www.ijarp.com ISSN 2456-9992 Page: 01-10

International Journal Advanced Research Publications

Review Article

Volume: 02
Issue: 08

INVESTIGATING THE EFFECTS OF QUALITY SERVICE ON CUSTOMER SATISFACTION IN THE MICROFINANCE SECTOR OF MALAWI

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Article Received: 12 July 2026, Article Revised: 01 August 2026, Published on: 21 August 2026

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Doi: https://doi-doi.org/101555/ijarp.4656

ABSTRACT

Service quality has become an important determinant of customer satisfaction in the financial sector, particularly within the micro finance institutions that rely on long term customer relationships. Despite the increase in financial inclusion in Malawi, the active use of microfinance services remains relatively low, suggesting that service delivery may influence customer retention and satisfaction. This study investigated the effects of quality service on customer satisfaction in the Microfinance sector.

The study adopted quantitative research approach based on a positivist philosophy and employed a descriptive cross- section survey design. Data were collected from 28 Microfinance customers using a structured questionnaires based on the SERVIQUAL model. The collected data were analyzed using Statistical Software Packages for Social Scientists (SPSS), employing descriptive statistics and multiple linear regression analysis.

The findings revealed that customers generally perceived Microfinance sector to provide satisfactory service quality. Responsiveness received the highest mean score (4.25), indicating that staff were willing and ready to assist customers promptly. However, empathy showed inconsistent performance, suggesting that customers experienced different levels of personal attention depending on the staff member serving them. Overall, customer satisfaction was moderately high (mean=3.96), although delays in service delivery and complaint handling reduced customer satisfaction. Regression analysis further indicated that reliability was the strongest predictor of customer satisfaction, although none of the individual service quality dimensions reached statistical significance because of the relatively small sample size.

KEY WORDS

1. Service Quality

Service quality refers to the extent to which Microfinance sector provides services that meet or exceed customers' expectations. In this study, service quality was measured using the five SERVIQUAL dimensions: Tangibles, Reliability, Responsiveness, Assurance and Empathy. High service quality was expected to improve customer satisfaction among Microfinance sector clients.

2. Customer Satisfaction

Customer satisfaction refers to the level of contentment customers experience after receiving services from the Microfinance finance institution. It reflects whether customers believe the services they received met their expectations. In this study, customer satisfaction was the dependent variable used to determine the effectiveness of service quality.

3. Serviqual

SERVIQUAL is a service quality measurement model developed by parasuraman, Zeithaml and Berry (1988). It evaluates service quality using five dimensions:

- **Tangibles:** The appearance of the physical facilities, equipment and staff
- **Reliability:** The ability to deliver promised services accurately and consistently
- **Responsiveness:** The willingness of employees to assist customers promptly
- **Assurance:** Employees' knowledge, courtesy and ability to inspire trust & confidence
- **Empathy:** Providing caring, individualized attention to customers

The SERVIQUAL model formed the theoretical framework for assessing service quality in the Microfinance institution of Malawi.

3. Microfinance Institution MFI

A microfinance institution is an organization that provides financial services such as loans, savings and other financial products to low low-income individuals and small business owners who may not qualify for the services from the commercial banks.

1. Introduction

The financial sector plays a significant role in promoting economic growth through the provision of financial services that enable individuals and businesses to access capital for investment and development. In Malawi, microfinance institutions have become important contributors to financial inclusion by providing financial services to individuals who are often excluded from conventional banking systems. These institutions offer loans, savings products and other financial services that support entrepreneurship, poverty reduction and small business development.

Although financial inclusion in Malawi has improved considerably, many people who have access to financial services do not actively utilize microfinance institutions. According to FinScope Consumer Survey (2023), approximately, 74% of Malawian adults have access to financial services, yet only a small proportion actively use microfinance institutions. This situation suggest factors beyond financial access influence customers' decisions to continue using microfinance services. One of these factors is service quality, which directly affects customer satisfaction and customer loyalty.

Service quality refers to the extent to which an organization consistently meets or exceeds customer expectations through reliable, responsive, empathetic and professional service delivery. In financial institutions, high quality service strengthens customer confidence, increases satisfaction and promote customer retention. Conversely, Poor service quality may result in customer dissatisfaction, reduced loyalty and increased migration to competing financial institutions.

Previous studies conducted in Malawi have mainly focused on financial sustainability, operational performance and regulatory challenges affecting microfinance institutions. This study therefore sought to bridge this knowledge gap by examining the relationship between service quality dimensions and customer satisfaction using the SERVIQUAL model.

The findings of this study provide practical recommendations that can assist microfinance institution management in improving customer experience and enhancing service delivery. The study also contributes to existing literature on service quality management within Malawi's microfinance sector and offers useful information to policy makers, researchers and practitioners interested in improving customer satisfaction in financial institutions.

2. Objective of the Study

2.1. To determine the effects of service quality dimensions on customer satisfaction within the microfinance sector in Malawi.

3. Literature Review

3.2. Theoretical Framework: SERVQUAL Model

This study is anchored on the SERVQUAL model developed by Parasuraman, Zeithaml and Berry (1988). The model proposes that customers evaluate service quality by comparing their expectations before receiving the service with their perceptions with their perceptions after experiencing the service. Service quality is therefore multidimensional and consists of five key dimensions.

3.2.1. Tangibles refer to the physical appearance of facilities, equipment, employees and communication materials. In the microfinance sector, this includes clean offices, modern equipment, professional employee appearance and well- designed customer information material.

3.2.2. Reliability refers to an institution's ability to provide promised services accurately and consistently. Customers expect financial transactions to be processed correctly, loan approvals to follow agreed timelines and institutional records to remain accurate.

3.1.3. Responsiveness represents employee's willingness to assist customer promptly. This dimension includes reducing waiting time, responding quickly to enquiries, providing timely information and demonstrating readiness to solve customer problems.

3.2. 4. Assurance relates to employees' competence, courtesy, honesty and ability to inspire trust and confidence. Since financial transactions involve customer money and personal information, assurance becomes essential in building customer confidence.

3.2.5. Empathy refers to providing caring, personalized attention that recognizes each customer's individual circumstances. Employees demonstrate empathy by understanding customers' financial situations, communicating respectfully, listening carefully and providing personalized solutions.

3.3. Conceptual Framework

Based on the theoretical review, the study proposed a conceptual framework where Service Quality (Independent Variable) influences Customer Satisfaction (Dependent Variable).

Table 1: Conceptual Framework for SEVQUAL Model.

Dimension	Definition (Conceptual)	Practical measurement Indicators
Tangibles	Physical facilities, equipment, and appearance of personnel.	✚ Modern-looking equipment (e.g. offices, motor vehicles) ✚ Visually appealing physical facilities (cleanliness, lighting). ✚ Professional appearance of employees (uniforms, grooming). ✚ Clarity of pamphlets and account statements.
Reliability	Ability to perform the promised service dependably and accurately.	✚ Providing services at the promised time (e.g., loan approval timelines). ✚ Error-free records and transaction processing.

		✚ Sincerity in solving a customer's problem. ✚ Performing the service right the first time.
Responsiveness	Willingness to help customers and provide prompt service.	✚ Prompt service to customers (short wait times in queues). ✚ Staff willingness to help customers with complex queries. ✚ Always being ready to respond to requests (phone or email). ✚ Informing customers exactly when services will be performed.
Assurance	Knowledge, courtesy, and ability to inspire trust and confidence.	✚ Employees instilling confidence in customers. ✚ Customers feeling safe in their transactions (financial security). ✚ Employees being consistently courteous. ✚ Staff having the knowledge to answer customer questions.
Empathy	Caring, individualized attention provided to customers.	✚ Giving customers individual attention. ✚ Employees dealing with customers in a caring fashion. ✚ Having the customer’s best interest at heart. ✚ Convenient business hours (including digital availability).

- **Independent Variable:** Service Quality, operationalized by the five dimensions:
  - **Tangibles:** Physical facilities, equipment, and appearance of personnel.
  - **Reliability:** Delivering on promises, accurate records, and dependable service.
  - **Responsiveness:** Willingness to help, promptness, and understanding specific needs.
  - **Assurance:** Knowledge, courtesy, and ability to inspire trust and safety.
  - **Empathy:** Individualized attention, caring, and convenient operating hours.
- **Dependent Variable: Customer Satisfaction**, defined as the customer's positive evaluation of the service which leads to loyalty and retention.

The framework hypothesized that improvements in these five dimensions lead to higher levels of customer satisfaction, thereby addressing the usage gap identified in the FinScope (2023) report.

3.4. Empirical Literature Review

Service quality has become one of the most important determinants of customer satisfaction in service-oriented organizations, particularly within the financial sector where customers expect efficient, reliable and professional services. According to Parasuraman, Zeithaml and Berry (1988), service quality is measured by comparing customers' expectations with their perceptions of the actual service received. When organizations consistently meet or exceed customer expectations, customer satisfaction increases, leading to greater loyalty and positive word of mouth referrals. This concept is particularly important in microfinance institutions, where maintaining long term relationships with clients contributes significantly to institutional sustainability.

In Malawi these institutions play an important role in promoting financial inclusion and supporting small and medium enterprises. However, despite the increase in financial inclusion, active utilization of microfinance services remains relatively low. The FinScope Consumer Survey reported that while approximately 74% of Malawian adults have access to financial services, only a small proportion actively use the microfinance institutions (FinMark Trust, 2023). This suggests that factors beyond financial access including service quality influence customer satisfaction and continued use of microfinance services.

Customer satisfaction refers to the extent to which customers perceive that a product or service has met or exceeded their expectations. According to Kotler and Keller (2016), satisfied customers are more likely to remain loyal, continue purchasing services and recommend the organization to others. In financial institutions, customer satisfaction contributes to improved organizational performance through increased customer retention and stronger institutional reputation.

Several empirical studies have demonstrated that service quality significantly influences customer satisfaction across different sectors. Cronin and Taylor (1992) found that improvements in service performance positively affects customer satisfaction and customer loyalty. Similarly, Sureshchandar, Rajendran and Anantharaman (2002) concluded that customer satisfaction is strongly associated with service quality dimensions, particularly reliability and responsiveness.

Within Malawi, research has largely concentrated on sustainability and operational performance of microfinance institutions. Kalolokesya (2017) identified weak regulatory systems, high operating costs and inadequate customer service as major challenge affecting the performance of microfinance institutions. Likewise, Kayembe et al. (2021) reported that effective management practices and strong institutional governance contribute significantly to the sustainability of microfinance institutions in Malawi. However, studies did not specifically examine how the five SERVIQUAL dimensions influence customer satisfaction among microfinance customers.

Furthermore, the Microfinance Centre (2007) emphasized that customer focused service delivery is essential for improving institutional performance and achieving long term sustainability. The organization recommends continuous monitoring of customer satisfaction using recognized service quality frameworks such as SERVIQUAL to identify areas requiring improvement.

4. Research Methodology

The study adopted a positivist research philosophy because it assumes that customer satisfaction and service quality can be objectively measured using observable and quantifiable data. Guided by this philosophy, the study employed a deductive research approach in which hypotheses were developed from the SERVIQUAL theory and tested using quantitative data collected from customers.

A descriptive cross-sectional survey design was employed to collect information from respondents at a single point in time. The design was considered appropriate because it enabled the researcher to describe customers' perceptions of service quality and examine the relationship between service quality dimensions and customer satisfaction. A quantitative research method was adopted because the study focused on the numerical measurement of customer perceptions using structured questionnaires and statistical analysis.

The study was conducted in Lilongwe City at selected branch of microfinance institution. The target population comprised active customers of the particular microfinance institution branch because they regularly interact with the institution and are therefore capable of evaluating the quality of services provided. The sample size was initially determined using Slovin's formula; the researcher collected data from 35 customers, of whom 28 completed questionnaires were successfully returned, representing an 80% response rate.

A multi stage sampling procedure was adopted. Purposive sampling was first used to identify microfinance institution branch that had been in operational for more than one year. Thereafter, simple random sampling was used to select customers visiting the selected branch, ensuring that every customer had an equal opportunity of participating in the study and minimizing selection bias.

Primary data were collected using a structured questionnaire consisting of two sections. Section A collected demographic information while Section B measured customers' perceptions of the five SERVIQUAL dimensions and customer satisfaction using a five point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). Before the actual survey, questionnaires under -went content validation by the research supervisor and was pilot tested to assess reliability. Cronbach's Alpha coefficient of at least 0.70 was considered acceptable for internal consistency.

Data were collected after obtaining permission from the microfinance institution management and informed consent from participants. The questionnaires were administered directly to customers at the selected branch. Respondents participated voluntarily and confidentiality and anonymity were maintained throughout the study. Participants were informed of their right to withdraw from the study at any stage without penalty.

The collected data were coded, entered and analyzed using the Statistical Package for Social Scientists (SPSS). Descriptive statistics including frequencies, percentages, means and standard deviations were used to summarize respondents' demographic characteristics and service quality perceptions. Multiple linear regression analysis was employed to determine the influence of the five SERVIQUAL dimensions on customer satisfaction while statistical significance was assessed at the 5% level.

5. Data Analysis and Interpretation

5.1. Demographic Characteristics

A total of 35 questionnaires were distributed, and 28 were completed and returned, giving a response rate of 80%. The majority of respondents were female, aged between 26 & 35 years and had attained tertiary education. Most respondents had been customers of the particular microfinance institution for more than one year, indicating that they had sufficient experience to evaluate the quality of services offered by the institution.

5.2. Service Quality Dimension

The descriptive analysis showed that customers generally had positive perceptions of the quality of service provided by the microfinance institution. Responsiveness recorded the highest mean score (M= 4.25), indicating that employees were willing to assist customers promptly. Tangibles, assurance and reliability also recorded favorable mean scores above 4.00, reflecting customers' satisfaction with the physical facilities, staff competence and dependability of services. However, empathy recorded the lowest mean score (M=4.04) with the highest variation among respondents, suggesting inconsistencies in the provision of personalized customer care.

5.3. Customer Satisfaction

Overall customer satisfaction had a mean score of 3.96, indicating that customers were generally satisfied with the institution's services. Nevertheless, timeliness of service delivery received the lowest satisfaction score (M=3.79), suggesting that delays in loan processing and service provision remain an important challenge affecting customer experience.

5.4. Regression Analysis

Multiple linear regression was conducted to examine the effect of service quality dimensions on the customer satisfaction. The model explained 34.2% (R^2= 0.342) of the variation in customer satisfaction, indicating that the service quality contributes significantly to customer's overall satisfaction. Although the overall regression model was not statistically significant at the 5% level (F=2.286; P=0.081), the findings suggests that improvements in service quality can positively influence customer satisfaction. The lack of statistical significant was mainly attributed to the relatively small sample size used in the study.

6. FINDINGS

The study established that Microfinance institution generally provides satisfactory service quality across the five SERVIQUAL dimensions. Customers rated responsiveness as the strongest aspect of service delivery, demonstrating that employees were willing to assist clients promptly. Reliability and assurance were also positively perceived, reflecting customers' confidence in the institutions' ability to provide dependable services.

Despite these positive findings, empathy emerged as the weakest service quality dimension because customers experienced inconsistent levels of individual attention and care. Furthermore, slow service delivery, particularly in loan processing and complaint handling, reduced overall customer satisfaction. The findings therefore indicate that while microfinance institution perform well in several areas, improvements in empathy and operational efficiency are necessary to enhance customer satisfaction.

7. RECOMMENDATIONS

Based on the findings, the study recommends that microfinance should invest in digital loan processing systems to reduce delays in service delivery and improve operational efficiency. The institution should also strengthen staff training programs focusing on customer care, communication skills and empathy to ensure consistent service delivery across all branches.

Furthermore, microfinance institution should establish an effective customer complaint management system with response timelines to improve customer confidence and satisfaction. Finally, the Reserve Bank of Malawi should encourage microfinance institutions to regularly assess customer satisfaction using recognized service quality measurement models such as SERVIQUAL to promote continuous service improvement.

8. CONCLUSION

This study examined the effects of service quality dimensions on customer satisfaction in the microfinance institution. The findings demonstrate that service quality remains an important determinant of customer satisfaction within the microfinance sector. While customers generally expressed satisfaction with the microfinance institutions' services, weaknesses were identified in empathy and timeliness of service delivery. The study concludes that improving personalized customer care and operational efficiency will enhance customer satisfaction, strengthen customer loyalty and improve the overall performance of the institution. Future studies should employ larger population sizes and include other microfinance institutions to improve the generalization ability of the findings.

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