

**SELECTED FACTORS INFLUENCING CUSTOMERS' LOYALTY TO
MICROFINANCE INSTITUTIONS: A SURVEY OF MICROFINANCE
INSTITUTIONS IN NYAHURURU TOWN, KENYA**

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ABSTRACT

In the present microfinance institutions in Nyahururu, Customers shift loyalty to different Microfinance institutions over time a situation that has led to managers' complaints on matters of customers' retention. The broad objective of the study was to examine the factors that influence customer loyalty to Microfinance institutions in Nyahururu town. The study objectives were to examine the influence of customers' perception on their loyalty to Microfinance institutions, to examine the influence of quality of service on customers' loyalty to Microfinance institutions, to assess the influence of mobile banking on customers' loyalty to Microfinance institutions, to establish the influence of sales promotions on customers' loyalty to Microfinance institutions and to assess the influence of government policies on customers' loyalty to microfinance institutions in Nyahururu town. The study was based on the Customer Loyalty Theory which says that customer loyalty is influenced by demographic factors, Loyalty Business Model which posits that, customer satisfaction is first based on a recent experience of the product or service, Equity Theory that holds that people develop and maintain relationship in which rewards are distributed in proportion to costs and Social Exchange Theory that posits that all human relationships are formed by the use of a subjective cost-benefit analysis and the comparison of alternatives that people develop relationships, which yield the greatest profits. Descriptive survey design was applied with a target a population of 28860 customers served by the 6 Microfinance institutions in Nyahururu, Kenya. Systematic random sampling and stratified sampling methods were applied to obtain sample size, 384 customers from 6 Microfinance institutions in Nyahururu Town. Primary data was collected through the use of questionnaires. Data analysis was done as per the objectives of the study. The data was analyzed at two levels. In descriptive data analysis, tables and percentages were used and in quantitative data analysis, correlation, regression and ANOVA tools were used. The SPSS computer program was used to aid in analysis. Multiple linear regression and correlation model was also used to analyze data by establishing the interrelationships between independent and dependent variable. The study registered a high response rate of 83.85% from the target respondents. The findings of the study on the correlation analysis indicated that the four factors positively correlate with customer loyalty at $R < 1$. The regression model used explained 0.661 variation in the dependent variable. All the null hypotheses were rejected leading to conclusion that all the five variables under the study influence customer loyalty significantly. The study has revealed that quick customer access to staff, the comfortable banking halls and adoption of new technology improves quality of services provided by the Microfinance institutions and subsequent loyalty. The study recommends that Microfinance institutions should increase portfolio of their services in order to satisfy their customers, policy makers should put in place measures to ensure security of mobile banking in order to protect customers and their rights and that Microfinance institution managers should put in place systematic assessment programs to monitor services quality, mobile banking, customers perception, sales promotion and government policies as they all have been found to have significant influence on customer loyalty. The findings of the study will be useful to Microfinance institutions seeking to improve the customer loyalty. This research study will contribute to the body of knowledge on the best practices of retaining customers within Microfinance institutions.