A Study on the Influence of Service Quality of Microfinance Institutions on Customer Satisfaction: A Case of Microfinance Institutions of Butajira City of Ethiopia

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ABSTRACT
The primary purpose of this project paper was to examine the influence of service quality on customer satisfaction with special reference to Butajira city microfinance institutions. To attain this objective self-administered questionnaire was designed and distributed to 197 customers of the three microfinance institutions out of which 184 questionnaire (93.4%) were returned and used for analysis. This study used the SERVPERF instrument developed by Cronin & Taylor (1992) to measure customers’ perception on the quality of service delivered by each microfinance institution and the level of customer satisfaction. The sampling process employed in this research was stratified sampling. Stratified sampling was chosen because the samples were selected from three different microfinance institutions. The technique employed in selecting the client respondents was random sampling technique. The selection was made randomly from those who were there for the service. The criterion for selecting sample respondents was that they should at least do business with the microfinance for a minimum of two years. The data collected has been analyzed with the help of Microsoft Excel Software Package and SPSS 20.0. Pearson correlation was conducted to assess the relationships between the service quality dimensions and customer satisfaction. The results show a positive statistical significance between the five dimensions of service quality (Tangibles, Reliability, Responsiveness, Assurance and Empathy) and customer satisfaction. Responsiveness dimension is commonly succeeded at all the three microfinance institutions. Reliability dimension is above the average of the scale in Omo but it is lower at Agar & Meklit microfinance institutions. Assurance is the third important dimension at Agar microfinance while it is below the average of the scale at Meklit and Omo microfinance institutions. The mean score of customer satisfaction for each microfinance institutions is lower. Accordingly, most of the respondents of the three microfinance institutions are dissatisfied with the services rendered by the institutions. Therefore, in order to stay competitive, all the three microfinance institutions need to improve their service quality especially in the identified areas or dimensions.

Key Words: Marketing mix, Service quality, Customer satisfaction, Service quality models, Microfinance institution

INTRODUCTION
1. Background of the Study
In Ethiopia, several microfinance institutions have established since 1996. They have been operating towards resolving the credit access problem of the poor particularly to those participates in the petty business. Microfinance is a customer oriented service industry, therefore, the customer is the focus and service quality is the differentiating factor. Microfinance institutions have to deal with many customers every day and render various types of services to its customers. Like many other financial service industries, microfinance institutions are facing a rapidly changing market, new technologies, fierce competition and more demanding customers. The changing climate has presented a set of challenges against them. The key to sustainable competitive advantage lies in delivering high quality service that will in turn result in satisfied customers. Placing a high priority on customer satisfaction is critical to improved organizational performance in a global market place (Deepti and Yadav, 2012).
Forward looking companies including microfinance institutions are tracking customers’ satisfaction through measuring their level of service quality perceived by their customers. One of the most widely used models to measure service quality is the SERVPERF model developed by Cronin & Taylor (1992). It measures service quality perceptions just by evaluating the customer’s overall feeling towards the service. The model consists of five dimensions: Tangibles—appearances of physical facilities, equipment, employees and communication materials, Reliability—the ability to perform the promised service accurately and dependably, Responsiveness—willingness to help customers and providing prompt service, Assurance—knowledge and courtesy of employees and their ability to inspire confidence and trust, and Empathy—giving care and individualized attention for customers (Cronin & Taylor, 1992).

In Butajira City, there are three microfinance institutions, namely Agar microfinance, Meklit microfinance, and Omo microfinance. These institutions have been operating towards resolving the credit access problem of the poor particularly to those participates in the petty business. The loan services provided by these institutions include small business merchandizing loan, household manufacturing and processing loan, service delivery business loan, and urban agriculture loan.

2 Statement of the Problem
Microfinance is a customer oriented service industry, therefore, the customer is the focus and customer service is the differentiating factor. The business depends upon client services and the satisfaction of the customer and this is compelling them to improve customer services and build up relationship with customers. The microfinance institutions like many other financial service industries are facing challenges like a rapidly changing market, new technologies, economic uncertainties, fierce competition, and more demanding customers (Machogu and Lynet, 2012).

It is commonly noted that service quality is an important determinant factor of customer satisfaction (Parasuraman et al. 1988). A better understanding of service quality can allow firms to improve their customer satisfaction more effectively (Cronin and Taylor, 1992). Among all the factors that have been identified as antecedents of customer satisfaction, service quality is the one that has received considerable attention. High quality of service leads to customer satisfaction, loyalty, and improved customer retention rates (Zeithaml et al., 1996).

Many firms including microfinance institutions begin to track their customers’ satisfaction through measuring their level of service quality perceived by their customers. One of the most widely used model to measure perceived service quality is the SERVPERF model developed by Cronin & Taylor (1992). It consists of five dimensions of service quality: Tangibles, Reliability, Responsiveness, Assurance and Empathy. However, the model developed in the context of one country may not be applicable in other countries as the economic, socio-cultural and institutional factors may vary from region to region or from one sector to another within the same region (Yonatan, 2010).

In Ethiopia, many microfinance institutions have been operating throughout the country since 1996. A number of studies have also been conducted on microfinance institutions in the country. But most of these studies are focused on such aspects as performance, outreach, impact, sustainability, benefit and role. To mention few of them: regulatory framework and performance of MFI s by Wolday (2000), outreach and financial performance of MFIs by Befekadu (2007), financial sustainability of MFIs by Bayeh (2012), do urban poor benefit from MFIs by Zerihun & Shimelis, and poverty alleviation and the role of microfinance institutions by Eleni (2008).
It is undeniable fact that many customers voice concerns about lack of quality service in the microfinance sectors. However, there are no studies which demonstrate if indeed the quality of microfinance service in Ethiopia is poor. This study fills this gap and tries to measure service quality dimensions and the level of customer satisfaction using an adapted version of SERVPERF scale in the context of microfinance institution. The aim of this research is to redress the scarcity of knowledge & understanding of service quality factors & provide the microfinance with a helpful recommendations and references to bring about quality service and satisfied customers.

3 Research Objectives

General Objective
The general objective of this study is to assess the influence of service quality of microfinance institutions on customer satisfaction, with special reference to the microfinance institutions of Butajira City Administration.

Specific objectives
1. To measure customers’ perception of each of the five dimensions of service quality using SERVPERF instrument.
2. To analyze the relationship between service quality dimensions and customer satisfaction.
3. To assess the level of customer satisfaction.
4. To offer some suggestions and recommendations for improvement of service quality in microfinance institutions.

4 Significance of the Study
The need for undertaking this research has the following significances:
- This study would provide of knowledge about the relationship between service quality dimensions and customer satisfaction in microfinance institutions.
- This study could initiate managers of the microfinance institutions to make a quick decision to eliminate dissatisfaction and to improve on their effort to retain their customers.
- This research can contribute to the already existing literatures on microfinance institutions.
- The finding of this research would initiate other researchers to conduct a wider and in-depth study on microfinance institutions.
- This research would suggest and recommend to the microfinance institutions of the study area regarding service quality & customer handling.
- This study could help the management of those microfinance institutions to modify their policies and strategies on provision of quality service to customers.
- It can also serve as a source document for those who would like to pursue further investigation on the region.

5 Scope of the study
This study focuses on the influence of service quality on customer satisfaction. The study has been conducted on three microfinance institutions: Meklit microfinance institution, Agar microfinance institution, and Omo microfinance institution. Though these institutions are operating their business in different parts of the country, the spatial coverage of this research is only confined to Butajira City Administration. Therefore, the result of this research might not be used to generalize for the other branches of those microfinance institutions as they also require similar investigation to know about them. Out of the total customers to be studied only 200 respondents, which is a medium sample size have been selected from those microfinance institutions proportionally. Respondent’s perception on the dependent and independent variables have been analyzed using mean and standard deviation with the help of Microsoft Excel Software Package and SPSS 20.0 The collected data have been summarized and tabulated in the form of tables, charts, and diagrams.
6 Limitations of the Study
This study dealt with the influence of service quality on customer satisfaction with respect to the microfinance institutions of Butajira City Administration. One of the limitations of this study is scarcity of local and international literatures conducted on service quality of microfinance institutions. Besides, the researcher has faced carelessness and unwillingness of some other respondents to return the questionnaire. Here the representative sample size considered is medium due to the researcher’s limited time and financial resources. This might affect the quality of the research because it could be better for generalization if the sample size is larger. Since this study represented only one branch of each microfinance institution, the results obtained may not be suitable as a whole having customers with different branches.

7. Literature Review:
Service Quality
According to Parasuraman et.al, (1988) service quality is the customer's judgment of overall excellence of the service or the difference between customer's expectation and the actual service performed or perceived. Service quality is viewed as either a difference between the expectations and perception of the service or as an attitude based view. The first view suggested by Parasuraman et.al, (1988) is the view that service quality is a comparison between customer's expectations and perception of service. They developed a model based on the difference between the customer's expectations and perception of service quality. Cronin & Taylor (1992) argue that service quality should be viewed as the customer's attitude towards a service. This view supports the measurement of service quality based on the perception (performance only) of service quality. Service quality is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Kotler & Keller, 2009). If the expectation is greater than the service performance, perceived quality is less than satisfactory and hence, customer dissatisfaction occurs. If perceived performance is equal or greater than expectations, the customer is satisfied. Customer expectation means uncontrollable factors including past experience, personal needs, word of mouth, and external communication about service (Kotler & Armstrong, 1999).

Dimensions of Service Quality
Among the models for measuring service quality, the most acknowledged and applied model in diversity of industries is the SERVQUAL (service quality) model (Kumar and Charles, 2009). The SERVQUAL model proposed a five dimensional construct of perceived service quality: tangibles, reliability, responsiveness, assurance and empathy as the instruments for measuring service quality (Parasuraman et al., 1988).

**Tangibles:** Tangibles are the appearance of physical facilities, equipments, personnel, and communication materials. Tangibles provide physical representations or image of the service that customers, particularly new customers, will use to evaluate quality (Zeithaml et al., 2006). Ananth et al., 2011 referred to tangibles in their study of private sector banks as modern looking equipment, physical facility, well dressed employee, and visually appealing materials. According to Cui et al. (2003), tangibles might be used to enhance the company image, provide continuity and signal quality to the customers. A company should want all their customers to get a unique positive and never forgetting first hand impression, this would make them more likely to return in the future.
**Reliability:** Reliability is defined as the ability to perform the promised service dependably and accurately. It depends on handling customers' services problems; performing services right the first time; provide services at the promised time and maintaining error-free record. Reliability is the most important factor in conventional service (Parasuraman et al., 1988). Foster (2010) cited in Machogu and Lynet (2012) indicates that reliability is the company’s ability to perform the service dependably, accurately, and consistently keeping given promises on delivery, service provision, problem resolution and pricing. Reliability is defined as the ability to perform the promised service dependably and accurately. In its broadest sense, reliability means that the company delivers on its promises. Customers need to do business with companies that keep their promises. Of the five dimensions, reliability has been consistently shown to be the most important determinant of perception of service quality (Zeithaml et al., 2006).

**Responsiveness:** Responsiveness is defined as the willingness or readiness of employees to provide prompt service. It involves timeliness of services. It also involves understanding needs and wants of the customers, convenient operating hours, individual attention given by the staff, attention to problems and customers’ safety in their transaction (Kumar et al., 2009). Responsiveness is the willingness to help customers and to provide prompt service. This dimension emphasizes attentiveness and promptness in dealing with customers request, questions, complaints, and problems. Responsiveness is communicated to customers by the length of time they have to wait for assistance, answers to questions, or attention to problems. Responsiveness also captures the notion of flexibility and ability to customize the service to customers need (Zeithaml et al., 2006). According to Foster (2010) cited in Machogu and Lynet (2012), the level of responsiveness is judged based on the time these issues are dealt with. If the customers feel they have to wait a long time, the perception of responsiveness is weakened.

**Empathy:** Parasuraman et al. (1985) defined empathy as the caring and individual attention the firm provides its customers. It involves giving customers individual attention and employees who understand the needs of their customers and convenience business hours. Individualized attention that the firm provides its customers, the essence of empathy is conveying, through personalized or customized service, that customers are unique and special and that their needs are understood. Customers want to feel understood by the firms that provide service to them (Zeithaml et al., 2006). The empathy service quality dimension refers to how the company cares and gives individualized attention to their customers, to make the customers feeling extra valued and special. It involves giving customers individual and personal attention, the employees need to deal with customers in a caring fashion, having the customer's best interest at heart, and understanding the needs of their customers. Companies that provide this personal service are able to have a competitive advantage against other companies that do not treat the customers as individuals (Foster, 2010 cited on Machogu and Lynet, 2012).

**Assurance:** Parasuraman et al. (1985) defined assurance as knowledge and courtesy of employees and their ability to inspire trust and confidence. Assurance is defined as employees’ knowledge, courtesy, and the ability of the firm and its employees to inspire trust and confidence. This dimension is likely to be particularly important for services that customers perceive as high risk or for service of which they feel uncertain about their ability to evaluate outcomes. In the service context the company seeks to build trust and loyalty between key contact managers, employees, and customers (Zeithaml et al., 2006). The employees need to have a certain level of knowledge and skill to treat customers with respect and make them feel that they can trust their business to the company (Cui, Lewis & Park, 2003).
The Concept of Customer Satisfaction

Kotler and Armstrong (1999) defined customer satisfaction as the customer's perception that compares their pre-purchase expectations with post-purchase perception. David and Louis (2006) define customer satisfaction as the result of customer’s assessment of a service based on a comparison of their perceptions of the quality of service delivery with their expectations. If customers’ perceptions of the service match with their expectations, then they ultimately should be satisfied. If their perceptions of the service exceed their expectations, then they will be more than satisfied, even delighted. If, their perceptions of the service do not meet their expectations, then they may end up being dissatisfied, or even disgusted.

According to Oliver (1980), customer satisfaction is the evaluation a customer makes to a certain exchange, which reflects the relation of the customer's expectation and their real perception to products and services they receive. Tse and Wilton (1988) described customer satisfaction as the consumer’s response to the evaluation of the perceived discrepancy between prior expectations (or some form of performance) and the actual performance of the product as perceived after its consumption. After an extensive and critical review of the customer satisfaction literatures, Yi (1989), conceptualized customer satisfaction as an attitude like judgment following a purchase act or based on a series of consumer-product interactions. This definition highlights that customer satisfaction is essentially customer’s judgment about the extent to which a product or service meets or falls short of expectations. The consumer compares the product/service with a pre-consumption expectation. If the expectation confirms with the product/service performance, then customers will be satisfied otherwise they will be dissatisfied (Oliver, 1980).

The Relationship between Service Quality and Customer Satisfaction

The relationship between service quality and customers satisfaction have been investigated in a number of researches. They found that, there is very strong relationship between quality of service and customer satisfaction. Increase in service quality of the firm can satisfy and develop attitudinal loyalty which ultimately retains valued customers (Parasuraman, et al, 1988). The higher level of service quality results in increased customer satisfaction. Satisfaction super ordinate to quality-that quality is one of the service dimensions factored in to customer satisfaction judgment (Cronin and Taylor, 1992).

Service quality is the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Kotler & Armstrong, 1999). If the expectation is greater than the service performance, perceived quality is less than satisfactory and hence, customer dissatisfaction occurs. If perceived performance is equal or greater than expectations, the customer is satisfied. Customer expectation means uncontrollable factors including past experience, personal needs, word of mouth, and external communication about service. The perception of service quality plays a very important role in determining customer satisfaction. As reported in the relevant literatures high quality service helps to generate customer satisfaction (Mohammed et al., 2012).

Service Quality Models

The SERVQUAL Model

The pioneer study of Parasuraman et al. (1985) has been a major driving force in developing an increased understanding of and knowledge about service quality. They defined service quality as the gap between customers’ expectation of service and their perception of the service experience. Customer expectations are standards of service that
the customer has prior to the service situation and perceptions are assessments of the actual service experienced in the service situation.

The conceptualization of SERVQUAL instrument is based on the difference between the customer’s perceived and expected level of service (Cui et al, 2003). This means that the customer conceptualizes service quality as a gap between the expected level of service and their evaluation of the perceived level of service.

A gap is the difference, imbalance or disparity which is determined to exist between customers’ perception of firm performance and their prior expectation. Service quality (SQ) perceived by customers is therefore as a result of a comparison of customers’ expectation (E) of services that the organization should offer versus their perception of the performance (P) delivered by the service organization.

Service Quality = Perception (P) - Expectation (E)

Management of service quality largely focuses on managing the gaps between expectations and perceptions of customers. The goal of the firm is to minimize the gap between (P) and (E) (Zeithaml et al., 2003 cited on Siew et al., 2011).

The customer gap is the difference between customer expectations and perceptions. Customer expectations are standards of service that the customer has prior to the service situation and perceptions are assessments of the actual service experienced in the service situation. The SERVQUAL model is probably the best-known, universal scale designed to measure the perceived service quality (Kumar and Charles, 2009). The model highlights the following five service quality gaps:

(1) Gap 1: Difference between consumers’ expectation and management’s perceptions of those expectations. This gap results from lack of understanding the customers’ needs and wants. Lack of communication between managers and customers is another cause for this gap.

(2) Gap 2: Difference between management’s perceptions of consumers’ expectations and service quality specifications. This gap is a result of improper service quality standard design and inappropriate physical evidence of a company.

(3) Gap 3: Difference between service quality specifications and service actually delivered. This gap is resulted from inconsistency between development of customer-driven service standards and actual service performance of employees. Poorly trained or poorly motivated workers can cause this gap to appear within the organization.

(4) Gap 4: Difference between service delivery and the communications to consumers about service delivery. This gap is likely happened when promises did not match with actual delivery.

(5) Gap 5: Difference between consumers’ expectation and perceived service. This gap depends on size and direction of the four gaps associated with the delivery of service quality on the marketer’s side (Kumar and Charles, 2009).

The SERVQUAL scale consists of two sets of the same 22 items; the first set measures the customer’s expectations of the services and the second set measures the customer's perception of the services (Asubonteng, McCleary & Swan, 1996). Customers form an opinion about the quality of service by comparing the expected level of service or expectations with the perceived level of service or performance (Parikh, 2006). For the service quality to be good, the performance or perceived level of service needs to be higher than the expected level of service.

The SERVPERF Model

As a result of some problems associated with SERVQUAL scale, Cronin and Taylor (1992) suggested the SERVPERF or the performance only model as an improvement to the SERVQUAL model. SERVPERF overcame some of the problems associated with SERVQUAL such as the difficulty of administering the questionnaire twice and low reliability associated with using the gap scores (Lee, 2007). They also investigated the
conceptualization and measurement of service quality and its relationship with consumer satisfaction. They compared computed difference scores with perception to conclude that perceptions only are better predictor of service quality (Baumann, 2007). Cronin and Taylor (1992) stated that SERVPERF instruments are the best measure of service quality perceptions for different industries. They argued that performance is the measure that best explains customers’ perceptions of service quality, so expectations should not be included in the service quality measurement instrument. They developed a performance-only scale called SERVPERF and tested it in four industries. Results indicated that measuring perceived service quality using SERVPERF model explains more of the variation in service quality than SEVQUAL; it had an excellent fit in all four industries and it contains only half the number of items that must be measured. These results were interpreted as additional support for the superiority of the SERVPERF approach to the measurement of service quality.

Implicitly the SERVPERF model assesses customers experience based on the same attributes as the SERVQUAL and conforms more closely on the implications of satisfaction and attitude (Cronin and Taylor, 1992). They also suggested that the performance-based scale SERVPERF is more efficient than the SERVQUAL scale, since it reduces the number of items that must be measured from 44 to 22. Perceived service quality is said to be a reflection of the firm’s performance. On using the firm’s service, customers are said to form an attitude towards service quality performance. This satisfaction level with regard to the products or services indicates how the firm performs. The SERVPERF model claims that to find the performance of a firm (i.e. its service quality) all that is required is to collect data by directly asking the customer through a simple survey and a questionnaire.

SERVPERF is similar to SERVQUAL in that it uses the same 22 item scale to measure service quality, but differs in the number of times the service quality is measured. Unlike the SERVQUAL which uses the scale twice, the SERVPERF uses the 22 item scale once to measure the perception of service quality (Nadiri & Hussain, 2005). The SERVPERF scale is found to be superior not only as the efficient scale but also more effective in reducing the number of items to be measured by 50% (Hartline and Ferrell, 1996). Many studies recommend the use of the perception of actual service performance measurement (SERVPERF) because it overcomes SERVQUAL problems (Welsh & Raven, 2006). For the purpose of this study, the researcher decided to use SERVPERF model developed by Cronin and Taylor (1992) to measure the perception of service quality in the context of microfinance institutions in the study area. Measurement scales of service performance used in this research would include the five basic dimensions of service quality adapted from SERVQUAL: Reliability, Responsiveness, Empathy, Assurance, and Tangibles.

8 Research methodology
This section focuses on the research methods to carry out the research. It includes description of the study area, population, sample size, sampling procedures and techniques, sources of data, tools and techniques of the data collection, methods of data analysis, and validity & reliability test. The details area presented below.

Types and Sources of Data
Basically both qualitative and quantitative data was employed in this study which is gathered from both primary and secondary sources. Primary data was obtained from customers through a self-administered questionnaire. The questionnaire was administered to sample respondents of the microfinance institutions for assessing their opinion or attitude on the service provided by the institutions and their level of satisfaction. The secondary data, on the other hand, was gathered from the secondary sources such as books, journals, articles, theses, financial statements, annual reports, websites, and other reliable documents.
Sample Design and Sampling Technique
The sample size for the purpose of this research is 197 which were selected from the three microfinance institutions in the study area. Accordingly, 46 samples from the total clients of Agar microfinance (1,304), 47 samples from the total customers of Meklit microfinance (1,322), and 104 samples from the total clients of Omo microfinance (2,947). The sampling process employed in this research was stratified sampling. Stratified sampling was chosen because the samples were selected from three different microfinance institutions. The technique employed in selecting the client respondents was random sampling technique. The selection was made randomly from those who were there for the service. The criterion for selecting sample respondents was that they should at least do business with the microfinance for a minimum of two years. The reason for this is to make sure that they have enough time to evaluate the service of the microfinance institutions.

Sample Size Determination
From the total individual customers who have actively engaged in the activities of the three microfinance institutions of Butajira City 5,573(source: Annual reports of the institutions, 2013), the researcher took 197 samples to represent the total population. As to the sample size determination, from among different methods, the one which has developed by Israel (1992) was used. The method is shown as follows:

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

Where \( n \) is the sample size, \( N \) is the population size, and \( e \) is the level of precision or sampling error = (0.07)

\[ n = \frac{5573}{1 + 5573(0.07)^2} \]

\[ n = 197 \]

(Source: Israel, 1992)

Table 1 Sampling Frame

<table>
<thead>
<tr>
<th>Name of the microfinance</th>
<th>Total No. of customers</th>
<th>Sample size</th>
<th>Percentage share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agar</td>
<td>1304</td>
<td>46</td>
<td>23.4</td>
</tr>
<tr>
<td>Meklit</td>
<td>1322</td>
<td>47</td>
<td>23.7</td>
</tr>
<tr>
<td>Omo</td>
<td>2947</td>
<td>104</td>
<td>52.9</td>
</tr>
<tr>
<td>Total</td>
<td>5573</td>
<td>197</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Own data, 2014

9 Data presentation, analysis and interpretation
The primary focus of this study is to assess the influence of service quality of microfinance institutions on customer satisfaction with special reference to the microfinance institutions of Butajira City. Out of 197 questionnaires distributed to customers 184 (93.4%) complete responses were returned from the three microfinance institutions. The presentation, analysis and interpretation of the questionnaire will be done for the three MFIs: Meklit MFI, Agar MFI and Omo MFI. In addition, a summarized analysis is done to compare the three MFIs with regard to the quality of their services. The first part of the questionnaire consists of demographic information of the respondents are presented at subsequent tables for each MFI. The second part of the questionnaire presents the mean score of perception for each of the five dimensions of service quality and 22 statements. The last part of the questionnaire deals with the mean score of 4 statements and level customer satisfaction. In this analysis Microsoft Excel Software Package and SPSS version 20.0 was used to make the necessary calculations.

Comparative Analysis of Data for the three Microfinance Institutions
The basic objective of this study is to assess customers’ perception of service quality in the microfinance sector with special reference to the microfinance institutions of Butajira city by using the SERVPERF model. This part of the paper presents a
comparative analysis of mean score of customer’s perception among the three microfinance institutions.

Table 2 Mean score of service quality dimensions & customer satisfaction for the three microfinance institutions

<table>
<thead>
<tr>
<th>Variables</th>
<th>Agar</th>
<th>Meklit</th>
<th>Omo</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mean</td>
<td>Standard Dev.</td>
<td>Mean</td>
</tr>
<tr>
<td>Tangibles</td>
<td>2.5435</td>
<td>1.00458</td>
<td>2.6250</td>
</tr>
<tr>
<td>Reliability</td>
<td>2.3304</td>
<td>.37527</td>
<td>2.5545</td>
</tr>
<tr>
<td>Responsiveness</td>
<td>3.3913</td>
<td>.43669</td>
<td>3.5625</td>
</tr>
<tr>
<td>Assurance</td>
<td>3.3641</td>
<td>.36403</td>
<td>2.9205</td>
</tr>
<tr>
<td>Empathy</td>
<td>3.6522</td>
<td>.40097</td>
<td>2.3227</td>
</tr>
<tr>
<td>Customer Satisfaction</td>
<td>2.1359</td>
<td>.65555</td>
<td>2.4489</td>
</tr>
</tbody>
</table>

Source: Primary data, 2014

Table 2 depicts the mean score of microfinance’s customer perception on each dimension of service quality. A lower mean score for those microfinance institutions indicates that there is a shortfall in service quality. As it can be observed from the table, Agar microfinance has the highest mean score for empathy dimension (3.65) while it is not satisfactory at Meklit (2.32) and Omo (2.39) microfinance institutions. This represents that Agar microfinance is better than Meklit & Omo microfinance institutions in giving customers personal attention, understanding customer needs and having convenient operating hours. Responsiveness dimension has the highest mean score at Meklit (3.56) and Omo (3.51) microfinance institutions. The mean score of responsiveness at Agar microfinance (3.39) is also good. This shows that all the three microfinance institutions are responsive to their customers. Accordingly, customers perceived that microfinance institutions are performing better in delivering prompt service, telling the exact service time, and willingness to help and responding to customer inquiries. Reliability is the second important dimension at Omo microfinance with a mean score of 3.19 while it is lower at Agar (2.33) & Meklit (2.55) microfinance institutions. This illustrates that Omo microfinance is more reliable in keeping promises, sincerity, ability to perform service on time, and insisting error free records as compared to Agar and Meklit microfinance institutions. Assurance is the third important dimension at Agar microfinance with a mean score of 3.36 while it is not satisfactory at Meklit (2.92) and Omo (2.51) microfinance institutions. This implies that Agar microfinance has better ability to convey trust and confidence with its employee’s knowledge and courtesy than Meklit & Omo microfinance institutions. All the three microfinance institutions have a lower mean score for tangible dimension. With this fact in mind Omo has the lowest mean score on this dimension (2.23) followed by Agar (2.54) and Meklit (2.63) microfinance institutions. From this value of tangible, one can infer that the three microfinance institutions are poor in modern looking equipment, comfortable physical layout of furniture and visually appealing materials. Table 4.4 also reports that the mean score of customer satisfaction for each microfinance institutions is lower. Accordingly, most of the customers of the three microfinance institutions are dissatisfied with the services rendered by the institutions.

Comparative correlation Analysis for Agar, Meklit and Omo Microfinance Institutions

Pearson correlation has been conducted for all the three microfinance institutions to assess the relationships between the service quality dimensions and customer satisfaction. This part of the paper presents a comparative correlation analysis among the three microfinance institutions. The result shows that there is a positive statistical significance between the five dimensions of service quality and customer satisfaction.

Table 3 Comparative correlation Analysis for all the three MFIs
As it is illustrated in the table above, for all the three MFIs there is a significant positive relationship between service quality dimensions and customer satisfaction. For Agar and Omo microfinance institutions, the highest correlation is between reliability and customer satisfaction scoring 0.782 and 0.556 respectively. But in the case of Meklit microfinance the highest correlation is between empathy and customer satisfaction (0.986). The next higher correlation for Agar MFI is between tangibles and customer satisfaction while for Meklit and Omo MFIs customer satisfaction is correlated with responsiveness (0.670) and empathy (0.262) respectively. The third important in Agar and Omo MFIs is between responsiveness and customer satisfaction scoring 0.540 and 0.178 respectively. But for Meklit, it is between reliability and customer satisfaction. The forth significant correlation for Agar MFI is between empathy and customer satisfaction (0.442). But in the case of Meklit and Omo MFIs customer satisfaction is correlated with assurance (0.514) and tangibles (0.172) respectively. The weakest correlation for Agar and Omo is between assurance and customer satisfaction scoring 0.082 and 0.131 respectively. In the case of Meklit, however, the weakest correlation is between tangibles and customer satisfaction. The above table also shows that service quality dimensions are positively correlated with customer satisfaction for all the three microfinance institutions. This implies that the satisfaction of microfinance’s customers would be influenced by the quality of service delivered.

10 Conclusions and recommendations

Conclusions

Based on the analysis of data and findings conclusions are drawn as follows.

As it is depicted on table 2 Agar microfinance has the highest mean score for empathy dimension (3.65) while it is below the average of the scale at Meklit and Omo microfinance institutions. So unlike Meklit & Omo microfinance institutions Agar is successful in giving customers personal attention, understanding customer needs and having convenient operating hours. Responsiveness dimension is commonly succeeded at all the three microfinance institutions. It is possible to conclude that Agar, Meklit and Omo microfinance institutions are delivering prompt service to customers, and their staffs are never too busy to respond customers’ request and have willingness to help and respond customer inquiries. According to table 2, reliability dimension is important in Omo microfinance with a mean score of 3.19. But it is lower at Agar & Meklit microfinance institutions. So unlike Agar & Meklit, Omo microfinance is reliable in keeping promises, sincerity, ability to perform service on time, and insisting error free records. Assurance is the third important dimension at Agar microfinance with a mean score of 3.36 while it is below the average of the scale at Meklit and Omo microfinance institutions. This implies that Agar microfinance has better ability to convey trust and confidence with its staff.
knowledge and courtesy than Meklit & Omo microfinance institutions. All the three microfinance institutions have a lower mean score for tangible dimension. With this fact in mind, one can infer that the three microfinance institutions have poor modern looking equipment, and uncomfortable physical layout of furniture and visually appealing materials.

As it can be seen from table 2, the mean score of customer satisfaction for each microfinance institutions is lower, i.e. Agar microfinance (2.14), Meklit microfinance (2.45), and Omo microfinance (2.22). Accordingly, most of the respondents of the three microfinance institutions are not satisfied with the services rendered by the institutions. The overall service quality obtained from the analysis show that customers are not satisfied with the microfinance services. In order to stay competitive, all the three microfinance institutions need to improve their service quality especially in the identified areas or dimensions. Agar microfinance needs to improve the tangible and reliability dimensions. Meklit microfinance has to work hard to attain tangible, reliability, assurance and empathy dimensions. Omo should strive to achieve success on tangible, assurance and empathy dimensions.

In this research the SERPERF instrument developed by Cronin & Taylor (1992) has been used to assess and compare the five service quality dimensions: tangibles, reliability, responsiveness, assurance and empathy. Self-administered questionnaire were distributed to 197 respondents proportionally selected from each of the three microfinance institution out of which 184 questionnaire (93.4%) were returned and used for analysis. The collected data was analyzed with the help of Microsoft Excel Software Package and SPSS 20.0. Pearson correlation was conducted to assess the relationships between the service quality dimensions and customer satisfaction and the results show a positive statistical significance between the five dimensions of service quality (Tangibles, Reliability, Responsiveness, Assurance and Empathy) and customer satisfaction. This research concluded that service quality is the basic and also most important factor that influences customer satisfaction.

Recommendations
With the recent establishment of several new microfinance institutions in Ethiopia, the microfinance industry in the country is undergoing dynamic expansion. Therefore, it is imperative for Agar, Meklit & Omo microfinance institutions to continuously monitor their level of service delivery, changing customer profiles and the drivers of satisfaction in order to retain their current customers and also to attract new ones. Based on this fact and the findings of this study the following recommendations are proposed to help improve service quality at the three microfinance institutions.

A. Recommendations for Agra Microfinance

- Based on the survey result, Agar should work hard to improve the reliability & tangible dimensions. In order to improve the reliability dimension the microfinance must clearly state what customers will actually receive and when. Then they must make sure that the promised services are delivered. For this purpose Agar should introduce improved communication flow to enable staff to deliver what customers expect more promptly and to provide information for management about customers’ expectations so that necessary changes would be made.

- Agar performs well in empathy dimension. Staffs should keep concerned about individual needs and wants of customers. They should also create a high degree of friendly interaction with their customers and provide personalized service for each customer. Training programs should be tailored to equip staff with necessary skills and attitudes to better serve the customer’s individual need. Companies that provide this personal service are able to have a competitive advantage against other companies that do not treat the customers as individuals.
Agar should also make the necessary investments to improve its tangibles such as, the availability of sufficient seats and tables, availability of the necessary materials associated with the service, availability of sufficient windows and updating its equipment. Employees of the microfinance need to be well-dressed and appear neat.

Since the dimensions of empathy, responsiveness and assurance are performed well the microfinance should keep going with achievements on these attributes of service quality. Managers and employees should keep their warmth and supportiveness behavior while delivering service to their customers. By improving the degree of interaction staffs can more understand the specific needs of their customer’s. By handling their customers in a professional and competent way staffs can improve the degree of customer’s trust and confidence. By establishing a continuous friendly relationship and showing willingness to help staffs can improve the degree of their customers satisfaction.

**B. Recommendations for Meklit Microfinance**

All the service quality dimensions have lower score at Meklit microfinance except responsiveness. So the microfinance is required the most urgent attention on the tangible, reliability, assurance and empathy dimensions.

- In order to overcome the limitations on tangible dimension, Meklit microfinance should allocate the necessary budget to furnish their offices with the required equipments and materials for better service delivery. Usually staff should be thought of well-dressed and appear neat to catch attention from customers.

- Data on reliability dimension shows that customers are not satisfied with the services provided by the microfinance as promised. Therefore, Meklit microfinance should work hard to fulfill the promised terms and conditions which will not go against customers’ interests such as being delivered service as promised, getting service right at the first time, having care and support from the staff while encountering a problem, and safe transaction of records.

- Staffs of Meklit microfinance should also respect time table given to client and providing them seats when they are waiting for service. The more clients will appreciate the service if the more kind, polite, and competent the staffs. Through this interaction, clients will reinforce their confidence in the MFI.

- At Meklit microfinance customers were not satisfied and feel assured about its competence. Therefore, by handling customers in a professional and competent way staffs should instill feelings of confidence in their customers.

- It should also provide training programs for its staff in order to improve their knowledge and competency as well as to improve their attitude towards their customers.

- Meklit microfinance has failed to meet empathy dimension. Therefore, staffs must understand and be concerned about individual needs and wants of customers. They have to create a high degree of interaction with their customers and provide personalized service for each customer. Customers are always looking for front line staffs that are capable of understanding their specific needs. In order to meet the empathy dimension, Meklit have to provide a continuous training program to its employees so as to develop a positive attitude towards their customers.

**C. Recommendations for Omo Microfinance**

Although it performs well in responsiveness and reliability, Omo microfinance has shown weakness in tangibles, assurance and empathy dimensions.

- As it is recommended for Agar & Meklit microfinance institutions, regarding the tangible aspect, Omo microfinance should invest on physical facilities and equipments such as having wider room with sufficient service windows, seats and tables, and using computers to minimize massive paper work. Besides, staff should always be thought of well-dressed and appear neat.

- Omo microfinance should also strive for achieving customer’s assurance about its competence. It should instill feelings of confidence in its customers and handle them in a
professional and competent way. By designing & implementing an ongoing training program, Omo should improve the knowledge, friendliness and courtesy of its employees. It should also create a conducive environment for customers in order to make them feel safe in conducting business with the microfinance.

- Omo microfinance has shown a low achievement in empathy dimension. Without improving the attributes of empathy dimension Omo may not stay competitive. Therefore, it has to do a lot on this dimension. Staffs have to understand the customers' personal needs. They must take care of them individually and showing them all sorts of sympathy and affection. They should also look at them as close friends and distinguished clients. Managers and employees should equip with warmth and supportiveness behavior while delivering service to their customers. By improving the degree of interaction staffs could understand the specific needs of their customer’s.

In general, microfinance institutions should strive to ensure that their customers are very satisfied. They should always asses key determinants of service quality from the customer’s perspective. Furthermore, such institutions should monitor customer satisfaction through conducting meaningful market research.

References:


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