Chapter 29
Determinants of Customer Loyalty in the Zimbabwean Microfinance Sector

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ABSTRACT

Recently, there has been an exponential increase in microfinance institutions leading to intense competition. This has impelled the interest of scholars, practitioners, and researchers in customer loyalty. Nonetheless, there is a dearth of empirical evidence on the determinants of customer loyalty in the microfinance sector. Accordingly, the main objective of this study is to establish the determinants of customer loyalty. Employing correlational research design with a sample size of 132 customers of microfinance institutions in Gweru who completed a highly structured questionnaire, the hypotheses are tested using Pearson correlation and regression analysis. The findings reveal that service quality, customer trust, and customer satisfaction have a strong statistically significant positive effect on customer loyalty. Nonetheless, a weak insignificant positive relationship between perceived microfinance image and customer loyalty is observed. It is, therefore, recommended that the managers should devise strategies to augment service quality, customer trust, and customer satisfaction.

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INTRODUCTION

Customer loyalty has over the years been a topical issue within various sectors of the economy but has largely been investigated within the banking sector. Admittedly, there has been an upsurge in the number of microfinance institutions worldwide predominantly in developing economies over the past few years (Mia, 2018; Kar, 2016; Assefa, Hermes, & Meesters, 2013). This state of affairs has led to cut-throat competition. As a response, the managers of microfinance institutions are continuously looking for strategies to develop, maintain, and sustain long-term relationships with their clients. It is within this context that customer loyalty acts as the umbilical cord for any organization to continue to operate for the foreseeable future (Vilkaite-Vaitone, & Skackauskiene, 2020; Hashem, & Ali, 2019; Moore, Rodger, & Taplin, 2015). This suggests that customer loyalty is linked to how managers of different organizations can ensure emotional attachment among clients in a manner that stimulates repeat purchases with consistency. Despite the relevance of customer loyalty in the face of intense competition, not much is known about the determinants of customer loyalty in the microfinance sector.

It is widely accepted that the microfinance sector plays a fundamental role when it comes to socio-economic transformation of the lives of poor people in both developed and developing countries. More interestingly, microfinance institutions provide financial services to Micro, Small and Medium Enterprises (MSMEs). In spite of the importance of microfinance institutions, it appears that the exponential increase in competition is threatening the survival of microfinance institutions (Mia, 2018). As such, it is of great importance to mention that the level of competition in the microfinance sector varies from country to country. Given the above information, it seems to be the right time to extend our understanding of customer loyalty as a powerful tool for retaining clients.

In the case of Bangaladesh, Afsar, Rehman, Andleed, & Shahjehan (2010) underscored that customer loyalty is an important construct when it comes to the sustainability of financial institutions within Bangladesh. It is worth mentioning that the history of the concept of microfinance can be traced back to Bangladesh where the microfinance institutions originated. Afsar et al., (2010) stressed that retaining customers has been a challenge which has been ongoing within the microfinance institutions and it is now negatively impacting the performance of these institutions. Going forward, Mader (2013) documented that the microfinance institutions in India faced a plethora of insurmountable challenges when it comes to customer retention which leads to the closure of some microfinance institutions. Malhotra & Singh (2010) highlighted that Indian microfinance institutions have been failing to offer satisfactory services to their customers and this has forced customers to leave them in search of better services elsewhere. Notably, according to Roy & Sinha (2014), the proliferation of the internet has been also a factor considered by customers in India which microfinance have been failing to handle over the years thus failing to retain customers.

In the Zimbabwean context, there has been a rapid increase in the number of microfinance institutions over the past 10 years. Nevertheless, the microfinance services can be traced as long back as pre-independence (Mago, 2013). The Reserve Bank of Zimbabwe (RBZ) is responsible for the registration of microfinance institutions in Zimbabwe. It is salient to observe that 143 microfinance institutions were registered across the country as at 30 June 2015 servicing a total of 224 300 clients (RBZ, 2015). They increased from 143 in 2015 to 169 as at 30 September 2016 (RBZ, 2016) and then increased to 176 as at 31 March 2017 (RBZ, 2017). According to RBZ (2018), 199 microfinance institutions and 6 deposit-taking microfinance were registered by the year-end of 2018 servicing 198 456 clients. Further,

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