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Investigating Determinants of Rural Households' Choice of Credit Source among Microfinance Clients: Evidence from an Emerging Economy

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Abstract
Modern competitive scenarios demand that microfinance institutions (MFIs) must determine and rank the important elements affecting customer choices regarding financial service providers to build superior value and customer loyalty. This research investigates the fundamental aspects that affect the choices of rural customers in Bangladesh for their MFI selection using Principal Component Analysis with descriptive statistics. The study revealed six major dimensions– Institutional and Peer Influence Factors, Safety and Security, Convenience, Service Quality, Loan Policy and Accessibility, and Financial Factors. Contrary to many existing studies, this study finds that decisions about MFI selection demonstrated that non-financial criteria, surpassing interest rates and additional financial factors through institutional reputation, service ease, and peer recommendations. Institutional and Peer Influence Factors earned the most significant weight from customers because social networks and trust play essential roles in their decisions. Customers placed Safety and Security and Convenience among their most vital factors while they prioritized transactional reliability together with physical accessibility. These research findings enable MFIs to develop better strategies by focusing on community participation and simplified lending structures and trained employees to establish loyal relationships with consumers. School of Advanced Studies at SPJIMR. The research supports government officials in implementing financial regulations which support both sustainable monetary stability together with equitable expansion. MFIs will boost their effectiveness in poverty reduction by improving their competition through comprehensive attention to both contractual loan aspects along with good reputation development strategies.

Keywords: Micro Finance, Micro Credit, Microfinance institutions (MFIs), Rural Bangladesh, Selection criteria, Ranking Selection Variables, Principal Component Analysis (PCA)

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1. Introduction

Nobel Peace Prize laureate Muhammad Yunus pioneered the microcredit concept from Bangladesh, which evolved viable means of financial inclusion solution for disadvantaged populations. Throughout the years, microcredit has developed into an extensive microfinance system that provides consumers access to loans, savings, insurance, and other related financial services (Mahmud & Tulla, 2024). The industry shows explosive growth that grabs worldwide attention from officials and funding entities and capitalist investors. The microfinance industry of Bangladesh shows strong survival patterns through worldwide economic declines, allowing this sector to maintain its support of national economic progress (Khaleque et al., 2021). Microfinance has proven itself to be both sustainable and replicable against the backdrop of rising default rates experienced by corporate lending institutions, thus attracting support from development entities and profit-based commercial banks (Mahmud & Tulla, 2024).

Years of research on microfinance on poverty reduction techniques allowed the sector to transform from a charity instrument into an actual financial product (Parvin & Aman, 2024). The escalating competition in the industry forced MFIs to develop client-focused approaches as a strategy to keep and acquire new customers. For sustainable operations of MFIs it is essential to understand what drives customers' choice toward a specific MFI in this competitive market (Rifat et al., 2024). Research on the selection factors of Microfinance Institutions remains scarce when observing the context of Bangladeshi (or south Asia). This study aims to address the existing research gap by investigating the MFI selection factors based on customer preferences along with cross-analysis of demographic influences.

The research investigates three areas: first to determine important MFI selection factors for Bangladesh-based customers while also establishing their relative importance rankings and grouping these components into major themes.

This research investigates measurable features in customer preferences but omits psychological and behavioral assessments of decision-making. MFIs will receive practical knowledge through these results to enhance their value proposition quality and maintain customer loyalty and succeed against market competition. This research helps the policymakers to develop economic regulations and preserve banking stability while promoting financial inclusion.

This research integrates practical knowledge with academic research about emerging economy microfinance operations thus enabling future scholarly investigations of digital transformation models and customer groupings and international market comparisons.

2. Literature background

How customers select the financial service provider- has been grabbing considerable attention lately by many researchers (Kaynak & Kucukemiroglu, 1992). Some of these studies have been conducted on general mass customers (Cania & Pasha, 2024; Ghosh et al., 2015; Jahiruddin & Haque, 2009) while others have focused on a specific target group to help the financial service providers set their strategy in a more focused way (Gole, 2023; Mulu Zelie, 2023; Neupane, 2024).

The selection of microcredit firms by customers is influenced by a variety of factors, which can be broadly categorized into socioeconomic, financial, institutional, and psychological factors. Understanding these factors is crucial for microcredit firms to design their services effectively and for policymakers to create an enabling environment for microfinance activities. Below is a detailed analysis of these factors, supported by evidence from various studies.

2.1. Socioeconomic Factors

The choice of microcredit firms depends heavily on socioeconomic factors including gender and age profile together with education level and household size and income range (Domanban et al., 2023). The primary factor behind microcredit program targeting is gender because women tend to both repay loans more frequently and start businesses at higher rates(Bitan & Lee, 2024). Research conducted by Domanban et al. (2023) demonstrates that men tend to choose individual credit over women who seek group-based loans. Microcredit appeals more to younger groups because they present higher risk-taking capabilities together with relatively longer planned repayment times according to Rambaud et al. (2023).

Better financial literacy develops from higher educational levels allowing borrowers to decide wisely about microcredit services. Numerous studies indicate that individuals with education backgrounds tend to use microcredit services (Kaviku et al., 2024; Tefera, 2022). Ding & Abdulai (2020) discovered that bigger households along with high-income earners tend to pursue microcredit opportunities either to increase different sources of income or expand current business operations.

2.2. Financial Factors

Financial factors, such as interest rates, loan terms, and transaction costs, are among the most critical considerations for customers when selecting microcredit firms. High interest rates are a significant deterrent for potential borrowers. Studies have shown that customers are more likely to choose microcredit firms offering lower interest rates and flexible repayment terms (Putri et al., 2019). The loan terms and flexibility, such as repayment periods and loan sizes, is another key factor. Borrowers often prefer institutions that offer loans with longer repayment periods and smaller transaction costs (Domanban et al., 2023). High transaction costs, including travel and documentation expenses, can discourage borrowers from accessing microcredit. Simplified procedures and reduced costs are essential for attracting customers (Kaviku et al., 2024).

2.3. Institutional Factors

Two key institutional elements that shape customer decisions include both the standing of the microcredit firm along with its service standards and information accessibility. The reputation of microcredit companies serves as an essential factor during customer selection. Potential customers make decisions through selecting microcredit organizations that demonstrate reliable performance and transparent operations (Appiah et al., 2019; Webb et al.,

2009). Customer choice depends heavily on the quality of service delivery which relates to personnel responsiveness and support availability (Appiah et al., 2019; Puspitasari et al., 2017). Also, the choice depends on lenders who require detailed information regarding service conditions including loan terms and repayment conditions (Ding & Abdulai, 2020).

2.4. Access-Related Factors

Microcredit firm selection depends on both accessibility factors which include business location and extension services provided by the financial institutions. How close a microcredit firm operates to the borrowers becomes a key aspect for selecting a suitable financing institution. The selection process of microfinance institutions by borrowers depends on accessibility because it helps reduce travel expenses and delays (Tefera, 2022). The combination of available extension services which include financial literacy instruction and business coaching raises the market appeal of microcredit organizations for interested borrowers (Kaviku et al., 2024; Ogouvide et al., 2022).

Table 1. Key Factors Influencing the Selection of Microcredit Firms

Factor	Description	Reference
Socioeconomic Factors	Gender, age, education, household size, and income level influence microcredit choice.	(Domanban et al., 2023; Rambaud et al., 2023; Tefera, 2022)
Financial Factors	Interest rates, loan terms, and transaction costs are critical considerations.	(Domanban et al., 2023; Putri et al., 2019)
Institutional Factors	Reputation, service quality, and access to information are key determinants.	(Appiah et al., 2019; Puspitasari et al., 2017; Webb et al., 2009)
Access-Related Factors	Proximity to the firm and availability of extension services enhance attractiveness.	(Kaviku et al., 2024; Ogouvide et al., 2022; Tefera, 2022)
Psychological Factors	Religiosity and attitudes toward debt influence microcredit selection.	(Puspitasari et al., 2017; Putri et al., 2019)
Regulatory Factors	Government policies and legal frameworks impact customer confidence.	(Appiah et al., 2019; Webb et al., 2009)
Technological Factors	Digital platforms and mobile banking improve service accessibility.	(Appiah et al., 2019; Kaviku et al., 2024; Rehman, 2024)

2.5. Psychological and Cultural Factors

The psychological and cultural factors incorporating debt-related attitudes and religious beliefs affect the choice of microcredit firms. Religious beliefs serve as a major determinant when microcredit firms are selected by customers in certain circumstances. Islamic microfinance institutions welcome clients who want products that adhere to Sharia law according to Putri et al. (2019) and Puspitasari et al. (2017). People who hold particular attitudes about debt and borrowing in their culture are more likely to get microcredit. Potential customers avoid microcredit opportunities because certain societies have negative cultural attitudes toward borrowing, according to Rambaud et al. (2023).

2.6. Regulatory and Policy Factors

The choice of microcredit firms depends on regulatory aspects together with policy factors that include governmental frameworks and legal provisions. Subsidies and tax incentives provided by the government lead to both favorable conditions for microcredit firms and borrower interest (Appiah et al., 2019). Solid legal structures which defend borrowers alongside implementing stability measures for microcredit firms build trust between clients and these institutions while ensuring their rights are protected (Appiah et al., 2019; Webb et al., 2009).

2.7. Technological Factors

The selection process for microcredit firms heavily depends on technological factors because customers benefit from digital platforms and mobile banking services. The establishment of digital application and repayment systems through platforms offers better accessibility and convenience to microcredit services for technology-oriented clients (Appiah et al., 2019; Rehman, 2024). Mobile banking services enable microcredit firms to cut

down transaction expenses and optimize loan distribution and reimbursement processes which attracts more borrowers to their services (Appiah et al., 2019; Kaviku et al., 2024).

The selection of microcredit firms by customers is influenced by a complex interplay of socioeconomic, financial, institutional, access-related, psychological, regulatory, and technological factors. Understanding these factors is essential for microcredit firms to design their services effectively and for policymakers to create an enabling environment for microfinance activities. By addressing these factors, microcredit firms can enhance their attractiveness to potential borrowers and contribute to the broader goal of financial inclusion and poverty reduction.

2.8. Empirical literature

How customers select the financial service provider- has been grabbed considerable attention lately by many researchers (Kaynak & Kucukemiroglu, 1992). Some of these studies have been conducted on general mass customers (Cania & Pasha, 2024; Ghosh et al., 2015; Jahiruddin & Haque, 2009) while others have focused on specific target group to help the financial service providers set their strategy in a more focused way (Gole, 2023; Mulu Zelie, 2023; Neupane, 2024).

In the study of Pourhasomi et al. (2013) conducted on the mass customers of Bank Melli, Iran; they used an integrated approach of Quality Function Deployment (QFD) and Kano's model and found Flexible bank transaction hour to be the most important factor of selection the Bank.

A number of researches have been conducted in the context of Khulna City, Bangladesh on the retail customers of Banks (Ghosh et al., 2015). Jahiruddin & Haque (2009) conducted a study with a goal of finding out the general pattern of preference given to different kind of Banks by customers with different demography. They also tried to find out the relative importance of various factors in selecting a Bank.

Among other researchers who conducted study in Bangladesh on the selection criteria of Bank, Rashid (2012) has done a survey on the University students in Dhaka, Bangladesh and found there are five broad factors (E-banking, Competence, Influence, Convenience and Appearance) are the most important factors while selecting a Bank.

Mokhlis et al. (2011) have investigated 482 Malaysia's undergraduates to find out different selection factors of retail banking for students. The study suggests that students are mostly concerned of security issues, ATM services and financial benefits while selecting a retail bank. Surprisingly location convenience and recommendation of peers were found to be insignificant in the study unlike other empirical studies.

Respondents in Malaysia, in another study conducted by Saleh et al. (2013), identified the Accessibility factors like ATM facility, convenient ATM locations, 24 hours availability of ATM services, availability of internet banking facility, and availability of several branches plays the most significant role in Bank selection.

Although the Microfinance industry has passed more than two and half decades in Bangladesh, there is hardly any research on the factors of source selection in case of Microfinance from the customers point of view. All the previous studies are either in the area of Patronage Factors for Banks or the effectiveness of microfinance in eliminating poverty. The immense connotation of this study entrenches into that area. This study tries to uncover the various factors that influence the selection of source or institution while availing microfinance by the mass microfinance customers.

3. Methodology

3.1. Empirical context

This study seeks to explore the factors that influence the selection of Microfinance provider in emerging rural economy. In selecting an appropriate empirical context for data collection, several key factors were considered. First, the location should have a predominantly rural population that has historically faced high poverty levels. Second, the country should have experienced recent economic growth, particularly in rural areas. Furthermore, the country should have established microfinance programs aimed at rural individuals. Based on these criteria, Bangladesh was chosen as the research setting.

3.2. Research objectives, research philosophies and selected methods

The objective of this study is to identify the characteristics that influence the selection of IMFPs. To ascertain the

factors at play, quantitative data were collected from participants to ensure the collection of unbiased responses from the participants. This selection aligns with the philosophical framework of the study, which is based on a positivistic epistemology and an objective ontology (Bryman & Bell, 2015). These philosophical perspectives are reinforced by the use of quantitative methods and survey-based approaches. It is anticipated that the questions posed to IMFP users generated neutral, unbiased responses in a positivist manner. Therefore, this methodology was adopted in accordance with the philosophical foundations of the research.

3.3. Sampling

The research unit for data collection was selected as two districts in southeast Bangladesh – Khulna and Bagerhat due to their widespread implementation of IMF programs in rural areas. Clients of the MFI program were selected as the unit of analysis for the study who were recruited through convenience and snowball sampling. Although these sampling techniques may introduce some bias, they were chosen considering the difficulties associated with data collection in rural areas. Residents in these regions are typically unfamiliar with such surveys and tend to be hesitant to participate. In this study, each household was treated as a distinct sample and data source, with information obtained from one individual per household who was a direct beneficiary of the MFI program. A total of 210 completed questionnaires were collected, of which 206 were considered appropriate for analysis.

3.4. Operationalisation of measures

This study primarily relies on primary data gathered from current microfinance clients in Bagerhat and Khulna District in the southeast region of Bangladesh. To identify the relevant factors, the first step involved a comprehensive review of existing literature. As discussed in the literature review section, numerous studies have explored the patronage factors of bank customers yet, limited research has been conducted on the patronage factors of microfinance customers. However, given that both banks and microfinance institutions offer similar services (to some extent), a set of 30 variables (presented in Table 02) was initially selected from the existing body of knowledge to assess important factors in this service industry.

Table 2. Primarily selected list of Source Selection Variables of Microfinance customers

Serial No*	Factors	Serial No*	Factors
1	Financial counselling	16	Favourable location
2	Flexible transaction hour	17	Lead time of obtaining loan
3	Up-to-date equipment	18	Loans with favourable terms
4	Physical facilities	19	Proximity of MFI to workplace
5	Promised response time	20	Mass media advertising
6	Record keeping	21	Proximity of MFI to home
7	Trustworthiness and Confidence on employees	22	Relation with employees
8	Politeness of employee	23	Recommendations of family and peers
9	Cordialness shown by the employees	24	Service Speed and accuracy
10	Secure transaction	25	Easy account opening
11	Reputation of the MFI	26	Document requirement for loan
12	Safety of Deposit Funds	27	Initial Loan Amount
13	Confidentiality	28	Maximum Loan Scope
14	Interest rate on loan	29	Record keeping and Transparency of Transaction
15	Interest rate on deposit	30	Low waiting time in the counter
* not in preferential order			

A pilot survey with 06 participants (02 Customers + 02 Relationship Officers + 02 Branch managers) was carried out to filter the variables. After the pilot survey, 20 variables/factors (Table 04) were selected to develop the questionnaire.

3.5. Questionnaire development

Data were collected with a structured questionnaire having two parts. The first part of the questionnaire contains questions on the demographic data such as Gender, Age, Occupation, Education, Monthly family Income, Years of Microcredit experience, and Type of borrower based on amount and frequency of the respondents. The second part of the questionnaire was incorporated with the 20 variables and respondents were asked to rate their degree of agreement on the 20 items of measurement in the Likert scale with regard to the MFI selection. The Likert scale, ranging from 1 = strongly disagree to 5 = strongly agree, was used to collect the responses.

3.6. Data Analysis Tools

Descriptive statistics (i.e. mean, mode, and standard deviation) are primarily used to analyze the data derived from the survey and ranking is done for the factors to present the summary statistics. Principal Component Analysis (PCA) was conducted to reduce dimensionality and identify underlying structures among the 20 survey items. PCA was performed using SPSS (Version 25) with Varimax rotation to maximize component interpretability. A Principal Component Analysis (PCA) is carried out to construct and group important factors that influence the selection decision of microfinance customers. Finally, descriptive statistics are used for each identified component to evaluate its significance in the model.

4. Data analysis of results

4.1. Socio-Economic Demographic Characteristics of Respondents

Table 3 summarizes the socio-economic demographic characteristics of the respondents.

Table 3. Demographic characteristics of the samples

Gender				
Male		Female		Total
120		86		206
Age				
21-30	31-40		41-50	Total
21	105		80	206
Experience with Microfinance				
Less than 2 years	2-6 years	6-10 years	More than 10 years	Total
16	43	86	61	206
Level of Education				
Primary	Secondary	Higher Secondary	Graduate & above	Total
126	43	26	11	206

4.2. Communalities

An Exploratory Factor Analysis (EFA) applying a principal component analysis and varimax rotation. The minimum factor loading criteria was set to 0.50. The communality of the scale, which indicates the amount of variance in each dimension, was also assessed to ensure acceptable levels of explanation. The results in table 4 show that all communalities were over 0.50.

4.3 Sampling Adequacy and Sphericity

A significant step of the analysis involved weighing the overall significance of the correlation matrix through Bartlett's Test of Sphericity, which provides a measure of the statistical probability that the correlation matrix has significant correlations among some of its components (Cattell, 1978; Kaiser, 1958). The results were significant, $x^2(n = 206) = 2331.857$ ($p < 0.001$), which indicates its suitability for factor analysis. The Kaiser–Meyer–Olkin measure of sampling adequacy (MSA), which indicates the appropriateness of the data for factor analysis, was 0.678. In this regard, data with MSA values above 0.600 are considered appropriate for factor analysis.

Table 4. Communalities Table

Items	Initial	Extraction
Reputation of the MFI	1.000	0.523
Recommendations of family and peers	1.000	0.780
Physical facilities	1.000	0.802
Low waiting time in the counter	1.000	0.763
Relation with employees	1.000	0.881
Safety of Deposit Funds	1.000	0.603
Secure transaction	1.000	0.786
Confidentiality	1.000	0.636
Record keeping and Transparency of Transaction	1.000	0.686
Cordialness shown by the employees	1.000	0.683
Proximity of MFI to home	1.000	0.716
Proximity of MFI to workplace	1.000	0.784
Trustworthiness and Confidence on employees	1.000	0.674
Politeness of employee	1.000	0.840
Service Speed and accuracy	1.000	0.796
Loans with favourable terms	1.000	0.633
Lead time of obtaining loan	1.000	0.790
Flexible Instalment timing	1.000	0.878
Interest rate on loan/ Amount of Instalment	1.000	0.877
Interest rate on deposit	1.000	0.859

Extraction Method: Principal Component Analysis.

4.4 Principal Component Analysis (PCA)

The factor solution (Table 6) derived from this analysis yielded six factors for the scale. These six principal components explain about 74.955 per cent of the variation in the data.

Table 5. KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.678
Bartlett's Test of Sphericity	Approx. Chi-Square	2331.857
	df	190
	Sig.	0.000

4.4 Principal Component Analysis (PCA)

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Table 6. Component table with total variance explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
X1	3.940	19.700	19.700	3.940	19.700	19.700	3.692	18.459	18.459
X2	2.823	14.115	33.815	2.823	14.115	33.815	2.626	13.128	31.586
X3	2.435	12.173	45.988	2.435	12.173	45.988	2.342	11.712	43.299
X4	2.132	10.659	56.647	2.132	10.659	56.647	2.304	11.522	54.820
X5	1.933	9.667	66.314	1.933	9.667	66.314	2.161	10.804	65.624
X6	1.728	8.641	74.955	1.728	8.641	74.955	1.866	9.331	74.955
X7	0.908	4.542	79.497						
X8	0.749	3.743	83.240						
X9	0.627	3.136	86.376						
X10	0.456	2.282	88.658						
X11	0.383	1.916	90.574						
X12	0.320	1.600	92.174						
X13	0.290	1.448	93.622						
X14	0.255	1.276	94.898						
X15	0.214	1.068	95.967						
X16	0.199	0.995	96.962						
X17	0.182	0.908	97.870						
X18	0.152	0.759	98.629						
X19	0.148	0.741	99.370						
X20	0.126	0.630	100						

Extraction Method: Principal Component Analysis.

The rotated component matrix in Table 7 shows the factor loadings of each variable on the six extracted components. Variables with high loadings (e.g., *'Relation with employees'* with 0.935 on Component 1) are strongly associated with that component. The rotation helped in interpreting the components by maximizing the variance of the loadings, making the structure clearer. In addition, the factor loadings have been spread relatively more evenly over the components that we had in the unrotated matrix.

The rotated component matrix offers a clear interpretation of which variables contribute most to each component, thereby aiding in the understanding of the dataset's underlying structure. These findings have important implications for further analysis and interpretation, providing a robust foundation for subsequent research. In the next paragraph, these components are named appropriately according to the variable that loaded onto them. Table 8 presents the names assigned to each factor based on their factor loadings along with their Mean and Standard Deviation

Table 7. Rotated Component Matrix

	Component					
	1	2	3	5	4	6
Institutional and Peer Influence						
Reputation of the MFI	.698					
Recommendations of family and peers	.871					
Physical facilities	.881					
Low waiting time in the counter	.867					
Relation with employees	.935					
Safety and Security						
Safety of Deposit Funds		.764				
Secure transaction		.848				
Confidentiality of Transaction		.779				
Record keeping and Transparency		.813				
Convenience Factors						
Cordialness shown by the employees			.805			
Proximity of MFI to home			.817			
Proximity of MFI to workplace			.865			
Service Quality						
Trustworthiness and Confidence on employees				.796		
Politeness of employee				.905		
Service Speed and accuracy				.866		
Loan policy and accessibility						
Loans with favourable terms					.783	
Lead time of obtaining loan					.875	
Flexible Instalment timing					.931	
Financial Factors						
Interest rate on loan						.934
Interest rate on deposit						.923

4.4.1 Institutional and Influence Factors

The first principal component identified as '*Institutional and Peer Influence*', plays a significant role in the selection of microfinance institutions. This component has an eigenvalue of 3.94, accounting for 19.7% of the total variance. It comprises five key items, including '*Reputation of the MFI*', '*Recommendations from family and peers*', and '*Relationship with employees*'. These factors reflect both institutional characteristics and external social influences that contribute to decision-making in MFI selection.

Table 8. Mean, Standard Deviation (SD) of the variables

Variables	Mean	Standard Deviation
Institutional and Peer Influence	4.61	0.84
Safety and Security	4.12	0.92
Convenience	4.40	0.80
Service Quality	3.73	1.05
Loan policy and accessibility	3.96	1.08
Financial Factors	3.77	1.10

4.4.1 Institutional and Influence Factors

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4.4.2 Safety and Security

The second principal component 'Safety and Security Factors' stands out as an essential factor that affects which microfinance institutions people choose. A total of 14.1% of total variance originates from the eigenvalue of 2.823 of this component. The dimension consists of four important characteristics specifically '*Safety of Deposit Funds*' and '*Record keeping and Transparency of Transaction*' as well as '*Secure transaction*'. The MFI selection process depends on safety factors which describe both information and financial security characteristics in decision-making.

4.4.3 Convenience

The next principal component named '*Convenience Factors*', plays a significant role in the selection of microfinance institutions. A total of 12.2% of total variance originates from the eigenvalue of 2.435 of this component. It comprises three variables, including '*Proximity of MFI to home*', and '*Proximity of MFI to workplace*'. These factors reflect the ease of getting service for the client, which contributes to the MFI choice.

4.4.4 Service Quality

This principal component has an eigenvalue of 2.132, it explains 10.7% of the total variance. This component focuses on the the quality of service provided by the MFI. With an average score of 3.72 out of 5, this factor plays a pivotal role in the MFI selection process.

4.4.5 Loan policy and accessibility

This principal component has an eigenvalue of 1.933, it explains 9.7% of the total variance. This principal component has 3 factors loading onto it significantly. Factors include– '*Loans with favorable terms*', and '*Flexible Instalment timing*', all of which correspond to the policy and accessibility of the loan.

4.4.6 Financial Factors

The last principal component was labelled as '*Financial Factors*', plays a substantial role in the selection of microfinance institutions. This component has an eigenvalue of 1.728, accounting for 8.6% of the total variance. It comprises two variables like *'Interest rate on loan*' that focuses on the financial cost and benefit and contributes to the MFI choice.

5. Discussion

The findings of this study provide critical insights into the factors influencing customers' selection of microfinance institutions (MFIs) in rural Bangladesh, aligning with and extending prior research in this domain. The Principal Component Analysis (PCA) revealed six key components that collectively explain 74.955% of the variance in customer preferences– Institutional and Influence Factors (e.g., reputation, peer recommendations), Safety and Security (e.g., deposit safety, transaction confidentiality), Convenience (e.g., proximity to

home/workplace), Service Quality (e.g., employee trustworthiness, politeness), Loan Policy and Accessibility (e.g., favourable terms, flexible timing), Financial Factors (e.g., interest rates on loans/deposits).

The *Institutional and Influence* registered the highest mean score (4.61) suggesting selection of MFIs depends heavily on their reputation and referrals from other members. The findings support Appiah et al. (2019) along with Domanban et al. (2023) since they show that trust and social networks distinctly influence microfinance adoption. This study indicates that strong community recommendations with a factor loading of 0.871 function as a primary influence factor for rural residents because formal financial literacy education is scarce.

MFI clients gave high importance to *Safety and Security* (mean = 4.12) together with *Convenience* (mean = 4.40) which showed their emphasis on transactional security features with added value from easy accessibility. Rural borrowers choose MFIs which offer straightforward operations and low travel expenses according to Anang et al. (2015).

Surprisingly, Financial Factors (e.g., interest rates) had the lowest mean score (3.77), contradicting conventional assumptions that cost is the primary driver of MFI selection (Putri et al., 2019). Instead, *Loan Policy and Accessibility* (mean = 3.96)—particularly flexible repayment terms—was more influential. This suggests that rural customers prioritize usability (e.g., lead time, instalment flexibility) over cost, possibly due to irregular income streams.

While *Service Quality* (mean = 3.73) scored moderately, variables like "Politeness of employees" (loading = 0.905) and "Trustworthiness" (0.796) were strongly associated with Component 4. This echoes Puspitasari et al. (2017), who emphasized employee-customer relationships in fostering loyalty.

6. Practical implications

Microfinance institutions (MFIs) should actively engage with communities to build a strong reputation and benefit from word-of-mouth marketing. Simplifying loan processes, such as reducing documentation requirements and offering flexible repayment options, can better accommodate the needs of rural customers. Additionally, investing in employee training is essential for fostering trust and improving service quality, as factors like politeness and transparency play a crucial role in customers' decision-making when selecting an MFI.

7. Conclusion

This study explored the critical factors influencing customers' selection of microfinance institutions (MFIs) in rural Bangladesh, employing a selective methodological framework that combined survey data with Principal Component Analysis (PCA). Based on the results, six key dimensions—Institutional and Influence Factors, Safety and Security, Convenience, Service Quality, Loan Policy and Accessibility, and Financial factors—could explain 74.955% of the variance in customer preference. Interestingly, the study results imply, conventional logics can fall short of working consistently because financial institutions can possibly gain more business by prioritizing customer substance factors such as reputation, relation, and convenience over standard determinants – interest rate. The study further implies that, sociocultural and practical needs of the rural customers should be considered by the MFI service providers to attract the customers. The success of microfinance institutions to enhance performance alongside alleviate poverty depends on handling both concrete loan parameters as well as intangible factors like trust.

8. Limitations and Future Research

The findings of this study are context-specific to rural Bangladesh and thus it is recommended that future studies broaden the scope of their analysis to cross-country comparisons. Longitudinal studies could track how customer priorities evolve with digital financial inclusion (e.g., mobile banking). This study lays the groundwork for exploring segmentation (e.g., gender, age) and technological adoption (e.g., digital MFIs) in future research.

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