

The Effect of Service Quality and Government Role on Customer Satisfaction: Empirical Evidence of Microfinance in Kenya

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Abstract

Increasing access to credit for the poor has always remained at the core of a country fighting against the poverty. In many developing countries, like Kenya, microfinance has been used as a tool to enhance the living standard of poor people. The aim of this paper is to examine the effect of service quality and government role on customer satisfaction. The data were gathered from clients of selected microfinance institutions in Kenya. The survey covered Thirty six (36) respondents from K-rep and KWFT branches in Kenya's second largest city, Mombasa. The findings of this study show that the effect of service quality on customer satisfaction is positive and significant. It also confirms that the government role on customer satisfaction is insignificant. This study contributes not only to the research literature but also to help government to develop strategies toward improving the role of MFIs in mitigating the poverty.

Keywords: service quality, government role, customer satisfaction, microfinance, Kenya.

1. Introduction

Financial service for the poor, often referred to as microfinance, is a generally accepted tool for improving the economic situation of the poor in developing countries. Microfinance promises to fight against poverty by providing financial access to poor households who have long been excluded from formal banking system due to lack of capital assets for collateral for supporting loans and low repayment capacity. Microfinance, cannot solve all the problems caused by poverty, but they can help put resources and power into the hands of poor and low-income people themselves, letting them make those everyday decisions and chart their own paths out of poverty. Previous studies have shown that microfinance institutions play a vital role in the economic development of many developing countries through the provision of a wide range of financial products and service to the poor, low-income households and micro and small enterprises (Mbogo and Ashika, 2011)

In Kenya, microfinance institutions have strived to eliminate poverty. An Association of Micro-Finance Institutions (AMFI) has been formed and was legally registered. In March 1999, comprising 11 large MFIs that together are serving over 97,000 clients. Its members include institutions of different sizes and legal structures such as NGOs, cooperatives and village banks. Its mission is to develop a micro-finance industry and an institutional framework that serves poor and low-income people In Kenya. Its long-term objectives are to ensure that the microfinance legislation is passed by parliament and to increase membership in the network among MFIs (Emily, 2002)

During the past several years, many studies had been conducted a study on customer satisfaction. In MFIs, globally, the subject of customer satisfaction remains a critical one as businesses strive to maintain a comparative advantage in the marketplace. Since financial service, particularly MFIs compete in the marketplace, customer satisfaction becomes a primary competitive weapon. In a study, Pandey (2008) examined the awareness level of micro financing that came out to be 52% whereas the satisfaction level was around 60%. In various studies the relationship between service quality and customer satisfaction had been examined. The perception of service quality plays a very important role in determining customer satisfaction. As reported in the relevant literature high quality service helps to generate customer satisfaction. Sureshchandar et al., (2003) identified that strong relationships exist between service quality and customer satisfaction.

Rod. et al. (2009) examine the relationships among dimensions of service quality that influence overall internet banking service quality and its subsequent effect on customer satisfaction in a New Zealand banking context. The results show significant relationships among online customer service quality, online information system quality, banking service product quality, overall internet banking service quality and customer satisfaction.

Most behavioral studies that examined the relationship between service quality on customer satisfaction have not incorporated government role in their models for predicting customer satisfaction. The government role on customer satisfaction has not been highlighted. It is argued that the government role has a possibility to directly influence customer satisfaction. Government has an important role to play in MFIs, for example setting policy regarding interest rate for the microfinance industry, providing lumpsum grants to MFIs. The government involvement of will make easier for the poor people to access microfinance loan.

To date, there have been a few empirical studies regarding customer satisfaction in MFIs, especially in Kenya. The purpose of this study is to examine whether service quality and government role improve customer satisfaction. This study is an extension of previous studies, the important thing that differentiate the study with the others are the effect of service quality on customer satisfaction have been examined by previous researchers. This study extended their research by investigating the government role on customer satisfaction.

2. Theoretical Framework

This section provides general framework for this study by discussing the relationships of the variables that are considered in the study namely government role, service quality and customer satisfaction. Therefore, hypotheses can be developed on the basis of the existing literature.

2.1 Linkage Between Service Quality and Customer Satisfaction

Research has indicated that service quality has been increasingly recognized as a critical factor in the success of any business and the banking sector in this case is not exceptional. Service quality has been widely used to evaluate the customer satisfaction of banking service. Oliver (1980) explained that customer satisfaction entails the full meeting of customer expectation of the products and service. If the perceived performance matches or even exceeds customers' expectations of service, they are satisfied. If it does not, they are dissatisfied (de Wulf, 2003). In the real world, unsatisfied customers tends to create negative word-of-mouth and convey their negative impression to other customers (Lewis, 1991; Newman, 2001; Caruana, 2002).

Parasuraman et al. (1988) identified five dimensions of service quality (reliability, responsiveness, assurance, empathy, and tangibles) that link specific service characteristics to consumers' expectations. (a) Tangibles - physical facilities, equipment and appearance of personnel; (b) Empathy - caring, individualized attention; (c) Assurance - knowledge and courtesy of employees and their ability to convey trust and confidence; (d) Reliability - ability to perform the promised service dependably and accurately; and (e) Responsiveness - willingness to help customers and provide prompt service.

In the service literature, strong emphasis is placed on the importance of service quality perceptions and the relationship between service quality and customer satisfaction (Cronin and Taylor, 1992; Taylor and Baker, 1994). The success of any product and service is highly depending on customer acceptance and customer satisfaction. high quality service helps to generate customer satisfaction, customer loyalty, and growth of market share by soliciting new customers, and improved productivity and financial performance. Some researchers and academics described that customer satisfaction is an antecedent of service quality (Parasuraman et al., 1985, 1988, 1991, 1994; Carman, 1990; Bitner, 1990). Spreng and Mackoy (1996) also showed that service quality leads to customer satisfaction. In a recent study conducted by Ribbink et.al (2004) revealed that this relationship also exists in the e-commerce industry. Thus the following hypothesis is suggested:

H₁: There is significant effect of service quality on customer satisfaction

2.2 Linkage Between Government Role and Customer Satisfaction

Improvement in living standard of the poor people of the developing countries is achieved by enhancing their income level or purchasing power. Microfinance means "programme that extend small loans to very poor people for self employment projects that generate income in allowing them to take care of themselves and their families" (Microcredit Summit, 2004).

The findings regarding policy and regulatory framework revealed that the legal environment was generally hostile to the SMEs in Kenya and that the government had not established enabling legal environment for microfinance institutions and their clients. The legal environment was particularly hostile to micro entrepreneurs who operated from temporary structures, as they were often dislocated from their premises by local authorities. The findings also revealed that microfinance institutions were operating under different Acts of Parliament, thus making their activities uncoordinated (O K'Aol, 2008)

Government should have greater powers to allow increased participation of MFIs in fighting against the poverty. Government play a critical role regarding with MFIs, for example setting policy for the microfinance industry, providing lumpsum grants to MFIs. The significance of this can be explained that the involvement in MFIs improves the ability of poor citizens to increase their own wealth. By engaging people in this way, poor citizens are more likely to cooperate and problem solving capacities at individual and social welfare can be enhanced. These arguments lead to the the first hypothesis represented by H_2 is:

H₂: There is a significant effect of government role on customer satisfaction

Based on the arguments developed above, the model proposed in the present study is as follows:

3. Methodology and Data Source

3.1 Survey and Sample

This is an analytical study based mainly on the primary data collected through a scientifically developed questionnaire. Data for this study were collected using a questionnaire to select MFIs users in Kenya, namely Kenya Rural enterprise bank (K-rep) and Kenya Women Finance Trust (KWFT). The data were gathered from clients of both K-rep and KWFT branches in Kenya's second largest city, Mombasa. A total of 36 questionnaires were sent and 36 were returned, making a response rate 100 %. Each item is assessed by a five point Likert scale as it stands for 1 = strongly disagree to 5 = strongly agree. For this study a questionnaire was designed with consisting of 4 importants sections. Section A consists of questions related respondents' demographic information such as age, gender, marital status, occupation, level of education and level of income. Section B consists of questions related to service quality section C related to questions on microfinance as a poverty eradication tool. Section D consists of questions related to government's role in tackling poverty.

3.2 Analysis Models

A Regression analysis was used to test the model of the study as shown in figure 1. This technique allows to analyze the effect of one or more independent variables to one dependent. More specifically, regression analysis helps one understand how the typical value of the dependent variable changes when any one of the independent variables is varied, while the other independent variables are held fixed. The equation in regression model is shown as follows:

$$X_3 = a + \beta_1 X_1 + \beta X_2$$

Where : X_1 = government role; X_2 = service quality; X_3 = customer satisfaction

The equation shows the government role (X_1) and service quality (X_2) as the independent variable and customer satisfaction as dependent variable. Test on the adequacy of the regression models indicate that the assumptions of the models were satisfied by the data. Tests normality indicate that the results of each models are fairly normally distributed.

3.3 Variable Measurement

3.3.1 Government Role

Government role means the government role to play in supporting microfinance institutions (MFIs). Government role is measured by 4 (four) items. A high score on this scale indicates high role of government while a low score would indicate low role of government. Respondents asked on a 5 point scale ranging from 1 (strongly disagree) to 5 (strongly agree).

3.3.2 Service Quality

Service quality is defined as the consumer's overall impression of the relative inferiority or superiority of the service provided by MFIs. Five statements on the service quality dimensions were included in the questionnaire. A 5-point Likert scale ranging from 1 – Strongly disagree to 5 - Strongly agree was used. A high score on this scale indicates that high belief that microfinance acts as a poverty eradication tool.

3.3.3 Customer Satisfaction

Satisfaction is an "overall customer attitude towards a service provider" (Levesque and McDougall, 1996, p. 14). A similar definition is provided by Gerpott et al. (2001) who propose that satisfaction is based on a customer's estimated experience of the extent to which a provider's service fulfill his or her expectations. Five items were developed to measure customer satisfaction. Respondents responded on a 5 point scale ranging from 1 (strongly disagree to 5 (strongly agree). A high numerical response a perception of high degree of customer satisfaction.

4. Results and Discussion

4.1 Respondents Profile

Descriptive analysis has been employed to carry out the data analysis on the respondents profile. A profile of respondents is shown in Table 1.

It's interesting to note that client with low education level and income level from the majority of the respondents. As shown in table 1, the majority of the respondents are secondary school level (15), earning between ksh 1000 to ksh 5000(approximately 10 to 50 us dollars at 100ksh per us dollar). Those with income of ksh 20000 and above are 6 out of the total respondents (36).

As shown in table 2, those who reached Secondary level of education were the majority followed by primary school. Most of the respondents are people from lower income group, thus cannot afford to pay their university fees. They are forced to drop school and start looking for unskilled jobs to support their selves.

Table 3 shows that those aged 26-35 and above 46 have received a great number of trainings. In terms of training, professional training seems to be highest training offered to the respondents.

As shown in table 4, On average the female was more than the male. Majority of the female earn between ksh 6000 to 12000. Females active involvement in business activities clearly justifies their high incomes.

Table 5 shows those earning between Ksh 1000-5000 are the majority. Even though the private sector hired more than the government, their salary is very low. The respondents have no other option except to work for the low paying job. Microfinance is very applicable to these low income individuals as their salary is not suffice. Most of them are in the 26-35 age bracket still young and energetic, are willing to take risk.

Table 6 shows that the majority of the respondent are female seeking their microfinance service at Kenya Women Finance Trust. In Kenya, a Kenya woman was among the pioneers in the microfinance sector. The number of males seeking microfinance service is still very low as many of the men survive on the daily temporary odd jobs.

4.2 Regression Results

As mentioned above, to test the two hypotheses developed in the present study, two regression equations were employed. The results of the equations are presented in table 7

4.2.1 Test of Hypothesis 1

The first hypothesis of the model requires a test of the expected positive and significant effect between service quality and customer satisfaction. Table 7 presents the results to test hypothesis 1. As shown in table 7, the effect of service quality on customer satisfaction is significant [$p(0.001) < 0,05$]. Thus the results of the regression model provide strong support for H_1 .

4.2.2 Test of Hypothesis 2

Hypothesis 2 states that there is an direct effect of government role on customer satisfaction. The results presented in table 7 reveal the insignificant of effect between government role and customer satisfaction [$p(0.373) > 0,05$], therefore H_2 should be rejected.

5. Conclusions and Limitations

The purpose of the present study is to examine empirically the effect service quality in the relationship between government role and customer satisfaction. The results of this study add our understanding of the factors affecting customer satisfaction. The findings of the present study contribute to behavioral research by providing an explanation of the underlying causes of customer satisfaction. This study also provide results that indentify the “root causes” of non customer satisfaction to help government develop strategies toward decreasing poverty through MFIs. Thus this study has the potential not only to contribute to the research literature but also assist regulators (government) to make the effective law that could increase the role of MFIs in reducing poverty.

The results reveals that the effect of service quality customer satisfaction is significant. This result supports the previous research done by Sureshchandar et al., (2003), Rod. et al. (2009), Spreng and Mackoy (1996). In making decision to return to MFIs, customers are likely to consider whether or not they receive good quality service. This means that service quality was positively related to behavioral intentions, which ultimately increase customer satisfaction. Therefore, there are many opportunities for growth in MFIs, but they must provide the products, service and convenience that the customers desired.

Contrary to the expectation, the authors did not find significant result on the effect of the government role on customer satisfaction. The possible explanation for the results is that the government does not give enough attention on the development of MFIs in Kenya. This argument is consistent with the findings of O K'Aol (2008) which state that the legal environment was generally hostile to the SMEs in Kenya and that the government had not established enabling legal environment for microfinance institutions and their clients. One of his findings that prove the absence of government involvement is that most respondents interviewed felt that the interest rates charged by the microfinance institutions were too high compared to the market rates and therefore making it difficult for them to access microfinance loans. Omino (2005) submits that the MFIs in Kenya have operated without an appropriate policy and legal framework. He emphasizes the need to focus on these institutions as instrument for accelerating economic activity in the country. Armendariz and Morduch (2004) cautions that in the absence of a well-functioning regulatory framework within which microfinance institutions can operate, it will be harder to operate flexible savings accounts and to effectively intermediate finances.

This study had several limitations of which the future studies should be consider. First, the data of this study are not collected randomly, this reduce the generalising the results of this study. Second, The paper has only tested the model and hypotheses in MFIs. Future research should test the same model using different industries. Future research can employ different research methods, for example longitudinal field studies to systematically examine the theoretical causal relationships proposed in this study. We urge future researchers to replicate our study with a larger sample.

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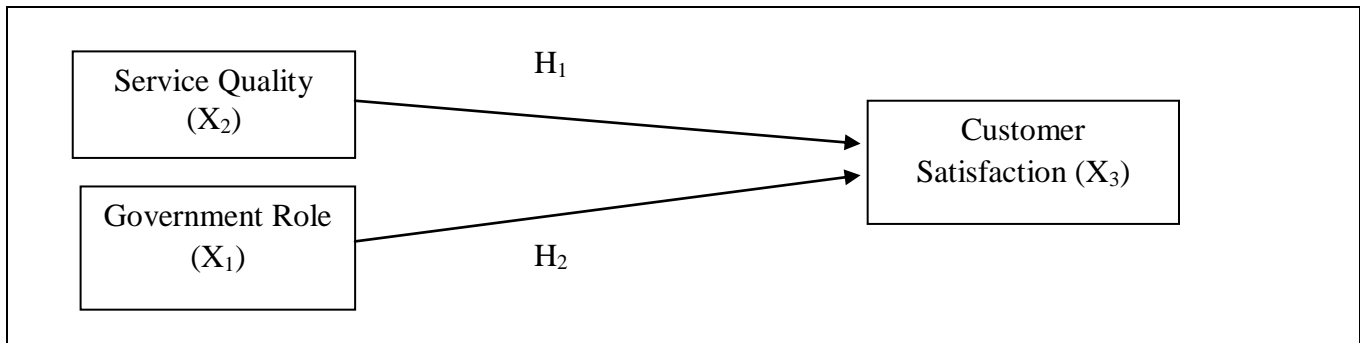


Figure 1: The Model of The Present Study

Table 1: Education * Income Cross Tabulation

Education	Income				Total
	1000-5000	6000-12000	13000-20000	Above 20000	
None	1	1	0	1	3
Primary School	6	4	1	1	12
Secondary School	3	3	7	2	15
A level	1	2	0	1	4
University	0	0	1	1	2
Total	11	10	9	6	36

Note: ksh to US\$ at 1:100 approximately

Table 2: Age * Education Cross Tabulation

Age	Education					Total
	None	Primary School	Secondary School	A level	University	
18-25	0	1	1	1	0	3
26-35	0	5	5	2	1	13
36-45	2	2	4	0	1	9
46-above	1	4	5	1	0	11
Total	3	12	15	4	2	36

Table 3: Age * Trainings Cross Tabulation

Age	Trainings				Total
	None	Vocational Training	Professional Training	Others	
18-25	2	0	1	0	3
26-35	6	2	5	0	13
36-45	2	2	4	1	9
46-above	6	2	3	0	11
Total	16	6	13	1	36

Table 4: Income * Gender Cross Tabulation

Income	Gender		Total
	Male	Female	
1000-5000	2	9	11
6000-12000	0	10	10
13000-20000	2	7	9
Above 20000	1	5	6
Total	5	31	36

Table 5: Age * Income Cross Tabulation

Age	Income				Total
	1000-5000	6000-12000	13000-20000	Above 20000	
18-25	2	1	0	0	3
26-35	3	5	5	0	13
36-45	1	4	2	2	9
46-above	5	0	2	4	11
Total	11	10	9	6	36

Table 6: Gender * Institution Cross Tabulation

Gender	Institution		Total
	KWFT	K-REP	
Male	1	4	5
Female	18	13	31
Total	19	17	36

Table 7: Results of Regression

Regression Results The Effect of Government Role (X ₁), Service Quality (X ₂) on Customer Satisfaction (X ₃)				
Variable	Regression coefficient	Coefficient value	T value	P
X ₁ Service Quality	β_1	0.550	3.847	0.001
X ₂ Government Role	β_2	0.129	0.903	0.373
R ² = 0.341 F=8.525 α = 5 %				