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Customer Retention Practices of Microfinance Banks

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Abstract
The popularity which microfinance banking enjoys is predicated on its poverty alleviation potential. To attain this potential the banks need to be financially sustainable and can only achieve this by ensuring that their customers (the active poor) are satisfied and delighted by their service offerings. Microfinance bank services are undergoing major transformations, driven by change and customer sophistication. But their marketing has often been deficient in the area of customer retention. This study examines customer retention practices within the context of micro finance banks. Data was obtained through a survey of 84 respondents, and analyzed using descriptive and inferential statistics. The study identifies a core group of retention strategies and explores the anticipated effects of these drivers. Managerial implications and future research directions are also discussed.
Keywords: Microfinance, customer retention strategies, customer retention rate, Customer defection

1. Introduction

Recent researches into customer retention strategies of the banking industry have been damning in their findings. The message is that traditional banking practices have failed (Payne, 2000). Customer retention is observed to lead to superior organizational performance (Garland, 2002). Yet, the nature of retention strategies and reasons for their success or failure are poorly understood. According to Ahmad (2001), the banking industry is now giving high priority to developing customers retention and management strategies. The role of retention strategy is to lure customers back to the business and retain them for life. The difficulty of retention strategy has been compounded with the emergence of post-industrial society. The post-industrial era is characterized by more and more fragmentation of the customers' market, customers are becoming more sophisticated, and the market is growing more mature, increasing global competition, market offerings becoming less standardized while technologies are imposing difficult challenges to issues quite different from the past.

A fundamental proposition in customer retention strategy is that such strategies must be aligned with customers and competitive advantages. Unfortunately, service marketing literature has provided ambiguous guidance to service managers on how to retain their valued customers.

This study addresses the problem by examining the retention practices of micro finance banks with a view to putting forward measures that will guide in formulating appropriate retention strategies by microfinance banks. This research seeks to establish that customer retention strategy is the key determinant of superior corporate performance.

The paper is organized in the following sequence, first, a review of customer retention management and defection literatures are undertaken. Following that is the research methodology. While analysis, findings, conclusions and policy implications are provided to service managers in framing a system of customer retention strategies. This study contributes to service marketing literature by providing key retention measures in microfinance bank context. It also identifies which retention measures should be emphasized or be avoided. The main aim of this study therefore is to identify customer retention practices of micro finance banks in Nigeria. Following from this main objective are these subsidiary objectives;

(i) To identify customers retention strategies of micro finance banks in Akwa Ibom State, Nigeria
(ii) To determine the relationship between a managers educational qualification and experience and adoption of appropriate customers retention strategies.
(iii) To examine how Microfinance banks in the state measure their customers retention rate
(iv) To suggest alternative measures by which customers retention can be achieved for improved performance

To achieve these objectives four research questions were developed to guide the study, namely;

(a) What are the strategies adopted by micro finance banks in retaining their valued customers?
(b) Is there any significant relationship between a manager's educational level/experience and adoption of appropriate customers' retention strategy?
(c) In what way (s) do microfinance banks measure their customer's retention rate?
(d) Which other alternative strategies can the micro banks adopt to improve their performance?

One hypothesis was developed to guide the study; and stated in its null form as follows:

Ho: There is no significant difference between a manager's educational level, and experience and the adoption of appropriate customer's retention strategies.

2. Literature Review

Microfinance banking: Microfinance is the provision of financial services to the poor who are traditionally not served by the conventional banks Acha (2012), Jaffari et al (2011), CBN (2005) and Conroy (2003). These financial services include credit, savings, micro leasing and money transfer and payment services Eboh, (2008). The features that distinguish microfinance from other forms of formal financial products are; smallness of loans advanced and savings collected, near absence of assets–based collateral and simplicity of operations Acha and Ukpong (2012), Iorchir (2006). It can be deduced from the foregoing that microfinance is a poverty alleviation strategy which operates by providing credit and other financial services to economically active and low income households and their businesses. To achieve this poverty alleviation objective, microfinance helps the poor increase their income, build viable business, reduce vulnerability to shocks and create employment Yunus (2002), Yunus & Alan (1999). This poverty reduction potential of microfinance banking influenced the government to introduce it to Nigeria in 2005. To achieve this goal the microfinance banks must be financially sustainable which cannot be attained without satisfying and retaining customers.

Customer retention management: The focus of this study is customer retention. Customer retention is defined by Blattberg et al (2001) as the repeated buying of the same market offerings over a long period of time. Payne (2000) defines customer retention as the percentage of customers at the beginning of the period who remain the firm's customers at the end of the period. Therefore, to measure customer retention, a number of factors need to be taken into consideration. These include; the customer retention rate over time, the customer retention rate by market segments in terms of the different services or products offered, and the share earned of the customer's wallet (Payne, 2000). The customer retention rate must be measured and managed in two ways; a crude customer retention rate, or a weighted one (Desouza, 1992). A crude customer retention rate measures the total percentage of customers the organization retains based on the decline of escalation of customers over a specified period of time; while the weighted retention rate is calculated by weighting customers according to the volume of their purchases. Accordingly, Ahmad and Buttle (2001) maintains that in the case of service firms, measuring retention should involve measuring the absolute number of customers who have been retained, as well as using a weighted rate, which takes into account the share of wallet as well as the life time value of a customer. Storbacka et al (1994) suggests that customer relationship profitability is the result of improved quality of service provided by an organization. A satisfied customer creates a strong business relationship with the firm; and this leads to relationship durability, which translates into loyalty and invariably retention.

Customer's defection: Garland, (2002) in his study defines customer defection as customers forsaking one service provider for another; while Reicheld (1996) observes that an increase in the defection rate by customer results in dwindling cash flow to the business. Thus, a reduction in the customer defection rate can increase corporate profitability, increase market share, improve profit margins and competitive advantage (Colgate et-al, 1996). Trubik and Smith (2000) note that although customer defection can have a negative impact on the firm, very few organizations do something about it. Credle, (1995) also observes that while few organizations pay attention to it others don't just consider it at all and so they seem to ignore the negative consequences of defection even when it is at its highest tempo. Accordingly, Page et-al (1996) defines customer defection rate as the tempo at which customers leave the organization over time. Therefore, to fully understand the implications of customer defection, Claycomb and Martin, (2001) maintain that organizations must determine the lifetime value of a customer and the revenue the customer would generate over his or her life time.

Desouza (1992), Martin-Consvegra et al (2007) and Seawright et al (2008) in their respective studies identify three categories of defection among customers. First, are those customers who defect and switch to a competitor offering a better product? Second, are customers who defect because of inadequacy of service and finally customers who leave because of internal or external political considerations. Ahmad (2002) therefore suggests that the possible way out is for a firm to institute control mechanisms that will keep track of customer defections and the reasons for such actions. Pearson and Gesner (1999) suggest that monitoring machinery be put in place to detect defections since quick response can stop defections; while Dove and Robinson (2002) warn that organizations should be conscious and proactive by developing systems that will alert them when customers threaten defection. Corner (1996) advocates that a well-articulated study of customers who have defected over time can provide a firm with information that will identify the underlying reasons for their defection, such as; describing employees attitude toward service quality, developing a better understanding of why the customer has ended the business relationship and providing a means of early discovery of customers who are at risk of defection.

According to Colgate and Norris (2001), three major factors influence a customer's decision to quit or remain with a firm. These include; the level of satisfaction with the service being provided, the level of loyalty customers has towards the organization and the perceived barriers to exit. It is however, impossible to eliminate possible service failures, since the service industry cannot control all the factors involved in service delivery. But Magnini and Ford (2004) provide five areas that need attention in the training of service employees to be better servers to include; information processing, emotional responses, arousing customer self-assurance, empowerment of employees and a demonstration of how service failure recovery can positively influence employee satisfaction. Boshoff and Staude (2003) state very categorically that successful service recovery can be achieved by communicating with an irate customer, being compassionate, providing feedback, supplying an explanation for failure, empowering employees to respond quickly and ensuring that only those who are professionals in dealing with customers are allowed to do so and also by ensuring that employees who are dealing with customers are dressed suitably.

However, customer's defections are caused significantly as a result of service failures on the part of providers. Chan and Wan, (2008) defines service failure as an error, mistake or problem in the service delivery process that results in not meeting the customers' expectations. Therefore, from the customers' perspective, service failure is anything that is less than leading to their satisfaction; and because production and consumption of services cannot be separated; service failures are likely to occur during consumption. Microfinance banks are characterized by providing services; hence their demand is always fluctuating. These feature caused the microfinance banks to be particularly vulnerable to service failures during service encounters (Lewis and Mccann, 2004). Cranage (2004) however cautions that service failure does not necessarily lead to defection of customers but how the recovery process in done impacts positively or negatively on the organization. This, they suggested that organizations should be able to identify possible failure points in the delivery process as well as methods to prevent re-occurrence. Accordingly, Hoffman et al (2003); Cranage, (2004) and Ahmad, (2002) identify possible areas of service failure to include:

- The physical environment in which the service is being delivered
- Mechanical problems, such as breakdown in major equipment like generating set or toilet facilities
- General cleanliness of the business premises
- Nature of design of facility such as provision of adequate space for car park
- Staff attitude and competency including professionalism etc.

Recovery machinery is important when service failure occurs. Boshoff and Klenz (2005) define service recovery as any strategy appropriate to correcting service discrepancies, with the aim of reinstating the customer to the level as if failure did not occur and thus keeping them continually loyal to the organization. Griffin (2001) discusses the importance of win back strategy in order to retain or keep highly valued customers. Eccles and Durand, (1998) maintain that satisfactory handling of complaints lodged by customers is one way to create an optimal condition for customer retention. On the other hand, Stauss, (2002) points out that a service recovery programme is necessary whenever a customer complains. Such a strategy should include empowerment of staff, training and management of employees on how to resolve complaints.

Similarly, in a study of loyal customers, Craighead et al (2004) find that loyal customers express greater displeasure when less serious problems occur, loyal customers tend to show more understanding as long as adequate recovery machinery is in place. Matilla (2001) emphasizes the importance of apology in service recovery efforts and notes that loyal customers who experience less serious problems attach less importance to an apology, but expect quick resolution of the problem through genuine management efforts. Therefore, loyal customers expect an apology, sincerity, fair compensation, an added value offer, fast recognition of the problem by the organization, and quick resolution of the problem as a way of cushioning the effect of service failures. Thus, customers who are emotionally bonded to an organization have a low level of tolerance when it comes to service failure (Matilla, 2001).

McDougall and Levesque (1999) propose the provision of assistance in conjunction with an apology and compensation as true recovery strategies. Matilla (2001) states further that service recovery efforts should be made to match the perceptions of customers regarding the seriousness of the failures. We expect that a higher level of education and job experience will be positively correlated with improved retention efforts. A higher educational level and job experience may increase a manager's ability to understand the benefits of customer's retention management and therefore increase their utilization. Dove and Robinson (2002) and Chan and Wan (2008) find a positive relationship between customers retention skills and the level of education and experience.

2.1 Research methods

This study relies on a field survey to collect the required data. All the microfinance banks located in Uyo metropolis were included in the survey. The survey was directed to the top and middle management in each organization, whose opinions reflect management practices of customer's retention in their organizations. A self-administered questionnaire was used to collect the required data. A total of 26 microfinance banks were included in the survey. Using the drop and collect method of questionnaire administration, the researcher gave four copies of the questionnaire to the top and middle management in each microfinance bank which was collected after two weeks. The highly controlled data collection procedure ensured 81 percent response rate. The required data were obtained by the means of a self-administered questionnaire, consisting of 12 items, which was developed for this purpose. The questionnaire was developed using insights from the literature. The questionnaire contained structured and unstructured questions and was pretested and validated among managers not included in the sample frame. Their opinions and comments were considered in the final version of the questionnaire. In order to ascertain the reliability of the research instrument, principal component factor analysis was performed using Cronbach's coefficient alpha for each criterion. This yielded between 79 and 83 percent reliability coefficient, which is considered acceptable for this research. This is presented in table 1.

Insert Table 1

3.0 Results and Discussion

The age distribution of microfinance bank managers show the arithmetic mean or average of the ages of the managers as 39 with the 25-34 age bracket as the modal class. These age characteristics point to the youthful nature of the management staff. The art of marketing is strenuous and demands their youthful exuberant and creative energies to bear on it for enhanced performance in terms of quality of retention strategies crafted for the organization.

The levels of education and experience in conjunction with the age of respondents are important factors which affect creative thinking of managers to adopt and diffuse innovation in organizational management. The younger managers are more educated and tend to be more receptive to new ideas than the aged and less literate ones. Developing a well-articulated marketing strategy is a highly skilled art and requires a lot of intelligence and tact to transform the organization. Education and experience have a crucial role to play in the adoption and use of the appropriate customer retention and service recovery techniques in the service delivery process.

The survey revealed that 32 percent of the managers received higher degrees. Half of them (50percent) received OND, HND, NCE, and B.Sc. However, 18 percent of them indicated possessing professional and other qualifications. The highest level of educational attainment amongst the microfinance bank managers was master's degree. The impressions that can be gained from educational background of these managers are that:

(a) Marketing innovations have a fair chance of being adopted if training programmes are initiated.
(b) Effective and functional marketing education is required to improve the business acumen of micro finance bank managers.

On the job experience by managers, findings revealed that only 25 percent of them had previous banking job experience, 48 percent had 1 – 3 years' experience, 35 percent had 4 – 5 years banking experience while 17 percent had banking experience beyond 5 years. Banking job and customers management requires a lot of experiences to succeed. Therefore, poor job experience can affect negatively the performance of banks in adopting appropriate service recovery strategies and customers retention techniques.

Furthermore, respondents were asked to indicate the strategies they adopt in retaining their customers and their responses are presented in table 2.

Insert Table 2

Table 2 indicates that the customer's retention strategy mostly adopted by micro finance banks is offer of apology (42%) in case of service failure, 28 percent of them indicated that they are always sincere in handling customer complaints. 18 and 12 percent respectively went for offer of added value and provision of compensation to customers. This submission indicates a reasonably poor state of misunderstanding of customers retention strategies among micro finance bank managers.

Moreso, respondents were also asked to indicate how they measure their customer's retention rate. Their responses are as indicated in table 3.

Insert Table 3

Respondents agreed with the use of two methods of marketing customers retentions rates. However, only 7 percent indicated to have used electronic databased management programme to measure their customer's retention rate. A very good majority indicated the use of questionnaire representing 93 percent of the respondents

3.1 *Test of hypothesis*

This hypothesis states that there is no significant difference between a manager's educational level, his or her experience and adoption of customer's retention strategies. The result of this test is presented in table 4.

Insert Table 4

Table 4 demonstrates that the result of one way ANOVA test indicated that there were no significant difference between a manager's educational level and experience level, but instead there are significant difference between their educational level and experiences, regarding the effect of retention criteria on organizations performance level. The statistical significance of all variables were further tested and presented in table 5.

Insert Table 5

Significant column has been checked for values below approximately 0.05 levels. Three out of the four constructs; apology, complaints handling, and added value offer meet this standard and they are significant predictors. The standardized coefficient in (B) column has been used to assess the effect of each predictor. Thus, in significant level less than 0.05 we can say with 95 percent confidence that apology, complaints handling and added value offer have positive effects on customers' retention, therefore, the higher the absolute value of Beta, the more important these variables are in predicting customer's retention and organizational performance. In this case, the more important predictors are added value offer (Beta=0.10); apology (Beta=-0.09) and complaints handling system (Beta=0.06) among other criteria.

In a market system where the customers have become even more sophisticated and experienced, where competition comes from global players, with alternative technologies and low priced products; the focus of manager's strategy must be on retention of customers through superior customer retention strategies. The finding of this study is a clear confirmation of earlier studies conducted by scholars in this respect. Thus this study is in agreement with the previous studies by Payne (2000) Ahmad and Buttle (2001); Desouga, (1992); Garland, (2002) and Credle (1995).

Managerial and Research implications:

Burns and Bush (2000) in their review of service performance measurement literature report that there is an extensive amount of normative literature but a lack of empirical research. This study provides a basis upon which future researches can be modeled to identify the major determinants of customer's retention and defection in the service industry. For managers, the area of customer's retention performance measurement is an area that represents a significant opportunity for business management attention. The interdisciplinary conceptual approach adopted in this study will help to sustain their tempo of performance.

This study provides micro finance bank managers with specific benefits such as:

(a) Explicit measures to facilitate and strengthen relationship with customers through various service recovery programmes.
(b) A strategically aligned framework for clearer logic behind customer's retention programmes.
(c) A set of marketing guidelines to ensure that synergies are achieved in the targeting of highly valued customers over their lifetime.
(d) The integration between market segmentation strategy and retention strategies should be enhanced.

However, it must be noted here that customers today are highly informed and more demanding than before. Responsiveness to customers needs is therefore important for the success of the banks. This suggests that cultivating a customer – oriented strategy may indeed, be one of the primary means to maintain competitive advantage.

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Table 1: Cronbach's coefficient alpha of customer retention criteria

Customers Retention Criteria	Cronbach's coefficient Alpha
Offer of apology	0.81
Sincerity in handling complaints	0.83
Added value offer	0.79
Provision of compensation	0.81

Table 2: Customer retention strategies adopted by microfinance banks in the state.

STRATEGIES	FREQUENCY	PERCENTAGE
Offer of apology when there is mistake or service failure	35	42
Sincerity in handling customer complaints	24	28
Offer of added value	15	18
Provision of compensation	10	12
Total	84	100

Table 3: Measurement of customer retention rate by MFBs in Akwa Ibom State

Measures	Frequency	Percentage
Electronic Database management programme	6	7
Use of Questionnaires	78	93
Total	84	100

Table 4: One way ANOVA results of differences based on educational level and experience of managers on adoption of appropriate retention strategies

Criteria	Educational Level		Experience Level	
	F	P	F	P
Offering of Apology	2.82	0.03	1.17	0.33
Complaints Handling	0.87	0.49	0.16	0.90
Added value offer	2.2	0.07	1.23	0.30
Compensation Provision	1.49	0.21	0.49	0.70

Table 5: Establishing linear relationship between customer retention strategies and performance of micro finance banks.

Model	Unstandardized coefficient		standardized co-efficient Beta	t	Sig
	B	Std. Error			
Constant	4.9	3.1	-0.09	1.59	0.012
Apology	-0.6	0.64	0.06	-1.85	0.039
Complaints handling	0.26	0.34	-010	1.69	0.050
Added value offer	-0.36	0.364	-0.03	-193	0.040
Offer of compensation	-0.1	0.38		-1.35	0.080