

**EVALUATING THE RELATIONSHIP BETWEEN SERVICE QUALITY AND  
CUSTOMER SATISFACTION IN MICROFINANCE INSTITUTIONS IN WAKISO  
DISTRICT, UGANDA**

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**ABSTRACT:** *The paper investigated the relationship between service quality and customer satisfaction in microfinance institutions in Wakiso district. A correlational cross-sectional survey design was used. Both quantitative and qualitative approaches were employed. Questionnaires and interviews were used to collect data from 10 selected SACCOs. Data were collected from samples of SACCO members, board of directors, audit committee members and staff of the selected SACCOs. Documentary analysis was also done to enrich conceptualization of the problem and interpretation of data. Findings revealed that service quality aspects are collectively explanatory variables of customer satisfaction in SACCOs in Wakiso district. Furthermore, the aspect of management communicating effectively with all stakeholders is significantly related to customer satisfaction. The study concludes that service quality should be emphasized in SACCOs in order to ensure customer satisfaction. SACCOs management bodies should further investigate to better understand how their clients think and respond to service quality, because they are seeking to improve their customer satisfaction levels.*

**KEYWORDS:** Service quality, member- owned microfinance institutions, customer satisfaction, Uganda

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## **INTRODUCTION**

Microfinance institutions have evolved, since the late 1990s, as economic development tools intended to benefit low-income people. The goals of Microfinance institutions are to service the financial needs of the underserved or the unserved markets as a means of meeting development

objectives, such as to reduce poverty, create employment, help existing businesses grow or diversify their activities (Ledgerwood,1999). Microfinance institutions have been expected to reduce poverty, which is considered as their most important development objective. However, the positive impact of Microfinance institutions on the social and economic welfare of the poor can be achieved, if the institutions register good performance and especially when customers continue to be satisfied with the services offered. Customer satisfaction is one of the main areas of interest in the business and the academic world (Tikkanen and Alajoutsijau, 2002). Customer satisfaction is known to be one of the most important and serious issues towards success in today's competitive business environment, as it affects company market share and customer retention (Ooi, Rehaman., Lin, & Yee-Long, 2011)

The customer is the key to business. In fact, their satisfaction is the most important tool that helps to increase sales and generate profits in the business environment (Wilson Zeithaml, Bitner,& Gremler, 2008). It is obvious that customers play important roles in the organisational process. Before the placement of strategies and organisational structure, the customers are the first aspect considered by management. The questions asked in the strategic planning ranges from who will use the services, where are they and will the services yield maximum satisfaction for the clients? After these questions, the organisation will then design the products, segment the market and create awareness. This therefore, does not only show the importance of customers in the business environment, but also the importance of satisfying them.

An organisation provides quality service or not, will depend on the customers' feedback on the satisfaction they get from consuming the products since higher levels of quality lead to higher levels of customer satisfaction (Kotler and Keller, 2009). An organisation that consistently satisfies its customers, enjoy higher retention levels and greater profitability due to increase in customer loyalty (Wicks & Roethlein, 2009). Every company should work hard to win the hearts of customers by satisfying them in order that they became royal customers. With the increasing number of businesses and growing competition today, each company wants to be the customers' first choice. To achieve this, organisations need to carry out continuous research in this area so as to lead organisations to their twin objectives of satisfying their customer and making a profit. This study is designed to evaluate the relationship between service quality and customer satisfaction.

Although there are other factors such as price, product quality, etc, than service quality that determine customer satisfaction (Wilson et al., 2008), our motivation on service quality alone for this paper, is because service quality has been proven to be the best determinant of customer satisfaction when it comes to service sectors like micro finance. Further, providing quality services is one of the main targets when it comes to satisfaction in the business environment of today, meaning it is a very critical issue.

In the same direction, financial summaries of performance provide only a limited view of the efficiency and effectiveness of actual operations. For example, in a situation where a purchasing department regularly achieved the budget for all expense items, it would suggest that it was well managed. However, the department might have provided poor service to the production department and low cost suppliers might have been selected, who might have provided poor quality materials and who might have failed to meet delivery dates. Such scenarios might have caused much wasted effort in chasing up orders and might have affected the firm's ability to deliver to its

customers on time. Therefore, to evaluate the performance of the department, there is need to incorporate non-financial measures that provide information on the quality of the services provided by the department.

A savings and credit cooperative (SACCO), is one form of cooperative society and a member owned Microfinance institution, whose business is to provide financial services to its members. A SACCO is owned and governed by members who have the same common bond and who seek to improve on their social and economic wellbeing. Members agree to save their money together in a SACCO and make loans to one another at reasonable but market based interest rates (Ahimbisibwe 2007).

The major aim of SACCOs is to build a financial base from which members can borrow for their needs. SACCOs make it possible for the poor to access reasonably priced credit and at terms and conditions that are favourable to them. Most of the low and medium income groups, who have no land titles/ security to offer, would find it difficult to access credit in absence of SACCOs, and therefore would possibly remain poor. However, as Kyobutungi (2011) points out, for SACCOs to achieve their objectives of eradicating poverty and empower members economically, they must have in place controls and members must continue to be satisfied with the services of these institutions. Controls as Drury (2006), observes encompasses all methods and procedures that direct employees towards achieving the organisations objectives. One such control in organisations and in SACCOs inclusive is the service quality.

### **Service quality and customer satisfaction**

Service quality is the difference between service expectations and perceived standards or delivery. Quality can be defined by customers and occurs where an organisation supplies products or services to a specification that satisfies their needs. Many analyses of service quality have attempted to distinguish between objective measures of quality and those which are based on more subjective perceptions of customers. During the past few years, service quality has become a major area of attention to practioners, managers and researchers owing to its strong impact on business performance, lower costs, customer satisfaction, customer loyalty and profitability (Leonard and Sasser, 1892, Newman, 2001, Guru, 2003, etc.). Service quality is what clients actually receive as a result of their interaction with the service firm.

In order for a firm to compete successfully, it must have an understanding of client perception of the quality and the way service quality is influenced. As many industry sectors mature, competitive advantage through high quality services is an increasingly important weapon in business survival. Micro finance industry in Uganda has certainly not been exempted from increased competition or rising clients' expectation of quality. An organisation that consistently satisfies its customers, enjoy higher retention levels and greater profitability due to increased customer loyalty (Wicks & Roethlein, 2009). Every company should work hard to win the hearts of customers by satisfying them in order that they become royal customers.

Service quality and customer satisfaction have been proven from past researchers to be positively related (e.g. Kuo, 2003) but no study in Uganda especially in SACCOs, had tested the service quality dimensions such as competent staff who listen and are responsive to customer needs, management communicating effectively with all stakeholders and presence of speedy delivery

systems, directly to confirm or otherwise if they are collectively related to customer satisfaction. Since customer satisfaction has been considered to be based on the customers' experience on a particular service encounter, it is in line with the fact that service quality is a determinant of customer satisfaction, because service comes from the outcome of services from service providers in organisations. (Cronin & Taylor, 1992)

Fitzmmons & Elvis, (2002), for example, argue that higher customer satisfaction in any business entity may be gained from service quality because customers are interested in quality service delivery. According to Stoner (2001), any type of service you bring to the market, stimulates performance because service quality leads to increased market share and profits, and sets the market strategy. In order to put a clearer picture on the influence service quality gives to performance and customer satisfaction, Zeithaml & Lari & Dawyne (2006) advise that a firm can compete by nurturing a service culture that attracts quality in the industry. In attracting customer satisfaction and best performance, the company must provide the best services, which can be comparable to service quality indicators such as the branding, and the taste of the services. Boshoff and Gray (2004), stipulate that quality and customer satisfaction have long been recognized as playing a crucial role for success and survival in today's competitive market. They also note that as many industry sectors mature, competitive advantage through high quality service is an increasingly important weapon in business survival.

Customer satisfaction is a function of the customers' expectations and perceived performance of the service, which is necessary not only to retain customers but also to attract the new customers. A satisfied customer is the need and demand for the survival and growth of any business. A customer is satisfied when a service performs better than expected, dissatisfied, when expectations exceed performance. Satisfaction is an ex post evaluation of customers' experience with the service and is captured as a positive, indifferent or negative feeling. Research has demonstrated that quality of service and achieving customer satisfaction are significant for the survival of a business. (Gupta, MacDonald & Herath 2005)

The paper is based on the perceived service quality and satisfaction (Spreng and Mackoy, 1996). The model attempts to enhance the understanding of the constructs of perceived service quality and customer satisfaction. The model shows that service quality and satisfaction are distinct and desires congruency does influence satisfaction. A key determinant of service quality and customer satisfaction is meeting customer- desires. Raising expectations have a positive effect on customer satisfaction perceptions of performance, but they also have a negative effect on satisfaction through disconfirmation [edit for clarity].

SACCOs in Uganda according to Kabuga (2007), have consistently been accused of failing to do the following quality service aspects among others: recruiting competent staff; having kind staff who listen and are responsive to customer needs; giving timely loans to their members; giving adequate loan sizes; giving services other than savings and credit (e.g. money transfer); and communicating effectively with all stakeholders. Further, much as several studies provide evidence of a relationship between service quality and business performance (Fitzmmons et al., 2002; Stoner, 2001 and Zeithaml et.al, 2006), the studies were carried out in distant geographical locations such as Australia and Canada and mostly in big and listed companies not SACCOs. This leaves a knowledge gap as far as the performances of business firms specifically SACCOs are

concerned in Uganda. This gap led to testing of the null hypothesis ( $H_0$ ) in this study, namely, there is no statistically significant relationship between service quality and customer satisfaction.

## **METHODOLOGY**

The study adopted an epistemology research philosophy, because of its view and belief in a scientific method of testing hypotheses. Self-administered questionnaires were used to collect data from SACCO members, board members, audit committee members and members of staff from 10. A five point Likert scale starting from strongly disagree (1) to strongly agree (5) response was used as outlined by Trochin (2006). The scale reliability and validity was tested and found significant. Purification of the research instrument was done to find out the minimum number of factors that would explain the co-variation among the observed variables. Hence, factor analysis was used to reduce the number of variables and to find out the actual number of factors for the study. The research adopted a correlational cross-sectional survey design to test the hypothesis (Blumberg, Cooper and Schindler, 2005), and to enable collection of data from different categories (Sekaran,2000). The design was also useful because data required could be collected at one point in time and from all the respondents. Descriptive analysis, factor analysis, correlation and linear regression analysis were used to analyse data (Amin, 2005). The correlation design allowed establishing whether a relationship exists between the variables and the regression analysis helped to confirm whether the relationship was predictive or not.

## **FINDINGS**

Customer satisfaction in this study was operationalized as ownership of SACCOs activities by members, consensus decision making, availability of visible benefits that members get, members being proud to be associated with their SACCOs, members perceiving SACCOs services as being of high quality and members patronizing their SACCOs. Service quality was measured in terms of SACCOs giving adequate sizes of loans as well as giving services other than savings and credit, management of SACCOs communicating effectively with all stakeholders, SACCOs having speedy delivery systems, and competent staff who listen and are responsive to members' needs. Descriptive statistics results indicate that respondents rated themselves high on average on all aspects of customer satisfaction (mean=3.70, S.D =0.548, t=6.752), at 0.01 significance level, and all aspects of service quality were rated high on average (mean = 3.58, S.D = 0.567 t=6.314), at 0.01 significance level. The standard deviations are numerically small, suggesting low dispersion in the stakeholders' description on average. The findings support the observation made by Kyobutungi (2011), to the effect that for SACCOs to achieve their objectives of eradicating poverty and empowering members economically, they must have in place controls (such as service quality) and members must continue to be satisfied with the services they get.

### **Hypothesis**

The paper sought to test the following hypothesis:

Ho<sup>1</sup>: That, there is no statistically significant relationship between service quality and customer satisfaction in selected SACCOs in Wakiso district.

Results are presented below in Table 1

**Table 1: Results of the relationship between service quality and customer satisfaction.**

		Customer satisfaction
Service quality	Pearson correlation	0.212 <sup>(*)</sup>
	N	86

\* Correlation significant at 0.05 critical level

Correlation results in Table 1, indicate that the relationship between service quality and customer satisfaction is positive and weak but significant ( $r=0.212$ ) at 0.05 significance level, suggesting that, if service quality increases, customer satisfaction also increases. However, there was need to establish whether the relationship was predictive or not. Thus the linear regression analysis is presented in Table 2 (a &b).

**Table 2: Regression results of service quality and customer satisfaction**

**(a) ANOVA**

Model	Sums of Square	Df	Mean square	F <sub>c</sub>	F <sub>t</sub>	Interpretation
Regression	2.502	4	0.625	2.277	2.019	Significant
Residual	21.148	77	0.275			
Total	23.650	81				

$R = 0.325$ , Adjusted  $R$  square = 0.059.

**(b) Coefficients**

	Unstandardized coefficients		Standardized coefficients	t	Interpretation
	B	Std error	Beta		
Constant	3.008	0.394		7.641	
SACCO gives adequate sizes of loans	-0.059	0.060	-0.121	-0.979	Not Significant
SACCO gives other services other than savings and loans	-0.011	0.060	-0.020	-0.184	Not Significant
Management of SACCO communicates effectively with all stakeholders	0.160	0.061	0.320	2.619	Significant
SACCO has speedy delivery systems	0.102	0.079	0.141	1.295	Not Significant

Table 2(a), shows that service quality aspects are collectively explanatory variables of customer satisfaction in SACCOs in Wakiso district.  $F$  computed ( $F_c$ ) = 2.277,  $F_t$  = 2.019.  $F_c$  is greater than  $F$  tabulated ( $f_{4, 77; 0.10} = 2.019$ ). The obtained  $F$  ratio is likely to occur by chance with  $P < 0.10$ . The study hypothesis that there is no statistically significant relationship between service quality and customer satisfaction in SACCOs in Wakiso district was rejected. The causal relationship is significant when the computed  $F_c$  is equal to or greater than the tabulated  $F(F_t)$  at the given significance level. However, service quality only explains about 6% to variations in customer satisfaction (adjusted  $R$  square = 0.059). This was also supported by the regression value of 2.502, compared to the residual value of 21.148, suggesting that there are other variables which strongly predict customer satisfaction other than service quality.

Furthermore, Table 2 (b), reveals that according to the  $t$ -values that the aspect of management communicating effectively with all stakeholders is significantly related to customer satisfaction at 0.01 or 1% significance level, ( $t = 2.619$ ). It contributes 32% to variations in customer satisfaction ( $\beta = 0.320$ ). Other aspects of service quality namely: SACCOs giving adequate sizes of loans ( $t = -0.979$ ); SACCOs giving other services other than savings and loans ( $t = -0.184$ ); and SACCOs having speedy delivery systems ( $t = 1.295$ ), are necessary factors for service quality, but not sufficient to predict customer satisfaction.

## DISCUSSION

Findings are consistent with earlier findings by Kotler and Keller, (2009) who note that whether an organisation provides quality service or not will depend on the customers' feedback on the satisfaction they get from utilizing the services, since higher quality of service, lead to higher levels of customer satisfaction. Results also support past researchers (e.g. Kuo, 2003) who found out that service quality was positively related to customer satisfaction. Cronin and Taylor (1992) also in support of findings indicate that service quality is a determinant of customer satisfaction, because service comes from outcome of the service from service providers in organisations. Fitzmmons et al., (2002), argue that a higher customer satisfaction in any business entity may be gained from service quality, because customers are interested in quality service delivery. Stoner (2001), stipulate that any type of service you bring to the market stimulates performance, because service quality leads to increased market share and profits, and sets the market strategy. In order to put a clearer picture on the influence service quality gives to performance and customer satisfaction, Zeithaml et al., (2006) advise that a firm can compete by nurturing a service culture that attracts quality in the industry. In attracting customer satisfaction and best performance, the company must provide the best services, which can be comparable to service quality indicator such as the branding and the taste of the services.

## CONCLUSION AND RECOMMENDATIONS

The main objective of the study was to evaluate the relationship between service quality and customer satisfaction in SACCOs in Wakiso district. Service quality is a significant predictor of customer satisfaction and may be gained from service quality, because customers are interested in

quality of service delivery (Fitzmmons et al., 2002). A firm can compete by nurturing a service culture that attracts quality in the industry. In attracting customer satisfaction and best performance, the company must provide the best services which can be comparable to service indicators such as the branding and the taste of the service (Zeithaml et al., 2006). Satisfying the customers by making sure they obtain good quality services is the latest strategy for organisations in today's business environment. That is why companies are going in for Total Quality Management (TQM) to improve the quality because quality has a great impact on customer satisfaction (Kotler, et al., 2002)

Customer satisfaction is the product of intricate information that is generated by comparing customers' experiences with expectations and customers may be termed as satisfied or dissatisfied with services rendered and the extent of expectation.

Savings and credit cooperatives are one of the fastest growing kinds of Microfinance institutions in Uganda, and are on high demand since their goals are to service the financial needs of the underserved or the unserved markets as a means of meeting development objectives such as to reduce poverty and create employment. Service quality and customer satisfaction play pivotal roles for SACCOs within the microfinance sector in Uganda.

The findings have indicated that service quality is an important factor of customer satisfaction. Further, customer satisfaction is an essential requirement for the survival and growth of any business. So, the managers, need to take care to deliver better service quality to attain maximum customer satisfaction. The aspect of service quality of management communicating effectively with all shareholders in SACCOs, is an influential factor of customer satisfaction and therefore, managers should stress on this factor to deliver better service quality. SACCOs' management bodies should further investigate to better understand how their clients think and respond to service quality because they are seeking to improve their customers' satisfaction levels to increase on their economic participation in their institutions.

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