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Factors Influencing Customer Satisfaction in Women Group Lending by Commercial Banks in KISII County: A Case of Cooperative Bank of Kenya

Daniel Owuor Onyango

Employee, Cooperative Bank, Jkuat, Kenya

Dr. Margaret Oloko

Lecturer, Jkuat, Kenya

Geoffrey Ongondo Obonyo

Ph. D. Student, Jkuat, Kisii, Kenya

Abstract:

Group Lending is lending to groups of members of a community who have come together with the goal of reinforcing their credit worthiness. The objectives of the study were: to establish the influence of risk, loan protection and interest rates on customer satisfaction in group lending among women. The study used descriptive and explanatory research designs to secure information concerning an existing phenomenon from a selected number of respondents on their attitudes and opinions in relation to the factors influencing customer satisfaction in women group lending by commercial banks in Kisii County; a case of cooperative bank of Kenya between May 2014 and January 2015, data being collected by use of open and closed ended questions on a well structured questionnaires based on objectives of the study for 90 respondents sampled using cluster sampling technique and simple random sampling. Completed questionnaires were analyzed to ensure accuracy of information and then summarized both qualitatively and quantitatively. Qualitative analysis of opinions were organized into patterns relevant to the research. Quantitative data was analyzed using descriptive statistics mainly correlation analysis to ascertain the factors influencing customer satisfaction in group lending on women. Tables were used to organize and give a summary of the collected data. It was established that most widowed women engaged in businesses as compared to the women who belonged in other marital status, like married, single and divorcees. From the findings empowerment of the poor is seen as a key growth indicator to boost the eradication of extreme poverty and hunger. With the provision of microcredit coupled with training on business management skills, poverty in developing economies will be a thing of the past. The findings further suggested that the vast poor are able to increase their cash inflows, develop in entrepreneurship which consequently can lead to the overall development of the economy.

1. Background Information

Lack of access to financial services not only retards economic growth, but also increases poverty and inequality. However, since the demand for financial services is very diverse among the poor, these services must be well-adapted to the particular requirements of potential clients. The agenda for rural finance is multi-faceted because the array of providers and clients and their needs are diverse (World Bank, 2002). This means that institutions and strategies must be tailored to the potential of an area, the cultural environment and the requirements of the clients. Besides, since the demand for financial services is very diverse even among the poor, there is a growing belief that any sustainable response will have to be pluralistic (IFAD, 2001).

Indeed, the remarkably successful experience of some recent group-lending programmes in terms of loan recovery rates such as those in Bangladesh, Bolivia, Malawi, Thailand and Zimbabwe, have aroused a lot of interest in replicating them in other countries (Huppi and Feder, 1990). It has been shown that microfinance institutions offer group loans when the loan size is rather large, refinancing costs are high, and competition between microfinance institutions is low. Individual loans, on the other hand, are offered when the loan size is small, refinancing costs are low, and competition is intense. In fact, it has been predicted that individual lending in microfinance will gain in importance in the future if microfinance institutions continue to get better access to capital markets and if competition further rises (Lehner, 2008).

Group lending mechanism and microcredit emerged around 38 years ago i.e. from 1976 in Bangladesh, in the enlightened hands and mind of Prof. Muhammad Yunus the founder of Grameen bank and a Nobel peace prize winner of 2006 (Narasaiah, 2006). Today, access to financial services for the poor in developing countries is seen as a way of contributing to the achievement of the Millennium Development Goals (MDGs) in many ways (Anderson et al 2002; Mahjabeen, 2008). This mechanism is therefore being replicated by MFIs in many regions all over the world, including Kenya (Mornduch & Armendariz, 2010) as cited by Kiragu (2013).

Microcredit groups are individuals who form themselves into formal or informal groups on the basis of a common purpose. They are then encouraged to undertake regular savings which are deposited in a microfinance institution (MFI) of their choice. After operating such savings for certain duration, they can then apply for a loan from that institution (Mkpado and Arene, 2007). Commonly, MFIs advances their microcredit loans through group lending mechanism.

One of the principal distinctive elements is the fact that in third-world countries, microcredit is principally aimed at people and populations who are economically marginalized, but who are not necessarily so in social terms (Alves, 2008) according to Kiragu (2013). In economic terms, people can be poor, but they are not necessarily excluded in social terms. Such people live in communities characterized by high levels of social inclusion, at least in rural areas, where a substantial part of the population still live, a case more common in developing countries (Alves, 2008) according to Kiragu (2013). Group lending mechanisms refers to the different methods used for the common goal of lending to low-income households that are different from the standard loan contracts. It is the establishment of institutes or networks with a system that would utilize the societal assets of the borrowers in the absence of physical possessions (Khawari, 2004) according to Kiragu (2013). Previous literature has also established that women and more so from rural areas are the major beneficiaries of this model (Labie& Armendariz, 2011).

There are two modalities of group lending. One, a lender may provide funds to a group or a collective entity such as a cooperative or a village bank which then disburses the loan to individual members according to agreed criteria. In such a case, the group is jointly liable for the entire amount of the loan. Second, funds may be lent to members individually who are organized in groups, in which case the group jointly guarantees all loans or simply furnishes information about individual participants (Huppi and Feder, 1990, Klein et al., 1999).

In the contemporary global and highly competitive economy it is fatal for a business organization to be non-customer-oriented. Indeed, to survive organizations need to produce products and services of very good quality that yield highly satisfied and loyal customers (Fecikova, 2004) according to Dawar (2013). For many years customer satisfaction has been a major goal of business organizations, since it has been deemed to affect customer retention and companies' market share (Hansemark and Albinsson, 2004) according to Dawar (2013). In the service industry, a long-term relationship with customers (Gronroos, 1994; Berry, 2002) according to Dawar (2013) is the key success factor that is enormously increasing with the electronic channels. The proliferation of new channels and the high demand for differentiated products has presented customers with a wide choice in terms of which service to use in order to profitably interact with the bank. In era of intense competition, service organizations attempt to differentiate themselves from their competitors. By providing exceptional services that will benefit its target market, service organizations are likely to achieve differentiation (Kotler, Bowen, and Makens 1999) according to Dawar (2013). One of the ways for commercial banks of differentiating themselves is the introduction of group lending facility to provide all the things which can make customer satisfied and that is the leading edge for the organization to its competitor. However, mistakes and failures are frequent occurrences in service businesses (Babakus et al. 2003) according to Dawar (2013). Therefore, there was need to find out the factors influencing affecting customer satisfaction in women Group Lending by Commercial Banks in Kisii County: A case of Cooperative Bank, Kisii branch.

1.1. Statement of the Problem

Microfinance Institutions and commercial banks provide loans either through groups or lend directly to individuals. Proponents of the group lending approach highlight the cost-reducing aspect of this methodology, while defenders of individual lending emphasize the advantages of flexibility in meeting loan demand, achieving a high loan product quality, and reducing credit risks (Klein et al., 1999). Small loans to groups of poor borrowers have become immensely popular in recent years in large parts of the developing world and the developed world as well and Kenya was not exceptional. Such loans usually target groups with no access to formal lending institutions and have become the cornerstone of many development strategies (Chatterjee and Sarangi, 2004). However, the desired level of customer satisfaction had not been achieved as most commercial banks in Kenya recorded a higher number of customers going for individual loans despite group lending in place. Hence, this called for a research to determine the factors affecting customer satisfaction in women Group Lending by Commercial Banks in Kisii County: A case of Cooperative Bank, Kisii branch.

1.2. General Objectives

To establish the influence of factors affecting customer satisfaction in women Group Lending by Commercial Banks in Kisii County: A case of Cooperative Bank, Kisii branch

1.3. Specific Objectives

- i. To establish the influence of risk on customer satisfaction in women group lending by Cooperative Bank, Kisii branch.
- ii. To establish the influence of collateral provision on customer satisfaction in women group lending by Cooperative Bank, Kisii branch.
- iii. To establish the influence of interest rates on customer satisfaction in women group lending by Cooperative Bank, Kisii branch.

1.4. Research Questions

- i. What is the influence of risk on customer satisfaction in women group lending by Cooperative Bank, Kisii branch?

- ii. What is the influence of collateral provision on customer satisfaction in women group lending by Cooperative Bank, Kisii branch?
- iii. What is the influence of interest rates on customer satisfaction in women group lending by Cooperative Bank, Kisii branch?

1.5. Scope of the Study

This study focused on factors affecting customer satisfaction in women Group Lending by Commercial Banks in Kisii County: A case of Cooperative Bank, Kisii branch. The study covered between May 2014 and January 2015 with a target population of 300 respondents where by only 90 respondents sampled using cluster sampling technique and simple random technique to respond to the research tools representing 30% of the target population. A questionnaire with both open and closed ended questions was the main instrument of data collection which was issued to sampled group members.

1.6. Limitations

The respondents were unable to interpret the questions in the questionnaire and the researcher was forced to explain to them using the local language. The study only focused on three aspects of group lending on customer satisfaction so other crucial aspects were left out. Methodological constraint on obtaining the most representative sample for inferences of the results of the study was also a challenge.

2. Literature Review

2.1. Introduction

The banking industry, as is the case with other sectors, is facing a rapidly changing market, new technologies, economic uncertainties, fierce competition, and more demanding customers; and the changing environment has presented an unprecedented set of challenges. In Kenya too, the cross border flows and entry of new players and products have forced banks to adjust the product-mix and undertake rapid changes in their processes and operations to remain competitive.

2.2. Knowledge Gap

Muhammad (2010) said that microfinance is a world which provides the high quality financial services, including not only credit but also savings, insurance, and fund transfers to the poor peoples of any nation. According to him the purpose of microfinance is to change to financial system which is only for those peoples who have some financial worth mean to say only rich peoples. Central Bank of Kenya (2011), notes that poverty can be reduced sustainably and consistently with access to financial resources. Access to finance allows the poor to develop a savings base and enlarge their asset base that supports them to escape poverty. Central Bank continues to note that the microfinance institutions are aimed at addressing any entry barriers by focusing on areas that have not been well served by the mainstream financial institutions by offering demand-driven, affordable and convenient products through group lending. While this increased attention to micro financial group lending is desirable, its effectiveness and satisfaction to customers is unknown as individuals still struggle for individual loans, as there was little oversight to ensure that actions are appropriately carried out and are effective.

2.3. Conceptual Framework

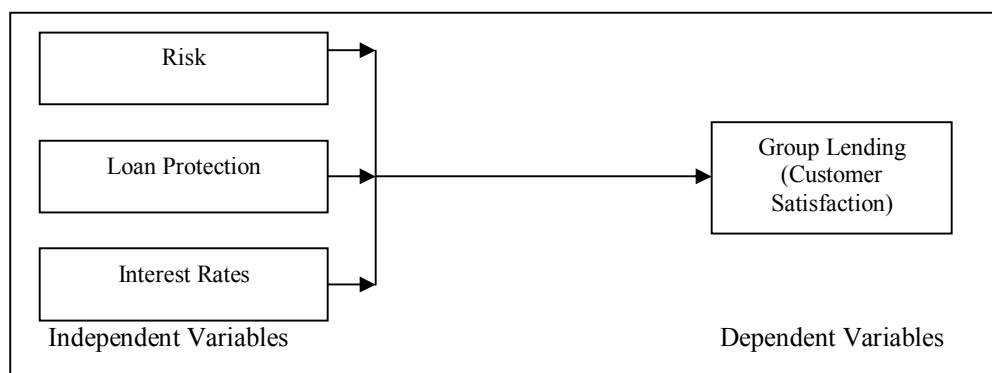


Figure: 1 Conceptual Framework

3. Research Methodology

3.1. Research Design

The study used descriptive and explanatory research designs. The descriptive design was adopted because, according to Kothari (2003), descriptive design is a method of securing information concerning an existing phenomenon from all or a selected number of respondents of the concerned universe. Explanatory design was also adopted because the research aimed at collecting information

from respondents on their attitudes and opinions in relation to the factors influencing customer satisfaction in group lending among women by commercial banks in Kisii County.

3.2. Target Population

Target population was the population in which the researcher generalized the result of the study or can be defined as a compute set of individuals, cases/objects with some common observable characteristics of a particular nature distinct from other population. The study targeted customers in cooperative bank Kisii branch with 300 respondents from 30 registered groups in total.

3.3. Sample Size

From a preliminary study, cooperative bank, Kisii branch serves 300 customers from registered groups on average and 30 percent of yielded 90 customers as a sample size.

3.4. Sampling Design

In this study, 90 respondents were sampled using cluster sampling technique since the researcher could not get a complete list of the members of a population under study, but could get a complete list of groups of the population according to (Roscoe, 1975) as cited by Bourgie's book (2009).

3.5. Data collection Tools and Procedure

A Questionnaire was the main instrument of data collection, since it is easier to administer, economical in terms of time and money and also permit a greater depth of response (Mugenda and Mugenda, 1999). A questionnaire with closed-ended and open-ended questions consistent to the objectives of the study was administered to the selected sample. The researcher personally collected data from the selected sample and in cases where the sampled respondents are unable to answer the questionnaire, the researcher interpreted for them. Date and time for administration of the instruments was done in consultation with cooperative bank Kisii branch management. Areas of confidentiality and anonymity, intentions of the study and how the information would be used were explained to the respondents.

3.6. Validity and Reliability of Research Instruments

In order to ensure validity and reliability, the questionnaires were composed of carefully constructed questions to avoid ambiguity and to facilitate answers to all the research questions. The questionnaires was then pre-tested in a pilot study through a sample of 30% of selected sample on cooperative bank, Migori branch to avoid respondent contamination (Kothari, 2003), after which corrections and adjustments were done and this ensured reliability.

3.7. Pre-Testing of the Instruments

The questionnaires was pre-tested in a pilot study through a sample of 30% according to (Roscoe, 1975)) in Bourgie's book (2009) which he notes is representative for piloting in a selected sample of cooperative bank, Migori branch to avoid respondent contamination (Kothari, 2007).

3.8. Data Processing and Analysis

Completed questionnaires were analyzed to ensure accuracy of information, and then the data collected was summarized and classified both qualitatively and quantitatively. This included an analysis of data to summarize the essential features and relationships of data in order to generalize and determine patterns of behaviour and particular outcomes. Descriptive analysis was employed; which included frequencies, percentages and. The organized data was interpreted on account of concurrence to objectives using assistance of computer packages to communicate research findings. Frequency distribution tables and charts were used for data presentation. After the analysis and interpretation of data, a final report was written to provide a summary of the findings.

4. Research Findings and Discussions

4.1. Introduction

This part tries to record the findings of the study that will answer questions relevant to the academic gap ought to be filled. It was restricted in the three objectives namely;

1. To establish the influence of risk on customer satisfaction in group lending among women in cooperative bank.
- 2 To establish the influence of loan protection on customer satisfaction in group lending among women in cooperative bank.
- 3 To establish the influence of interest rates on customer satisfaction in group lending among women in cooperative bank.

Out of the ninety (90) questionnaires that were administered five (5) were rejected on the basis of incorrect and inconsistency of data. Based on that, eighty five (85) qualified for data organization and analysis.

4.2. Personal Information

1 Professional Aspect

Most women had no profession and they practised in informal activities. The table below summarises their distribution in the activities they undertook.

Profession	Number of Women
Peasantry	52 (61.2%)
Small Business	17 (20.0%)
None	16 (18.8%)
Total	90 (100%)

Table 1: Professional Aspect of Group Members

From the table 1 above, most women engaged in subsistence farming. This was represented by 61.2% of the total women interviewed. Seventeen (17) women who represented 20.0% engaged themselves in small enterprises and sixteen (16) women had no definite activity to record. For those who never engaged in any activity, might have had their husbands determine their daily bread.

On the side of age distribution, the study revealed that women between thirty five (35) and fifty five (55) formed the majority.

Marital status	Number of Women
Married	25 (27.7%)
Single	2 (2.3%)
Widow	62 (73%)
Total	90 (100%)

Table 2: Marital Aspect of Respondents

Widows took an active role in ensuring that they formed groups that would enable them access finances and from the study, this represented 73%. The level of formation of groups declined to divorcees taking a less active role in groups. It can be deduced that married and widowed women had less trust in divorced and single women and would not allow them in their groups.

All of the respondents had high school as their highest level in education. College, University and Polytechnic graduates did not register in groups organised locally.

4.3. Risk Management on Customer Satisfaction

Aspect	S.D	D	N	A	S.A
Risk Well Handled	0	20	50	15	5
Collateral Provision	3	0	5	5	77
Amount Dispersed	1	3	0	65	21

Table 3: Frequency Distribution table on Risk Management on Customer Satisfaction

From the tabulation above, 50 respondents representing 57.8%, who represented the majority, had no idea whether risk was well handled. However, there data would be said to have obeyed normal curve. On the side of collateral provision, eighty two (82) respondents representing 91.1% attested to an agreement that collateral provision was well taken into consideration. So was, to amount dispersed.

4.4. Loan Protection

The respondents maintained that guarantors were the main protector of loan defaults. Members acted as guarantors among themselves and the idea of insurance and writing off the loan never clicked in their mind. However, it had been proved that group guarantee schemes are an inconvenience to many because each wants to plan his finances and create fear of default among members (Memba, 2013).

As Prabhakar (2005) notes that customer satisfaction results from either the quality of banking services (product), quality of service, engagement of the customer, price factors and meeting or exceeding customers' expectations, consuming products and services, it is true that other factors play a vital role in ensuring that the customer maximizes his or returns. If the performance of a bank falls short of these expectations, the customer becomes dissatisfied. If the performance matches expectations, the customer is satisfied. If the performance exceeds expectations, the customer is delighted. Only delighted customers or highly satisfied customers stay loyal to the services provider (Salmen and Muir, 2003).

4.5. Interest Rates on Customer Satisfaction

Khandker (2003) points out that the goals of microfinance institutions as development organizations are to service the financial needs of un-served or underserved markets as a means of meeting development objectives such as to create employment, reduce poverty, help existing businesses to grow or diversify their activities, empower women or other disadvantaged population group (poor people or low-income people), and encourage the development of new business.

On the aspect of interest rates charged on group loans, all the respondents involved in the study representing 100% agreed that it was lower as compared to individual loans acquired through the same bank. Of interest was the fact that customers were not having any information regarding calculation of the interests. In general, customers were satisfied with this aspect as compared to other aspects involved in the study.

5. Summary, Conclusions and Recommendations

5.1. Introduction

The study was to establish the factors which influence customer satisfaction in group lending among women in commercial banks. The study was carried out in Kisii County. The researcher pointed out that the risk, loan protection and interest rate directly influenced customer satisfaction. Low interest rate attracted the need for loan as compared to high interest levied on the money borrowed. High risk influenced high returns. Women borrowed huge sums of money and established big businesses, and vice versa. So is loan protection. It was in this view that the study attained its objective

5.2. Summary of Findings

Summary of the findings was done along major variables: Risk, loan protection and interest rates.

5.2.1. Risk on Customer Satisfaction

The study established that more than half (50 respondents) representing 57.8% of the sampled respondents had no idea whether risk was well handled. This was attributed to the fact that, banks either provided little information regarding risk management to customers or customers had little experience with banks regarding group banking and how risk is managed. On the side of collateral provision, eighty two (82) respondents representing 91.1% attested to an agreement that collateral provision was well taken into consideration. So was, to amount dispersed.

5.2.2. Loan Protection on Customer Satisfaction

All the respondents representing 100% maintained that guarantors were the main protector of loan defaults. Members acted as guarantors among themselves and the idea of insurance and writing off the loan never clicked in their mind.

5.2.3. Interest Rates on Customer Satisfaction

On interest charged on group loans, 85 respondents representing 94.4% agreed that they are relatively friendly as compared to individual loans thus yielding satisfaction and 5 respondents representing 5.6% were undecided. However, the same respondents who agreed argued that the duration it takes to receive group loans was long as compared to individual loans and since the group number is limited to a given number of members, it is difficult to obtain likeminded members to form a group with. On the other hand, respondents argued that it is difficult to maintain group information.

6. Conclusion

It was established that most widowed women engaged in businesses as compared to the women who belonged in other marital status, like married, single and divorcees. There was a very strong positive relationship between activity carried out by the individual and the marital status thereto. This could be interpreted on the basis of responsibilities each group carried in society. On the side of age, those women who belonged in middle age were active and most of them engaged in activities which were income generating.

From the above review empowerment of the poor is seen as a key growth indicator to boost the eradication of extreme poverty and hunger. With the provision of microcredit coupled with training on business management skills, poverty in developing economies will be a thing of the past among women. The findings suggest that the vast poor are able to increase their cash inflows, develop in entrepreneurship which consequently can lead to the overall development of the economy.

7. Recommendations

People should be encouraged to form groups, in order to obtain loans at low interest rate. All banks should synthesise the masses to take the advantage of group formation to boost their business through the acquisition of loans. In turn, the banks will also increase the customer base.

Secondly, the collateral required is the members themselves. It is important to note that even low income earners will access funds. In addition, banks should insure these loans advanced to group members to protect members from repaying the loan in case one of them defaults and this will motivate members to take up loans through groups. However, Banks should take advantage of the advancement in technology to secure information regarding the amount disbursed to individual group members by either crediting to their accounts, use of mobile money transfer or purchase of assets.

Thirdly, there is misconception by the rural folk that credit makes the poor even poorer. They fear that if they default all that they possess will be confiscated by the microfinance provider. The government should endeavor to erase the misconception through vigorous awareness campaigns about the role of microfinance in eradication of poverty.

Finally, the banks should educate people on the prevailing business opportunities to avoid unnecessary and unhealthy competition. In addition, banks should consider advancing loan facility to men.

Since the study was based on three objectives, namely: risk, loan protection and interest rate, it achieved its objectives. It filled the gap in the academic world which sought the factors which influenced customer satisfaction.

8. Areas for Further Study

Further research is required to establish the level of combination of the three factors to optimize satisfaction.

Further research need to be carried out on challenges facing acquisition of loan facility through groups among women/ youths.

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Annexure

Questionnaire

Dear respondent,

I am a Master of Business Administration student at Jomo Kenyatta University of Agriculture and Technology (Finance Option) and as part of my coursework assessment; I am required to carry out a research on my field of study. I would, therefore, appreciate if you assist me collect data in your area of operation to this end. The results of the research will be solely for purposes of academic and in no way your participation be implicated in the research findings. Thus confidentiality is guaranteed.

Thank you. Daniel Onyango

Part 1: Personal Information

a. Profession

b. Age Bracket (tick one as appropriate)

Below 18 years
18-30 yrs
31 – 40yrs
41 – 50yrs
50 – 60yrs
Above 60yrs

c. Marital Status (Tick one as appropriate)

Married
Single
Widow
Divorced

d. Highest Level of Education (Tick one as appropriate)

Primary
High School (Secondary)
College/Polytechnic
University
Others (Specify)

e. Your physical address -----

f. Do you own a business? Yes No

g. If yes in (a) above, then how did you access your finance for business at start-up from the bank?

i) Individually

ii) Through a group borrowing

Part 2: Risk

2.1. This part will assess your involvement in borrowing as regards to risk

a. Are there risks involved in group lending? Yes () No ()

If yes, briefly explain.....

2.2. In this part indicate your level of agreement as regards to management of risk.

Aspect	S.D (1)	D (2)	N (3)	A (4)	S.A (5)
Risk is well handled					
Collateral provision					
Amount disbursed					

KEY

SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree, S.A- Strongly Agree

Part 3: Loan Protection

3.1. This part assesses the respondent’s knowledge about loan protection

a. Is the Loan acquired by you through group lending protected? Yes () No ()

3.2. In this part indicate your level of agreement as regards to loan protection. Please indicate the nature of protection

Aspect	S.D (1)	D (2)	N (3)	A (4)	S.A (5)
Insurance					
Guarantors					
Writing off the loan					

KEY

SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree, S.A- Strongly Agree

Part 4: Interest Rates

a. In your own opinion, how does interest rates charged when borrowing as a group compare to individual borrowing?.....

b. Briefly, explain how the cost of borrowing in group lending differs with that of individual borrowing.....

c. Are the interest rates charged friendly to customers? Yes () No ()
If yes, what are the major hindrances affecting group borrowing?.....

Part 5: Customer Satisfaction

a. How do you rate group lending in terms of the following aspects in terms of customer satisfaction?

Aspect	S.D (1)	D (2)	N (3)	A (4)	S.A (5)
Risk					
Loan Protection					
Interest Rates					

KEY

SD-Strongly Disagree, D- Disagree, N-Neutral, A-Agree, S.A- Strongly Agree

b. As a customer, are you satisfied with group lending as a product offered by commercial banks?

Yes No

If yes in (i) above, please explain your experience.

.....

c. The main objective of group funding is to eradicate poverty through group lending. Has the product achieved its prime objectives?

Yes No