EXPLORATORY RESEARCH ON GEOGRAPHICAL DIFFERENCES AMONG DROPOUT CUSTOMERS INTENT TO REJOIN THE MICROFINANCE PROGRAM

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ABSTRACT

The purpose of study was to investigate Geographical differences among Dropout customers intent to rejoin the Microfinance Program. Specifically, it suggests that either customer from rural or urban areas are more willing to rejoin the microfinance program and spread positive word of mouth for the microfinance service provider. To achieve above purpose a survey research was designed and carried out in urban and rural areas of sindh and Baluchistan provinces of Pakistan. Descriptive statistical techniques were used for analysis of data. The research suggested that customers in rural areas as compared to their counterparts in urban areas are more willing to rejoin the program and spread positive word of mouth for the microfinance service provider.

Keywords: Microfinance, loan program, Intent, rejoin, word of mouth.

1. INTRODUCTION

The microfinance revolution is based on new paradigm, (Robinson 2001) and it has come into existence as an economic development approach planned to help socially deprived people (Joanna 2001). Microfinance has achieved its objectives and helped poor. However it has also faced number of challenges, customer defection is one of them. Customer retention has been a major challenge for microfinance institutes all over the world.

The importance and considering cause microfinance institutes is serving the microfinance practitioners and academia is working on ways to improve on this aspects. The number of studies has been carried out on customer dropouts and its flipside customer retention.

Microfinance practitioners have realized the importance of customer satisfaction and retention and believe that it cost them more to acquire new customer than to satisfy and retain existing customer. Practitioners are also cognizant of fact that top 20 percent customers generate as much as 80 percent revenue of the company and reducing of 5 percent customers can improve organization profitability up 25 percent.

This research is also an effort to contribute to help microfinance improve on customer retention. This research is continuation of previous research findings which identified
causes and extent of customer dropouts in microfinance banks of Pakistan. In previous study 40 percent customer exited the microfinance due problem with program, 31 percent due to group lending issues, and 13 percent each left microfinance due personal and economic reason left the microfinance program (Gilal R.G 2011).

2. LITERATURE REVIEW

Customer retention is very crucial for microfinance institutes. Much of the literature on customer relationships draws on the philosophy of Relationship marketing with focus primarily on the impact of customer relationships on the company profitability and various strategies and plans to improve customer retention rates.

Peter F. Drucker told us “The objective of business is to acquire and boost relationship with customers by innovating”. He also told us that “It takes less effort to keep an old customer than to get a new customer interested”. Ironically enough, long after Peter F. Drucker, practitioners and scholars recognized the importance of keeping and enhancing long term relationships with their customers. Berry (1983) formally introduced the term “Relationship Marketing” in service marketing literature defining it as attracting, maintaining, and enhancing customer relationships. According to Parvatiyar (2002), Berry stresses that attracting new customers should be viewed as only an intermediate step in the marketing process. Developing closer relationships with these customers and turning them into loyal ones are equally important aspect of marketing. Apart from Berry many other researchers have defined relationship marketing including: Gummesson (1987), Gronroos (1990) McKena (1991), Shani and Chalasani (1992).

The emphasis of all theses definitions of Relationship marketing is on building long term relationships with customers. Relationships building process is portrayed in the “Relationship Ladder” which involves number of identifiable stages. The concept of relationship ladder is based on “ladder of customer loyalty”. In this model, the prominence is on discovering suitable ways to shift customers up the hierarchy and to retain them there. (Payne 1998)

![Figure 1: Relationship Ladders](Payne 1998)

two marketing mixes one aimed at acquisition of new customers and the other at keeping them. According to Rosenberg and Czepiel, Companies can benefit more from their current customers through Customer portfolio analysis, a Customer-retaining marketing mix, and Reorganization for customer retention.

Number of researchers has highlighted the benefits of customer retention and disadvantages of customer dropouts. According to Churchill (2000), customer retention serves two purposes. First, it provides a blunt indicator of customer satisfaction. Second, it is important in forecasting the overall health of the microfinance institutes. Retained customers buy more products and provide new referral through Positive word of mouth for microfinance institutes (Kim, 2001).

Olivia (2006) explains the customer loyalty building process in microfinance institutes. She prescribes five steps in the process including: first prepare the organization, second collect and analyze data on current and ideal customer experience. Third, select and introduce loyalty initiatives, fourth, market and promote loyalty initiatives, fifth, track success. In addition, Olivia suggests that what each member in the functional units of the microfinance institutes do to keep their customer loyal.

3. RESEARCH OBJECTIVES

Literature clearly points out the importance of customer retention in organizations. Considering the value of customer retention this research was designed to find out the geographical differences among dropout customers intent to rejoin the microfinance program with following objectives.

I. Measure the intent of dropout customers to rejoin the microfinance program
II. To find out up to what extent former customers are willing to refer microfinance program to other
III. Find out which profession customers are more inclined to rejoin the program and spread positive word of mouth for microfinance institute.
VI. Find out which geographical (rural or urban) customers are more willing to rejoin the program and spread positive word of mouth for microfinance institute.

4. RESEARCH METHODOLOGY

The sampling frame for this research paper was comprised of defeected customers from three largest microfinance service providers in Sindh, Pakistan. The sample was chosen by using simple random sampling technique of probabilistic approach. The size of samples was 300 defeected customers, enough to provide reliable results and carry out all required analysis. The sample was drawn from Karachi, Hyderabad, Sukkur, Larkana, Khairpur, Ranipur, Rohri and Dera Murad Jamali. Almost 70 percent of sample comprised of rural areas reflecting the fact that microfinance service providers operate with the ratio of 70:30 in rural and urban areas respectively.

The instrument was adapted from “Client Exit Survey Tool”, developed under the auspices of Small Enterprise Education and Promotion (SEEP) Network and Assessing the Impact of Microenterprise Service (AIMS) project. The tool consists of two parts: the first part based on the data stored in information system of microfinance service providers and in second part based on survey information provided by relevant defeected customer. The tool has been used in the microfinance institutes of Mali, Honduras, Philippines and Bolivia, where the tool has passed successive reliability and validity tests.

The data was collected from rural and urban areas of sindh province by Business Development officers of relevant microfinance institutes they were provided necessary training for administering the tool. In all 300 survey questionnaires were filled, after the field work was completed the data was edited for consistency and omissions. After the editing 268 survey questionnaires were considered for analysis purpose. Descriptive analysis was carried out with the help of SPSS 16 and excel program.
5. ANALYSIS AND DISCUSSION ON RESULTS

Based on the results of survey research the results are summarized here.

![Bar Chart: Would you rejoin the programme in future](chart1.png)

The finding shows the surprising results that there is enormous difference do exist between urban and rural customers intention towards rejoining of loan program. Rural customers are more enthusiastic to rejoin microfinance program than urban customers. 108 rural customers are ready to rejoin microfinance program, only 11 rural customers are not interested to rejoin, whereas 33 rural customers don’t know whether they will rejoin or not and 2 rural customers probably join the microfinance program. And 33 rural customers rejoin the microfinance program if specific changes are made. On the other hand urban customers appeared to be less interested to rejoin microfinance program as compared to rural customers. 61 urban customers willing to rejoin loan program whereas 8 customers will absolutely not rejoin the loan program. And 9 customers said that they don’t know weather they rejoin in future. No any urban customers said they probably rejoin loan program and 3 urban customers said they rejoin the loan program if certain specific changes are made.

![Bar Chart: Would you refer programme to other](chart2.png)

The finding shows the significant differences between urban and rural customers. Rural customers are more interested to spread word of mouth to customers in their communities whereas urban customers are very much reluctant to refer microfinance program to others. 118 rural customers are willing to refer microfinance program to others in their communities whereas only 14 urban customers are willing to spread word of mouth to
other customers. Whereas 64 urban customers are not interested in to refer program to others and 36 rural customers are also not interested in to refer microfinance program to others. And 3 urban don't know whether they refer loan program to others or not and 33 rural customers are also don't know that weather they refer loan program to others or not.

The finding shows that customers who are dependent on agricultural income or whose primary source of income is agriculture, are more willing to rejoin the loan program than the customers who are involve in other businesses like production, trade and service. 103 customers who have dependent on agriculture as a source income are more interested to rejoin loan program. 33 customers who are engaged in trade are willing to rejoin loan program. 22 customers who are involved in service types of business are interested to rejoin loan program. And only 11 customers who are involved in production activities are willing to rejoin loan program.

On the other hand 11 customers involved in agricultural business are reluctant to rejoin loan program. 5 customers who are engaged in trade are not willing to rejoin loan program. 3 customers who are engaged in service type of business are reluctant to rejoin loan program. Whereas as 20, 6, 13, and 3 customers respectively who are engaged in agriculture, production, trade and service types of business, don't know whether they should rejoin loan program. Whereas 24, 3, 6, 3 numbers of customers respectively who are running agricultural, production, trade and service types of business, definitely rejoin loan program if certain changes are made.

<table>
<thead>
<tr>
<th>Would you rejoin the programme in future</th>
<th>Intent to refer program and type of Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Aericulture</td>
<td>108</td>
</tr>
<tr>
<td>Production</td>
<td>37</td>
</tr>
<tr>
<td>Trade</td>
<td>26</td>
</tr>
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</table>
Finding shows the significant differences do exist among customers who are engaged in different businesses. 108 Customers involved in Agricultural activities are interested in to refer program to others. Whereas 17 customers who are involve in production business are willing to refer program to others. 37 customers who are involve in trade business, are interested to refer program to others and 22 customers doing service type of business are willing to refer program to others. On the other hand 25, 2, 14, 5 numbers of customers respectively who are engaged in agriculture, production, trade and service type of business reluctant to spread word of mouth about the loan program to others in their communities. In addition to that 26, 2, 6, 4 numbers of customers respectively who are involve in agriculture, production, trade and service type of businesses, don't know whether they should refer loan program to others or not.

Table 1: Would you rejoin the program in future * Would you refer program to other as it is now

<table>
<thead>
<tr>
<th>Would you rejoin the program in future</th>
<th>Would you refer program to other</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Would you rejoin the program in future</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>144</td>
<td>9</td>
</tr>
<tr>
<td>No</td>
<td>4</td>
<td>14</td>
</tr>
<tr>
<td>Don't know</td>
<td>14</td>
<td>18</td>
</tr>
<tr>
<td>Probably</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>Only if specific changes are made</td>
<td>20</td>
<td>5</td>
</tr>
<tr>
<td>Total</td>
<td>184</td>
<td>46</td>
</tr>
</tbody>
</table>

The finding clearly shows that out of 169 customers (who intended to rejoin the program) 144 customers were also willing to refer program to others. Merely 9 out of 169 did not show intent to refer program to others. Out of 169 customers 16 were indifferent to refer the program to other not.

Out of 19 customers who refused to rejoin program majority 14 customers were also of the view not to refer the program to others, where only 4 customers were willing to refer program to other.

Those customers who were indifferent to rejoin the program were 42 a substantial number. Out of 42 customers 18 said they will not refer the program to others whereas 14 customers said they will refer the program to others.

The customers who said they will rejoin the program subject to only if certain changes are made in program were 36. Out of these 36 customers majority of 20 customers shown keen interest to refer the program to others, whereas 11 were indifferent to refer or not to refer.
The finding shows 18 urban customers said that after taking loan there is no business whereas the 17 rural customers said there is no business. On the other hand 10 urban customer said there is same position as when joined microfinance institution and 105 rural customers said their business is down from when joined microfinance loan program. Where as as 16 rural customers said their business down from when joined microfinance loan program. 44 urban customers said their business are up from when joined microfinance loan program whereas 49 rural customers said their businesses are up from when joined microfinance loan program. This finding has proved thw fact that rural customers who have enough resource soon after cultivated

6. CONCLUSION

The study revealed several core findings about the geographic differences among the dropout customers intent to rejoin the microfinance program. One of the very important results is that rural customers are more interested to rejoin microfinance loan program whereas urban customers are reluctant to rejoin. The study also concludes that the rural customers are willing to spread positive word of mouth to other customers in their communities whereas urban customers are unenthusiastic to spread word of mouth. The study also concluded those customers who were willing to rejoin the program were also engaged in positive word of mouth. Finally it is concluded that there is strong need of microfinance product into the market place subject customization in product and service.

7. MANAGERIAL IMPLICATIONS

I. The research has revealed that microfinance institutions are overly focusing on rural areas whereas urban areas are left out therefore it is suggested that institutes should target and reposition and focus on urban areas in order to fill the market gap.

II. The study has also revealed that majority of customers are willing to rejoin the program provided certain changes, such as customize products and group lending issues are resolved. By doing this the perception of customers who are indifferent and unwilling to rejoin the program will be changed.

III. The study has revealed that urban customers are less inclined to spread positive word of mouth for microfinance institutes therefore it advised that microfinance customers focus on opinion leaders who spread information about microfinance and motivate urban customers to spread positive word of mouth

VI. Study shows that microfinance is focusing agricultural customers it suggested that microfinance institutes should also focus on other sectors apart from agriculture.

REFERENCES


