impact of microfinance on household income. The thesis also re asserts that providing affordable financial services to the rural population still remains to be an important component of development strategy. On the other hand the thesis emphasizes that there is need to come up with innovative microfinance institutions that are supportive of their own role in assets accumulation and wealth creation for their clients. This will involve innovative targeting of potential clients, as well as streamlined microfinance regulations to protect their clients. In particular the study cautions that the ability of households to begin informal sole micro entrepreneurship should not be assumed to be adequate for the improvement of household income. There is need to create a policy framework to spur growth not only in the micro enterprises but also in the overall rural economy that would lead to the creation of employment opportunities and an increment in the agricultural output. This is quite a big task to accomplish and may require more than one particular policy intervention. In essence
this calls for both private (microfinance) and public partnerships to create the environment where such poverty reduction objectives could be realized.

2.3.1.1 Customer Care

Marketing strategies are essential in driving products and services offered by a firm, Dr. Justus (2010) highlights this in his Investigation into the Marketing Strategies used by Commercial Banks in Managing Service Breakdown among SME customers. His findings indicted that the lack of clear communication with customers, long procedures; intrusive documentation and lack of flexibility are some of the causes resulting in service breakdown. Customers always want to have clear and well defined messages to help them make informed decisions always. Procedures should also be made flexible enough to be of help to them and not hinder them from getting the services. According to the respondents customers tend to shy away when they think that the information being asked to provide is intrusive hence the need to eliminate this intrusiveness, if it has to be done then they should be made aware that this documentation is not for other purposes other than to serve them. However strategies to enhance customer perception was given by respondents as ensuring that communication is done elaborately and using advertisements to position products in the minds of customers. This study shows the in obtaining feedback from its client so as to improve on services offered, in other words was can refer to is as being market driven.

2.3.1.2 Group Management

Brune (2009) highlights the difference in the classical financial institutions model which typically requires existence of collateral as security before granting loans to the microfinance model. Low income levels and the lack of assets would exclude most people in developing countries from obtaining credit from standard banks. In contrast, microfinance institutions apply the concept of group-lending, as an alternative to requiring collateral from
each individual, peer pressure and social selectivity is used to influence repayment rates and hedge against default risk. Several individuals are grouped, where each person receives a specific loan, but still the whole group is responsible for repaying credit. As groups form voluntarily, no group is willing to accept a member whose reputation is questionable and who is likely to take too high risks in investing the loan and risks to be unable to repay by hindsight.

Based on findings from a study done on the impact of microfinance institutions on development Brune (2009), it is striking that the numbers of employees as well as clients have been strongly increasing during the past decade, implying increasing demand for microfinance services. Women are especially encouraged in engaging in microfinance businesses. Augmented loan portfolios may also be evoked by the success of group-lending schemes where a trigger strategy in repeated microfinance games is responsible for well-functioning repayment systems despite the lack of standard collateral requirements. Modelled after the idea of a poverty trap adjusted Solow model, average savings per saver as development indicator proved very suitable in 2006. This approach is also the most self-consistent and moreover theoretically well founded concept. According to a cross-sectional estimation of the linear model, an increase in microcredit by 1 USD resulted to an increase in savings by 0.47 USD on average. The study also concluded that a microfinance institution’s experience strongly affects average amounts of granted credit.

2.3.1.3 Loan Products

The main product offered by microfinance institutions are loans. Customers rate quality of service on a number of indicators, a.) Turnaround time of disbursement b.) Interest rates c.) Products features and qualification requirements. One major complaint from borrowers is the high interest rates imposed by financial institutions. Interest rates of between 20 to 30
percent are common among MFIs in developing countries (Islam, 2007). For many borrowers interest is only part of the cost for borrowing. A significant number of MFIs incorporate various fees and forced savings that increase the cost significantly (Sinclair, 2012). The global 16 industry average of MFI interest rates is around 35 percent but these vary greatly from country to country. In Uzbekistan, for example, the average annual interest rate is about 80 percent, while the average is 17 percent in Sri Lanka (Kneiding & Rosenberg, 2008). Some argue that distributing and managing many small loans is a high cost process and justifies high interest rates for borrowers. Others claim that high interest rates are harmful to borrowers and argue for interest rate ceilings across the sector (Hudson, 2007).

Studies conducted by The Consultative Group to Assist the Poor (CGAP), a Washington D.C. based think tank focusing on financial access for the poor, provide useful information regarding microfinance interest rates. These studies show that for lenders focusing on extremely poor borrowers, interest rates have risen over the last several years. They also point out the fact that these low-end lenders are much more profitable than average microfinance institutions (Rosenberg, Gaul, Ford, & Tomilova, 2013). The studies by CGAP point to the same justification for high interest rates as the ones mentioned above. Small loans require higher administrative costs and these are not offset by economies of scale (Rosenberg, Gonzalez, & Narain, 2009).

### 2.3.2 Customer Satisfaction

Customer satisfaction, a business term, is a measure of how products and services supplied by a company meet or surpass customer expectation. It is seen as a key performance indicator within business Farris (2010). Farris (2010) proposed that customer satisfaction is based not only on the decision of customers towards the reliability of the delivered service, but also on customers' experiences with the service delivery method.
Kotler (2006) Customer lifetime is an important concept that says that if you lose a customer you don't just lose one sale, you potentially lose thousands or even hundreds of thousands that a customer could spend over their lifetime. Customer equity is the total combined lifetime values of all the company's customers. Customer equity forecasts the future, whereas sales and market share tell what happened in the past. In a competitive marketplace where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy. Customer satisfaction is an ambiguous and abstract concept and the actual manifestation of the state of satisfaction will vary from person to person and service to service. The state of satisfaction depends on a number of both psychological and physical variables.

The banking industry like many other financial service industries is facing a rapidly changing market, new technologies, economic uncertainties, fierce competition and more demanding customers and the changing climate has presented an unprecedented set of challenges. Banking is a customer oriented services industry, therefore, the customer is the focus and customer service is the differentiating factors.

2.3.2.1 Measuring Customer Satisfaction in the Banking Industry

According to Kulabako (2011), With the phenomenal increase in the country's population and the increased demand for banking services; speed, service quality and customer satisfaction are going to be key differentiators for each bank's future success. Thus it is imperative for banks to get useful feedback on their actual response time and customer service quality aspects of retail banking, which in turn will help them take positive steps to maintain a competitive edge.

Arnold (2002) noted that first the consumer can make satisfaction judgment with respect to any or all of the aspects or stages of product and service experience. For example in the
context of obtaining a service from a bank, customers could measure satisfaction associated with the products purchase or any portion or all of the consumption phase. Nevertheless, it is a mistake to assume that these entire judgments sum to an overall level, even when uncomfortable things happen, events may evolve in such a way as to make an experience satisfying.

Banking operations are becoming increasingly customer dictated. The demand for ranking supermalls' offering one-stop integrated financial services is well on the rise. The ability of banks to offer clients access to several markets for different classes of financial instruments has become a valuable competitive edge. Convergence in the industry to cater to the changing demographic expectations is now more than evident. The working of the customer's mind is a mystery which is difficult to solve and understanding the nuances of what customer satisfaction is, a challenging task. Customer satisfaction is measured at the individual level, but it is almost always reported at an aggregate level. As research on consumption experiences grows, evidence suggests that consumers purchase goods and services for a combination of two types of benefits: hedonic and utilitarian. Hedonic benefits are associated with the sensory and experiential attributes of the product. Utilitarian benefits of a product are associated with the more instrumental and functional attributes of the product Athola (1990)
2.3.2.2 Measures of Customer Satisfaction

The usual measures of customer satisfaction involve a survey with a set of statements using a Likert Technique or scale. The customer is asked to evaluate each statement and in term of their perception and expectation of performance of the organization being measured. Their satisfaction is generally measured on a five-point scale. Research done by Kanyurhi (2009) used the Parasuraman’s model with few modifications to fit the microfinance sector and African context. The researcher developed an embedded scale with 32 item-scales and six principal dimensions: Tangibles, comfort and appearance of personal and material (6), Reliability or capacity to accomplish task (4), Responsiveness, dynamism and willingness for helping customers (6), Insurance and confidence (5), Empathy and attention to clients (5); Price, costs and conditions (6). Although the five first dimensions are similar to the Parasuraman scale in terms of structure, the items’ content is deeply different form the original scale trying to incorporate and meet sector (MIFI) and context (Africa) matter. Thus, the tangibles dimension give insight about particular items related to loan officers’ using motorcycle and badge as tangibles items facilitating loans officers’ mobility and identification on field. The sixth dimension is a new one added to the original scale highlighting how do microfinance clients are strongly concerned by services pricing.

2.3.2.3 Customer satisfaction levels measurement scale

Regardless of the scale used, the objective is to measure customers' perceived satisfaction with their experience of a firm's offerings, it is essential for firms to effectively manage customer satisfaction. To be able do this, there is need for accurate measurement of satisfaction. Good quality measures need to have high satisfaction loadings, good reliability, and low error variances. In an empirical study comparing commonly used satisfaction measures it was found that two multi-item semantic differential scales performed best across both hedonic and utilitarian service consumption contexts.
2.3.2.4 Purpose of measuring customer satisfaction

According to Perreaut (2003) businesses ideally are continually seeking feedback to improve customer satisfaction. Customer satisfaction provides a leading indicator of consumer purchase intentions and loyalty. Customer satisfaction data are among the most frequently collected indicators of market perceptions. Their principal use is twofold: Within organizations, the collection, analysis and dissemination of these data send a message about the importance of tending to customers and ensuring that they have a positive experience with the company's goods and services.

Although sales or market share can indicate how well a firm is performing currently, satisfaction is an indicator of how likely it is that the firm's customers will make further purchases in the future. Much research has focused on the relationship between customer satisfaction and retention. Studies indicate that the ramifications of satisfaction are most strongly realized at the extremes. On a five-point scale, individuals who rate their satisfaction level as "5" are likely to become return customers and might even evangelize for the firm. (A second important metric related to satisfaction is willingness to recommend. This metric is defined as "The percentage of surveyed customers who indicate that they would recommend a brand to friends." When a customer is satisfied with a product, he or she might recommend it to friends, relatives and colleagues. This can be a powerful marketing advantage. Individuals who rate their satisfaction level as "1," by contrast, are unlikely to return. Furthermore, they can hurt the firm by making negative comments about it to prospective customers. Willingness to recommend is a key metric relating to customer satisfaction.

According to Ballantyne (1991) as markets shrink, companies are scrambling to boost customer satisfaction and keep their current customers rather than devoting additional resources to chase potential new customers. The claim that it costs five to eight times as
much to get new customers than to hold on to old ones is key to understanding the drive toward benchmarking and tracking customer satisfaction. Measuring customer satisfaction is a relatively new concept to many companies that have been focused exclusively on income statements and balance sheets. Companies now recognize that the new global economy has changed things forever. Increased competition, crowded markets with little product differentiation and years of continual sales growth followed by two decades of flattened sales curves have indicated to today's sharp competitors that their focus must change.

Competitors that are prospering in the new global economy recognize that measuring customer satisfaction is important. Only by doing so can they hold on to the customers they have and understand how to better attract new customers. The competitors who will be successful recognize that customer satisfaction is a critical strategic weapon that can bring increased market share and increased profit. According to a study done by (Bain & Company study, 2001) Customer satisfaction is related directly to profitability. If your customers are happy, they tend to be loyal. And if they're loyal they not only buy more, they refer other customers. Well-established research by Bain & Company found that, for many companies, an increase of 5% in customer retention can increase profits by 25% to 95%. The same study found that it costs six to seven times more to gain a new customer than to keep an existing one.

IFAD (2007) studied customer satisfaction in rural micro-finance institutions in Uganda, Kenya and Tanzania. This study assessed the determinants of customer satisfaction for rural customers accessing both credit and savings facilities. Results revealed that “customers prefer unlimited access to their savings while on credit facilities, customers want to have access to loan amounts they actually apply for at a ‘reasonable’ price and on flexible repayment term conditions”. The study suggested also that surveyed customers were all
satisfied exhibiting a Customer Satisfaction Index of 81%. The study concluded that “financial services should be delivered by courteous staffs that preferably are not being ‘changed/swapped’”. In a further study of banking customers, Boshoff and Staude (2003) on the Structure of Customer Service Recovery Expectation found that satisfaction was impacted positively by communication, explanation, and atonement while loyalty was just associated with communication and atonement in that order through the service recovery.

Murray (2001) concentrated his study on customer satisfaction levels using data from four MFIs affiliated to Women’s World Banking in three countries: Colombia (America), Bangladesh (Asia) and Uganda (Africa) with a total sample of 3,000 clients. Using Likert’s scale, the author took into account expectations and perceptions items plotting results on a two-axis grid. Results proved that customers are more satisfied by accessing higher loan amounts, faster turnaround times, lower loan requirements and lower prices. However, it seemed that customers preferring to develop a long-term relationship with the MFI want to be given preferential treatment while all customers are demanding increasing levels of customer service.

2.3.3 Relationship between Microfinance Services and Customer Satisfaction

Henning-Thurau et al. (2002) explored a non-significant relationship between particular treatment and satisfaction, it is logical to expect that the benefit of particular treatment would have a huge influence on satisfaction within retail banking. This is due to the information that special treatment provided by a financial service provider can be perceived as a part of the overall service, so that this benefit will raise customer satisfaction.

According to an empirical study done by Alenga (2011) on customer satisfaction levels on the growth of KCB Bank Uganda, it revealed that though there is no direct relationship between customer satisfaction levels and growth the dissatisfaction levels have an impact on
financial performance. Thus, the need for regular analysis of the satisfaction levels in order to help in the redesigning of products to fit the customers’ preference and to improve on the existing products and services with low levels of customer satisfaction.

In their investigation, Stauss and Schoeler (2004) established that effective service recovery is very profitable. Alternatively, not a success to ensure customer satisfaction through service recovery could lead to a decline in customer confidence, lost customers, negative word-of-mouth, possible negative publicity, and the direct cost of re-performing the service.

A study done by Dr. Boohene and Agyapong (2011) on the analysis of the antecedents of customer loyalty of telecommunication in Ghana: The case of Vodafone, the study investigated the determinants of customer loyalty in Vodafone. The main variable of concern was service quality, customer satisfaction and image. The study adopted the SERVQUAL model as the main framework for analyzing service quality. The results indicate that there is a positive relationship between service quality and customer loyalty. However, the results show a negative relationship between customer satisfaction and customer loyalty.

Empirical study done by Gathoni (2012) on the influence of microfinance institutions on entrepreneurial growth of small-scale businesses in Taita Taveta county Kenya, the findings affirmed that availability and accessibility to microfinance institutions had been vital in entrepreneurial growth in general. An evaluation of customer satisfaction with services of a microfinance institution, empirical evidence from women and association for gain both economic and social (WAGES); by Eddy Balemba Kanyurhi reveal that customers branch, customer revenue and number of services by customer strongly influence customer satisfaction.
Kirugi (2011) conducted an empirical study on micro credit policy and customer retention in microfinance institutions in Uganda: a case study of Hofokam Ltd- Kasese branch. The findings were that with the credit policies put in place there was a high level of client dropout and that credit policy and customer retention had a negative relationship. The results indicate that the increased client dropouts were because of high interest rates put as a credit policy forcing borrowers to join other financial institutions.

Silvestro (2005) on the Asymmetric Relationship between Customer Satisfaction, Dissatisfaction, Loyalty and Financial Performance research indicates that in contexts where customer satisfaction does not drive revenues, there may nevertheless be a link between customer dissatisfaction and financial performance. Hallowell (1996) view was that on the relationships of customer satisfaction, customer loyalty, and profitability to illustrate the potential impact of customer satisfaction on profit at the bank, the effect of improving customer satisfaction has been analyzed. This analysis provides an indication of the increase in profit resulting from an improvement in customer satisfaction only if the causality hypothesized in the service management literature exists, and if environmental and technological conditions remain essentially stable. Satisfied customers are central to optimal performance and financial returns. Customers are viewed as a group whose satisfaction with the enterprise must be incorporated in strategic planning efforts. Banks are finding value in directly measuring and tracking customer satisfaction as an important strategic success indicator. Evidence is mounting that placing a high priority on Customer Satisfaction is critical to improved organizational growth in a banking sector.
2.4 Research Gaps

Considering the reviewed related studies, time gap was identified as noted there was no current research done within. This study focused on bridging this gap as one of the latest study dedicated to establish cause and effect relationship between microfinance services and customer satisfaction levels for selected microfinance institutions in Kakamega town, Kenya.

Noted from the literature that there are no local authors who has delved in on microfinance services in relation to customer satisfaction, and indication a geographical gap on studies focusing on the quality of service offered by microfinance institution more specifically for Kakamega town, Kenya. Hence the desire by the researcher to fill this gap by being one of the local authors to paint a clear picture on the quality of service offered by microfinance institutions.

Content gap exists in terms of measurement of customer satisfaction levels for microfinance institution in the Kenyan financial sector. Highlighted through customer complaints and an increase in double registration in more than one microfinance institution there is need to measure satisfaction levels informing product design which is market driven. Therefore this research aimed at establishing customer satisfaction levels.
CHAPTER THREE
METHODOLOGY

3.0 Introduction

This chapter outlines the methods which were adopted in order to answer the research questions detailed in chapter one. It looked at the research design, research population, sampling techniques, data collection instruments and procedure of data collection, mode of data analysis and presentation as well as ethical consideration and limitations of the study.

3.1 Research Design

This study employed the descriptive correlation design through analysis of both qualitative and non-qualitative data collected to establish cause and effect relationship between microfinance services and customer satisfaction levels. The quality of microfinance services was assessed through a questionnaire and an indication on levels of customer satisfaction established based on customers perception on the services provided by the microfinance institutions. The research adopted Parasuman’s five scale to measure the level of customer satisfaction levels and quality of services offered by microfinance institutions, this is similar to Kanyurhi (2009) who adopted the five scale with few modification to the model. Testing of hypothesis was done through both correlation and regression analysis.

3.2 Research Population

The target population for this study was 1561 (1544 customers and 7 staff), (Eclof and Vision Fund Database 2015). MFI’s employees were involved in order to determine the qualifications of staff and the challenges they face that may affect the services they offer to customers.
3.3 Sample Size

In view of the nature of the target population 1561, a sample was taken using the systematic random sampling to determine the employees and clients to fill the questionnaires and interview guide. Table 1 shows the respondents of the study with the following categories: target population and sample size.

**Sloven's formula** was used to determine the minimum sample size.

\[
 n = \frac{N}{1 + Ne^2}
\]

Where

- \( n \) = Sample size
- \( N \) = Total population size
- \( e^2 \) = Margin of error at 0.05 level of significance.

<table>
<thead>
<tr>
<th>Microfinance Institutions MFI's</th>
<th>Total Target Population</th>
<th>Sample size</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Customers</td>
<td>Staff</td>
</tr>
<tr>
<td>Eclof Kenya</td>
<td>1075</td>
<td>4</td>
</tr>
<tr>
<td>Vision Fund</td>
<td>479</td>
<td>3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1554</strong></td>
<td><strong>7</strong></td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td><strong>1561</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 3.1: Respondents of the Study

Source: Primary data
3.4 Sampling Procedures

The respondents were classified based on these criteria:

1. Male or female respondents in any of the MFI's in the study

2. Employees from the banks who have a minimum experience of one year

From the list of qualified respondents which was obtained from the database of the chosen microfinance institutions, based on the inclusion criteria, systematic random sampling technique was used to select the respondents by selecting every fifth interval client on the database with consideration to the computed minimum sample size.

3.5 Research Instruments

The research tools utilized in this study included the following: (1) face sheet to gather data on the respondents' demographic characteristics (gender, age, qualifications, number of years' experience as an employee, number of years as a customer of a microfinance; (2) researcher devised questionnaires to determine the quality of services offered by the microfinance and customer satisfaction to microfinance services.

The response modes and scoring were as follows: The response modes of the questionnaire and interview guide were: strongly agree (5); agree (4); moderate (3); disagree (2); strongly disagree (1). Very satisfied (5); somewhat satisfied (4); moderate (3); somewhat dissatisfied (2); very dissatisfied (1) Very high (5); high (4); moderate (3); low (2); very low (1).

3.6 Validity and Reliability of the Instruments

3.6.1 Validity

The validity of instruments was measured using content validity of instruments. In this regard, two raters/experts in the field of study were used to set the content in the questionnaire. These experts assisted in assessing the phrasing of the questions to avoid
ambiguity. The content validity addressed the degree to which the test items represented the
domain of the traits or property being measured (Amin 2005). After that, the researcher
viewed each statement with the help of experts and assessed the extent to which the
questions were related to the topic of the study. The researcher then compiled the responses
from raters and computed the content validity index (CVI). The validity was determined at
alpha coefficient value of 0.07.

3.6.2 Reliability

The test-retest technique was used to determine the reliability (accuracy) of the researcher
devised instruments to ten qualified respondents. These respondents were not included in
the actual study. In this test-retest technique, the questionnaires and interview guide were
administered twice to the same subjects. If the test is reliable and the trait being measured is
stable, the results will be consistent and essentially the same in both times (Treece and
Treece, 1973).

3.7 Data Gathering Procedures

3.7.1 Before the administration of the questionnaires

1. An introduction letter was obtained from the College of Higher Degrees and
Research for the researcher to solicit approval to conduct the study from respective
microfinance institutions.

2. After approval, the researcher liaised with the MFI’s managers to select the
customers and a list of employees from the MFI’s authorities in charge for selection
through systematic random sampling from this list to arrive at the minimum sample
size.

3. Selection of research assistants who would assist in the data collection

4. Reproduction of more than enough questionnaires for distribution.
5. The respondents were explained about the study and were requested to sign the Informed Consent Form (Appendix 3).

3.7.2 *During the administration of the questionnaires*

1. The respondents were requested to answer completely and not to leave any part of the questionnaires unanswered.

2. The researcher and assistants emphasized retrieval of the questionnaires within five days from the date of distribution.

3. On retrieval, all returned questionnaires were checked to confirm whether all had been answered.

3.7.3 *After the administration of the questionnaires*

The data gathered was collated, encoded into the computer and statistically treated using the Statistical Package for Social Sciences (SPSS).

3.8 *Data Analysis*

The frequency and percentage distribution was used to determine the demographic characteristics of the respondents. The mean and standard deviations were applied for the levels customer satisfaction to MFI’s services. An item analysis illustrated the gaps based on the indicators in terms of mean and rank. From these gaps, recommendations were derived.
### Mean range used for individual indicators and interpretation:

**A. For the levels of customer satisfaction to microfinance services**

<table>
<thead>
<tr>
<th>Mean Range</th>
<th>Response</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.21 - 5.00</td>
<td>Very satisfied</td>
<td>Very Satisfied</td>
</tr>
<tr>
<td>3.41 - 4.20</td>
<td>Satisfied</td>
<td>Satisfied</td>
</tr>
<tr>
<td>2.61 - 3.40</td>
<td>Moderate</td>
<td>Fairly satisfied</td>
</tr>
<tr>
<td>1.81 - 2.60</td>
<td>Dissatisfied</td>
<td>Dissatisfied</td>
</tr>
<tr>
<td>1.00 - 1.80</td>
<td>Very dissatisfied</td>
<td>Very dissatisfied</td>
</tr>
</tbody>
</table>

**B. For level of service offered by microfinance institutions**

<table>
<thead>
<tr>
<th>Mean Range</th>
<th>Response</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.21 - 5.00</td>
<td>Very high Quality</td>
<td>Very high Quality</td>
</tr>
<tr>
<td>3.41 - 4.20</td>
<td>High Quality</td>
<td>High Quality</td>
</tr>
<tr>
<td>2.61 - 3.40</td>
<td>Moderate Quality</td>
<td>Moderate Quality</td>
</tr>
<tr>
<td>1.81 - 2.60</td>
<td>Low Quality</td>
<td>Low Quality</td>
</tr>
<tr>
<td>1.00 - 1.80</td>
<td>Very low Quality</td>
<td>Very low Quality</td>
</tr>
</tbody>
</table>

**C. For the need to improve services offered by microfinance institutions**

<table>
<thead>
<tr>
<th>Mean Range</th>
<th>Response</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.21 - 5.00</td>
<td>Strongly disagree</td>
<td>Very high Quality</td>
</tr>
<tr>
<td>3.41 - 4.20</td>
<td>Disagree</td>
<td>High Quality</td>
</tr>
<tr>
<td>2.61 - 3.40</td>
<td>Moderate</td>
<td>Moderate Quality</td>
</tr>
<tr>
<td>1.81 - 2.60</td>
<td>Agree</td>
<td>Low Quality</td>
</tr>
<tr>
<td>1.00 - 1.80</td>
<td>Strongly agree</td>
<td>Very low Quality</td>
</tr>
</tbody>
</table>

**D. For complaints from customers**

<table>
<thead>
<tr>
<th>Mean Range</th>
<th>Response</th>
<th>Interpretation</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.21 - 5.00</td>
<td>Very Rarely</td>
<td>Very high Quality</td>
</tr>
<tr>
<td>3.41 - 4.20</td>
<td>Rarely</td>
<td>High Quality</td>
</tr>
<tr>
<td>2.61 - 3.40</td>
<td>Moderate</td>
<td>Moderate Quality</td>
</tr>
<tr>
<td>1.81 - 2.60</td>
<td>Often</td>
<td>Low Quality</td>
</tr>
<tr>
<td>1.00 - 1.80</td>
<td>Very Often</td>
<td>Very low Quality</td>
</tr>
</tbody>
</table>

Table 3.2: Mean interpretation
3.9 Ethical Considerations

To ensure confidentiality of the information provided by the respondents and to ascertain the practice of ethics in this study, the following activities were implemented by the researcher:

1. The respondents coded instead of reflecting the names.
2. Solicited permission through a written request to the concerned officials of the MFI’s included in the study.
3. Requested the respondents to sign in the Informed Consent Form (Appendix 3)
4. Acknowledged the authors quoted in this study and the author of the standardized instrument through citations and referencing.
5. Presented the findings in a generalized manner.

3.10 Limitations of the Study

In view of the following threats to validity, the researcher claims an allowable 5% margin of error at 0.05 level of significance. Measures were also indicated in order to minimize the threats to the validity of the findings of this study.

1. Instrumentation: The research tools used were non-standardized hence a validity and reliability tests were done to arrive at a reasonable measuring tool.
2. Testing: The use of research assistants would have rendered inconsistencies such as differences in conditions and time when the data was obtained from respondents. This was also minimized by orienting and briefing the research assistants on the data gathering procedures.
3. Attrition: A representative sample would have not been reached as computed due to circumstances within the respondents and beyond the control of the researcher. Exceeding beyond the minimum sample size was done by the researcher to avoid this situation
CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF DATA

4.0 Introduction

Presentations and analysis of findings are made in this chapter. Further interpretations were made in line with the mean range useu for individual indicators. The information presented gives a clear picture of data collected and analyzed to inform conclusions of the study.

4.1 Demographic characteristics of respondents

The findings of the study are presented in this chapter with interpretation and discussion to solve the research problem. Graphs and tables were used to make representation of data upon which analytical interpretation and discussion was to search for broader meaning of answers got from analysis. It is from these findings that the study will help draw reasonable conclusion and make recommendations that can be useful improve on microfinance services that will increase customer satisfaction
<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>152</td>
<td>46.7</td>
</tr>
<tr>
<td>Female</td>
<td>173</td>
<td>53.3</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-28</td>
<td>55</td>
<td>16.8</td>
</tr>
<tr>
<td>29-39</td>
<td>150</td>
<td>46.2</td>
</tr>
<tr>
<td>40-49</td>
<td>91</td>
<td>28</td>
</tr>
<tr>
<td>50 and Above</td>
<td>29</td>
<td>9</td>
</tr>
<tr>
<td><strong>Educational Qualifications</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Certificate</td>
<td>248</td>
<td>76.3</td>
</tr>
<tr>
<td>Diploma</td>
<td>67</td>
<td>20.6</td>
</tr>
<tr>
<td>Bachelors</td>
<td>10</td>
<td>3.1</td>
</tr>
<tr>
<td>Masters</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>PhD</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Number of Years as a Customer/Employee</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than one year</td>
<td>53</td>
<td>16.3</td>
</tr>
<tr>
<td>1 year - 2 years</td>
<td>111</td>
<td>34.2</td>
</tr>
<tr>
<td>3 years - 4 years</td>
<td>100</td>
<td>30.7</td>
</tr>
<tr>
<td>5 years - 6 years</td>
<td>12</td>
<td>3.7</td>
</tr>
<tr>
<td>7 years and above</td>
<td>49</td>
<td>15.1</td>
</tr>
</tbody>
</table>

Table 4.1: Gender, Age, and Educational Qualification of Respondents

4.1.1 Gender

Majority of the respondents were of the female gender represented as 53.3% while male respondents constituted of 46.7%. Indicating greater number of women than men are registered with microfinance institutions.
4.1.2 Age
The leading age bracket for both customers and employees are within the ages of 29-39, the results also revealed that the ages above 50 years constitute the least customers and employees in-terms of numbers. Revealing that the majority customer and employees of microfinance institutions in Kakamega are the youth. This might be a reflection for the larger population of Kakamega town and may advocate for the need to design products that are tailored for this age group who are the majority.

4.1.3 Educational Qualification
An interesting finding on levels of education indicates that 76% of microfinance customers in Kakamega are certificate holders, with diploma holders at a distant second 21%; bachelor holders are the least representing 3% of total respondents. Masters and PhD was at 0%. The results show a few customer as the educational qualification rises, signifying that the elite have been appealed by products offered by microfinance institutions.

4.1.4 Number of Years as a Customer / Employee
34% of the customers and employees have been with the microfinance institutions for between 1-2 years and 4% have been with the institutions for 5-6 years. This indicates high rate of exits both for staff and customers, and calls for the review of human resource strategy to retain and develop staff in addition to focus on customer retention.
<table>
<thead>
<tr>
<th>Indicator</th>
<th>Mean</th>
<th>Interpretation</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. Customer Care Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Professionalism in handling customers</td>
<td>4.42</td>
<td>Very High Quality</td>
<td>1</td>
</tr>
<tr>
<td>Availability of information on services offered</td>
<td>4.14</td>
<td>High Quality</td>
<td>2</td>
</tr>
<tr>
<td>Customer reception</td>
<td>4.00</td>
<td>High Quality</td>
<td>3</td>
</tr>
<tr>
<td>Provision of group/clients reports</td>
<td>3.71</td>
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<td>Communication to the clients</td>
<td>3.42</td>
<td>High Quality</td>
<td>5</td>
</tr>
<tr>
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<td>3.42</td>
<td>High Quality</td>
<td>5</td>
</tr>
<tr>
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<td>3.85</td>
<td>High Quality</td>
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<td>Mode of disbursement</td>
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<tr>
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<td>1</td>
</tr>
<tr>
<td>Better faster services</td>
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<td>High Quality</td>
<td>2</td>
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<tr>
<td>Friendly Business Finance Officers</td>
<td>3.57</td>
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<td>3</td>
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<tr>
<td>Association with good name</td>
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Table 4.2: The Level of Microfinance Service
4.2 Level of Microfinance Service

4.2.1 Customer Care Service

On levels of microfinance services various parameters were used, leading among them was professionalism in handling customers with a mean of 4.42 interpreted as high quality. Customer complaint mechanism and communication to clients had the lowest mean at 3.42. This findings point out the need for microfinance in Kakamega to put in place an effective mechanism for handling complaints and ensure timely and effective communication to clients.

4.2.2 Registration and Group Management

The need for improvement on the group and client trainings was noted with a mean of 3.15 (Moderate quality). The highest ranked was as high quality was the registration process and quality of services offered by business finance officers with a mean on 3.72.

4.2.3 Loan Services

The results from the study shows that on the quality of loan services Variety of loan services had the highest mean of 3.28 while the least was turnaround time having a mean of 2.28 interpreted as low quality. These results indicate the need to reduce on the time taken when the loan is applied verses when the loan is disbursed to the client.

4.2.4 Influence to Register with More Microfinance

Ability to borrow more was noted to be a high influencing factor for customers to register with more than one financial institution with a mean of 4.14 indicating that this was an indicator for clients to consider while making the decision to register. The decision to register denotes that the customer considers the quality of service to be acceptable standards. The least influencer was family and friends having registered with an MFI on the influence at 2.14 interpreted as low quality.
<table>
<thead>
<tr>
<th>Indicator</th>
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<th>Interpretation</th>
<th>Rank</th>
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<tr>
<td><strong>A. Customer Care Services</strong></td>
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<td>Availability of information on services offered</td>
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<td>Professionalism in handling customers</td>
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<td>Customer complain mechanism</td>
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<td>Satisfied</td>
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<td><strong>A. Mean</strong></td>
<td>3.98</td>
<td>Satisfied</td>
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<tr>
<td><strong>B. Registration and Group Management</strong></td>
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<tr>
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<td>Seeking clarification before assisting clients</td>
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<tr>
<td>Group / client training</td>
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<td><strong>C. Mean</strong></td>
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<td><strong>D. Influence to register with more microfinance</strong></td>
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<tr>
<td>Friendly Business Finance Officers</td>
<td>3.77</td>
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<tr>
<td>Better faster services</td>
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<td>Dissatisfied</td>
<td>6</td>
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Table 4.3: Customer Satisfaction to Microfinance Services
4.3 Customer Satisfaction to Microfinance Services

4.3.1 Customer Care Service
Microfinance customers were very satisfied with the availability of information on services having a mean of 4.29 whereas customer complaint mechanism had the least mean of 3.39. The results point out the need to improve on customer complain handling mechanism. The results also show that clients were generally satisfied with customer care services.

4.3.2 Registration and Group Management
Registration process had the highest mean of 4.38 with the interpretation of very satisfied. Account records were ranked last with a mean of 3.68 revealing the need for microfinance to improve on customers account records. Looking at the satisfaction levels for each indicator customers were satisfied with the registration process and group management practices by loan officers.

4.3.3 Loan Services
On loan services microfinance customers were satisfied with the loan appraisal process with a mean of 4.15. Appraisals was ranked first with a mean of 4.15 interpreted as satisfied and turnaround time having the least mean of 3.02 interpreted as Fairly dissatisfied, the results show that the microfinance are doing a good job on appraisals but the turnaround time leaves a lot to be desired.

4.3.4 Influence to Register with More Microfinance
The results from the study show that friendly business finance officers had the most influence for customers to register with a microfinance having a mean of 3.77. Friends and family having registered had the least influence with a mean of 2.52. This emphasizes on the need for business finance officer to be friendly to their clients.
4.4 Relationship between microfinance services and customer satisfaction levels

4.4.1 Correlation Analysis

t-Test: Paired Two Sample for

Means

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<td>Pearson Correlation</td>
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*MFS- Microfinance Services*

*CSL- Customer satisfaction levels*

Table 4.4: Relationship between Microfinance Services and Customer satisfaction to Microfinance Services
The positive correlation value (0.701402) indicates similar fluctuations on both variables showing linear relationship. The P value (0.000) is < 0.05; an indication that the null hypothesis should be rejected.

### 4.4.2 Regression Analysis

**Regression Statistics**

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**ANOVA**

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**Confidence Level**

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Table 4.5: Regression Analysis between the Dependent and Independent Variables

The R-Squared indicated that a unit change in micro finance services would result into 0.492 change in customer satisfaction. Alternatively, this could be translated as a 100%
change in microfinance services resulting into to 49% change in customer satisfaction. The P value determined at 0.000 is <0.05 thus drawing conclusions from the results that illustrates significant relationship between microfinance services and customer satisfaction levels.
CHAPTER FIVE
DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction
This chapter gives a summary from the findings of the research done by the researcher based on the objectives of the study, conclusions based on concrete observations and recommendations to improve on the quality of microfinance services and design of products that satisfied meet market need.

5.1 Discussion of findings
The research explores a dynamic perspective on the analyzed data and findings from the study done on microfinance services and customer satisfaction levels in selected MFI's in Kakamega town, Kenya focusing on the study's objectives.

5.1.1 Level of Microfinance Service
The quality of service for the purpose of this study was classified in to; customer care services, registration and group management, loan service and influence to register with more microfinance institutions. From the outcomes quality of service is rated of moderate quality. The highly rated indicator in relation to customer care services was professionalism in handling customers on the flip side was customer complaint mechanism and lack of good communication channels. Dr. Justus (2010) his findings highlights lack of clear communication with customers, long procedures; intrusive documentation and lack of flexibility are some of the causes resulting in service breakdown. Findings from this study confirms conclusions held by Dr. Justus, the gap model defines this as a communication gap which is caused by lack of clear communication strategy causing a difference between customers expected service and actual service delivered. The researcher sees the need to
ensure proper communication to clients and also put in place an effective customer complain mechanism were clients complaints can be addressed with speed, this will also help to get feedback which in turn will be used to improve on the existing products and ensure that the MFI has a competitive edge over its competitors. Although the study is in agreement with some of the authors whose study has been analyzed in the literature, this study has brought about something quite different as it established the quality of services offered by microfinance institution as of high quality thus filling in one of the gaps identified in related empirical studies conducted by other researchers.

5.1.2 Customer Satisfaction to Microfinance Service

One of the objective of this study was to establish customer satisfaction levels in relation to services offered by microfinance institutions, the findings reveal that customers were satisfied with services offered on interpretation of the overall mean. One of the indicators that customers ranked highly was on registration processes and group management. The overall mean indicated that customers are satisfied with microfinance services. Relating the study findings on the level of customer satisfaction with other authors whose studies have been analyzed in the literature, it can be said that the study findings are in agreement with IFAD (2007); the study showed that surveyed customers were all satisfied exhibiting a customer satisfaction index of 81%. The study concluded that financial services should be delivered by courteous staffs that preferably are not being ‘changed/swapped’.

Murray (2001) pointed out that customers are more satisfied by accessing higher loan amounts, faster turnaround times, lower loan requirements and lower prices. However, it seemed that customers prefer to develop a long-term relationship with the MFI want to be given preferential treatment while all customers are demanding increasing levels of customer service. This study indicates that customers have a keen interest on loan services
which is the main product offered by financial institutions. The main aspect that notably has a low rating was the turnaround time on disbursement. Although the research is also in agreement with the ones by the above mentioned authors, the study has also brought in something new as contribution to research in the financial sector pointing out customer satisfaction level from which gap areas are identified. The need to measure levels of customer satisfaction levels is essential in a high competitive environment, continues improvement of services is ensured through identification of gaps which is assessed based on customer feedback on their perception on service. Interestingly customers didn’t prefer to register in a microfinance that a family member is already registered but a having a friendly business finance officer appealed to them. In relation to the quality of services offered findings also revealed the need to improve on the customer complaint mechanism should be a priority area for microfinance institutions.

5.1.3 Relationship between microfinance service and customer satisfaction

The research indicated that there is a positive and significant relationship between microfinance services and customer satisfaction thus the null hypothesis was rejected informed by a P value of <0.05. The R- Squared indicated that a unit change micro finance services would result into 0.492 change in customer satisfaction. On the relationship between microfinance service and customer satisfaction for selected MFI’s in Kakamega Town is in argument with the one by Henning-Thurau et al. (2002) who explored a non-significant relationship between particular treatment and satisfaction, it is logical to expect that the benefit of particular treatment would have a huge influence on satisfaction within retail banking. This is due to the information that special treatment provided by a financial service provider can be perceived as a part of the overall service, so that this benefit will raise customer satisfaction.

Further still, the study findings for selected MFI’s in Kakamega Town is also in agreement
with the one of Dr. Boohene and Agyapong (2011) who's results indicate that there is a positive relationship between service quality and customer loyalty. The researcher views that the service offered by a financial institution will influence the satisfaction levels of its customers thus a relationship built and intern customer loyalty. Although the study findings on the relationship between microfinance service and customer satisfaction are in agreement with the above mentioned authors whose studies have been analyzed in the literature, there is also new discovery in this study as it has pointed out the extent of the relationship between the two variables with the help of r. value.

5.2 Conclusions of the Study

5.2.1 Customer Satisfaction levels
This study concludes that customers are satisfied with services offered by microfinance institutions, this conclusion is based on the overall mean from all indicators rated by microfinance customers. Key areas highlighted was the dissatisfaction of disbursement turnaround time and recovery mechanisms put in place. Findings also lead the study to make conclusions on registration processes and group management as an indicator that is highly ranked signifying the level of staff hired by the microfinance institutions is highly recommendable.

5.2.2 Levels of Microfinance services
This study in relation to interpretations of the overall mean on the quality of microfinance services concludes that service are of high quality. In line with the indicators used to measure the quality of service, customer care service is notably ranked as on the highest quality. Loan services was a major of concern indicating the need for market driven products and investment in effective platforms for timely loan disbursements to customers.
5.2.3 Relationship between microfinance services and customer satisfaction levels

The research indicated that there is a positive and significant relationship between microfinance services and customer satisfaction thus the null hypothesis was rejected. This illustrates that the microfinance industry should be keen developing appropriate consumer feedback mechanisms and measurement of customer satisfaction levels.

5.3 Recommendations

The following areas, if well considered, will improve on the quality of MFI's service in Kakamega town and ensure customer satisfaction to MFI's service is put on check:

5.3.1 Level of Microfinance Service

In order to improve on the level of MFIs service there is need to ensure proper communication to clients and also put in place an effective customer complain mechanism were clients complaints can be addressed with speed, this will also help to get feedback which in turn will be used to improve on the existing products and ensure that the MFI has a competitive edge over its competitors. The gap noted was the absence of customer driven standards. MFIs in Kakamega also need to be keen in its group / client trainings, being the entry point the MFI may raise the customer expectation and fail to meet them in the end leaving the customer dissatisfied. The gap noted here is the expectation gap caused by inefficient management of customer expectations, overpromising and inadequate horizontal communication.

Another important aspect of quality of service is the turnaround time for cheques, the adaptation of disbursement through bank and mobile money transfer should be considered as opposed to cheques, addition to putting in place systems to recover bad debt. As observed in the gap model this may be due to failure to match supply and demand. To cover it all
better faster services ensure that the loyal clients will bring in new clients by word of mouth thus growth.

5.3.2 Customer Satisfaction to Microfinance Service

First and foremost there is need for regular evaluation of customer satisfaction in order to note the areas that need improvement in terms of service delivery or creation of new products that fit the customers' need. The results indicated that the customers did not fully appreciate the customer complain mechanism put in place thus the need for the MFIs to improve on their complain mechanism. Most of the customers also complained about their records; the researcher recommends for clients to be encouraged to have a copy of every transaction filed to help in counter checking when need arises, in addition to the MFIs ensuring that the clients records are up to date.

The researcher also recommends for better faster services especially in terms of turnaround time for disbursement, finally the human resource should ensure proper training to its field staff so as not only to help clients access MFIs services but also develop self (personal development, entrepreneurship trainings and career development). This will enhance employee motivation

5.3.3 Relationship between Microfinance Service and Customer Satisfaction

Having proved that there is a significant relationship between microfinance service and customer satisfaction. MFIs need to drastically improve on their services in order to maintain the existing customers while ensuring growth through word of mouth which is an efficient and effective way of marketing. Continuous monitoring of customer satisfaction levels is key to improvement on services and products based on identified gaps.
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Dear Sir/Madam,

RE: INTRODUCTION LETTER TO CONDUCT RESEARCH IN YOUR INSTITUTION

Mr. Alenga Ebenezer Amadi a bonafide student of Kampala International University pursuing an MBA in Finance and Banking

He is currently conducting a field research for his dissertation entitled Microfinance Services and Customer Satisfaction for Selected Microfinance Institutions MFI’s in Kakamega Town.

Your institution has been identified as a valuable source of information pertaining to his research project. The purpose of this letter then is to request you to avail him with the pertinent information he may need.

Any data shared with him will be used for academic purposes only and shall be kept with utmost confidentiality.

Any assistance rendered to him will be highly appreciated.

Yours truly,

Dr. Edirisa Kasenene
Deputy Director, CHDR
Dear Sir/ Madam,

Greetings!

I am an MBA in Finance and Banking candidate of Kampala International University. Part of the requirements for the award is a dissertation. My study is entitled, Microfinance Services and Customer Satisfaction for Selected Microfinance Institutions MFI's in Kakamega Town. Within this context, may I request you to participate in this study by answering the questionnaires / interview guide. Kindly do not leave any option unanswered. Any data you will provide shall be for academic purposes only and no information of such kind shall be disclosed to others.

May I retrieve the questionnaire within five days (5)?

Thank you very much in advance.

Yours faithfully,

Mr. Alenga Ebenezer Amadi
APPENDIX II
INFORMED CONSENT

I am giving my consent to be part of the research study of Mr. Alenga Ebenezer Amadi that will focus on Microfinance Services and Customer Satisfaction.

I shall be assured of privacy, anonymity and confidentiality and that I will be given the option to refuse participation and right to withdraw my participation anytime.

I have been informed that the research is voluntary and that the results will be given to me if I ask for it.

Initials: ______________________________________

Date__________________________________

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APPENDIX III A

FACE SHEET: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS

Gender (Please Tick):
___ (1) Male
___ (2) Female

Age:
___ 18-28
___ 29-39
___ 40-49
___ Above 50

Qualifications:
(1) ___ Certificate
(2) ___ Diploma
(3) ___ Bachelors
(4) ___ Masters
(5) ___ Ph.D.

Number of Years as an employee/customer (Please Tick):
___ (1) Less than / below one year
___ (2) 1-2 yrs
___ (3) 3-4 yrs
___ (4) 5-6 yrs
___ (5) 7 years and above
APPENDIX III B

QUESTIONNAIRE TO DETERMINE CUSTOMER SATISFACTION TO MICROFINANCE SERVICES

**Direction 1:** Please indicate the rating on the space before each option, which corresponds to your best choice in terms of **Customer Satisfaction to Microfinance Services**. Kindly use the scoring system below, were applicable:

**Response Mode**

<table>
<thead>
<tr>
<th>Very dissatisfied</th>
<th>Somewhat dissatisfied</th>
<th>Neither satisfied nor dissatisfied</th>
<th>Somewhat satisfied</th>
<th>Very satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

How satisfied is the client with the microfinance services?

**A. Customer Care Service**
- Customer Reception
- Professionalism in handling the customer
- Customer complain mechanism
- Communication to the clients
- Provision of group / Client report
- Availability of information on services offered

**B. Group Management**
- Registration process
- Group / Client Trainings
- Account records
- Seeking clarification before assisting clients
- Business Finance Officers service
C. Loan Services
- Loan application process
- Appraisals
- Loan application
- Mode of disbursement
- Turnaround time for the cheque
- Variety of loan services
- Recovery Mechanism

Response Mode

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Moderate</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

A customer may be influenced to register with more than one microfinance institution due to;
- Better faster services
- Friendly Business Finance Officers / Customer Care
- Microfinance Institution is associated with a good name
- Nearness to work/ home
- Ability to borrow more
- Friends/family have registered there
APPENDIX III C
QUESTIONNAIRE TO DETERMINE THE QUALITY OF MICROFINANCE SERVICES

Direction: Please write your preferred option on the space provided before each item. Kindly use the ratings provided:

Response Mode

Indicate the extent to which you are faced with the following complaints from customers

<table>
<thead>
<tr>
<th>Very Often</th>
<th>Often</th>
<th>Moderate</th>
<th>Rarely</th>
<th>Very Rarely</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

A. Customer Care Service

- Customer Reception
- Professionalism in handling the customer
- Customer complain mechanism
- Communication to the clients
- Provision of group / Client report
- Availability of information on services offered

Response Mode

Indicate the extent of the need to improve your services below

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Moderate</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

B. Group Management

- Registration process
- Group / Client Trainings
- Account records
- Seeking clarification before assisting clients
- Business Finance Officers service
Response Mode
Indicate the quality of service offered by your institution

<table>
<thead>
<tr>
<th>Very Low</th>
<th>Low</th>
<th>Moderate</th>
<th>High</th>
<th>Very High</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

C. Loan Services
- Loan application process
- Appraisals
- Loan application
- Mode of disbursement
- Turnaround time for the cheque
- Variety of loan services
- Recovery Mechanism

Response Mode

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Moderate</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

D. A customer may be influenced to register with more than one microfinance institution due to;
- Better faster services
- Friendly Business Finance Officers / Customer Care
- Microfinance Institution is associated with a good name
- Nearest to work/ home
- Ability to borrow more
- Friends/Family have registered there