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# THE EFFECT OF CUSTOMER SERVICE QUALITY ON CUSTOMER RETENTION IN LILONGWE SAVINGS AND CREDIT CO-OPERATIVES (SACCOs), MALAWI

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## ABSTRACT

Customer retention is a key determinant of organizational sustainability in the financial services sector, particularly among Savings and Credit Cooperative Societies (SACCOs). Growing competition from commercial banks, microfinance institutions, and digital financial service providers has increased the need for high-quality customer service to retain members. Despite the important role of SACCOs in promoting financial inclusion in Malawi, limited empirical evidence exists on the relationship between customer service quality and customer retention. This study examined the effect of customer service quality on customer retention in selected SACCOs in Lilongwe District, Malawi.

The study adopted a quantitative approach using a descriptive research design. Primary data were collected through structured questionnaires administered to SACCO employees and members. Of the 67 questionnaires distributed, 61 were completed and returned, representing a 91% response rate. Customer service quality was assessed using the SERVQUAL dimensions of reliability, responsiveness, assurance, empathy, and tangibility. Data were analyzed using SPSS through descriptive statistics, correlation, and regression analysis.

The findings revealed that customer service quality has a significant positive effect on customer retention. Reliability emerged as the strongest predictor, followed by assurance and empathy, as respondents valued accurate service delivery, staff competence, and personalized attention. Although employees were regarded as professional and SACCO facilities as generally clean, concerns were raised about inadequate technological infrastructure, delayed service delivery, and limited digital banking services, which reduced responsiveness

The study concludes that strengthening customer service quality across all SERVQUAL dimensions can improve customer retention in SACCOs. It recommends continuous staff training, investment in digital technologies, improved service facilities, customer relationship management strategies, and loyalty programs to enhance member satisfaction and long-term institutional sustainability in Malawi.

**KEYWORDS:** Customer Service Quality; Customer Retention; SERVQUAL; Savings and Credit Cooperative Societies (SACCOs); Reliability; Responsiveness; Assurance; Empathy; Tangibility; Financial Inclusion; Malawi.

## INTRODUCTION

Customer service quality has become one of the most important determinants of organisational success, competitiveness, and long-term sustainability in the financial services industry. Financial institutions no longer compete solely through interest rates, loan products, or pricing strategies but increasingly differentiate themselves through the quality of service they provide. Customers expect financial institutions to deliver services that are reliable, responsive, accurate, convenient, and personalised while maintaining professionalism, transparency, and trust. Institutions that consistently meet or exceed these expectations are more likely to retain customers, attract new ones through positive recommendations, strengthen customer loyalty, and achieve sustainable growth. Conversely, poor customer service often leads to dissatisfaction, reduced trust, customer complaints, and customer switching to competing institutions.

Customer retention has therefore become a strategic priority in the financial sector. Retaining existing customers is generally more cost-effective than acquiring new ones, while loyal customers are more likely to continue using financial products, recommend the institution to others, and contribute to long-term profitability. High-quality customer service enhances customer satisfaction, confidence, and commitment, thereby strengthening long-term relationships. As competition intensifies, financial institutions that fail to improve service quality risk losing valuable customers to competitors offering faster, more convenient, and customer-centred services.

Savings and Credit Cooperative Societies (SACCOs) play a significant role in promoting financial inclusion by providing affordable savings and credit services to individuals who often have limited access to conventional banking. Unlike commercial banks, SACCOs operate on cooperative principles where members are both owners and beneficiaries of the institution. In Malawi, SACCOs contribute to socio-economic development by mobilising savings, providing affordable loans, encouraging entrepreneurship, and improving household welfare. They serve civil servants, salaried employees, small-scale business owners, farmers, and individuals working in the informal sector, thereby supporting income generation, poverty reduction, and local economic development.

Despite their important contribution, SACCOs operate in an increasingly competitive financial environment. Commercial banks, microfinance institutions, mobile money operators, and digital financial service providers continue to introduce innovative products and technology-driven services that provide customers with greater convenience and accessibility. The rapid growth of digital banking and electronic payment systems has significantly changed customer expectations. Customers now demand faster response times, efficient problem resolution, reliable digital platforms, and personalised services. Consequently, SACCO members increasingly compare the services offered by SACCOs with those provided by other financial institutions.

This competitive environment has made customer service quality a critical factor influencing customer retention within SACCOs. Members who receive prompt, reliable, courteous, and personalised services are more likely to remain loyal, continue saving regularly, utilise loan facilities, and recommend their SACCO to others. Conversely, poor service characterised by delays, ineffective communication, inadequate complaint handling, and limited technological services may reduce customer satisfaction and trust, leading to declining membership. Improving customer service quality has therefore become essential for SACCOs seeking to strengthen their competitiveness and ensure long-term sustainability.

Previous studies conducted in Kenya, Uganda, Tanzania, and other developing countries have consistently shown that customer service quality significantly influences customer satisfaction, loyalty, and customer retention. These studies indicate that the SERVQUAL dimensions of reliability, responsiveness, assurance, empathy, and tangibility positively affect customers' willingness to continue using financial services. However, most of this research has focused on commercial banks or SACCOs outside Malawi. Differences in institutional environments, regulatory frameworks, technological development, and customer characteristics limit the direct application of these findings to the Malawian SACCO sector.

Furthermore, empirical evidence on customer service quality within Malawian SACCOs remains limited. Existing studies have focused mainly on commercial banks, mobile banking, and microfinance institutions, leaving insufficient evidence on how the dimensions of service quality influence customer retention in SACCOs. This represents an important knowledge gap, particularly as SACCOs continue to compete with increasingly sophisticated financial service providers. Understanding this relationship is essential for developing evidence-based strategies that improve customer satisfaction, strengthen member loyalty, and enhance institutional performance.

This study therefore investigated the effect of customer service quality on customer retention in selected SACCOs operating in Lilongwe District, Malawi. The study was guided by the SERVQUAL Model developed by Parasuraman, Zeithaml, and Berry (1988), which identifies five dimensions of service quality: reliability, responsiveness, assurance, empathy, and tangibility. It was also informed by Expectation Confirmation Theory, which explains that customers are more likely to remain loyal when service performance meets or exceeds their expectations. The findings provide practical evidence for SACCO managers, policymakers, and other stakeholders on strategies for improving customer satisfaction, enhancing customer retention, strengthening institutional competitiveness, and promoting the long-term sustainability of SACCOs in Malawi.

## 2. RESEARCH OBJECTIVES

### General Objective

To examine the effect of customer service quality on customer retention in selected Savings and Credit Cooperative Societies (SACCOs) operating in Lilongwe District, Malawi.

### Specific Objectives

The study sought to achieve the following objectives:

1. To determine the effect of service reliability on customer retention in Lilongwe SACCOs.
2. To assess how responsiveness of SACCO employees influences customer satisfaction and retention.
3. To evaluate the influence of assurance and empathy on members' trust, satisfaction, and long-term loyalty.
4. To examine the effect of tangibility, including physical facilities, equipment, and staff appearance, on customer retention.

## 3. Literature Review

### 3.1 Theoretical Foundation

This study is anchored on two complementary theories: the SERVQUAL Model and Expectation Confirmation Theory (ECT). Together, these theories explain how customers evaluate service quality and how these evaluations influence satisfaction, loyalty, and customer retention. While the SERVQUAL model identifies the key dimensions of service quality, Expectation Confirmation Theory explains how customers compare expected service performance with actual experiences to determine satisfaction. The integration of these theories provides a comprehensive framework for understanding customer retention in Savings and Credit Cooperative Societies (SACCOs).

The SERVQUAL Model, developed by Parasuraman, Zeithaml, and Berry (1988), is one of the most widely applied frameworks for measuring service quality across industries such as banking, healthcare, insurance, hospitality, and telecommunications. The model proposes that customers evaluate service quality by comparing their expectations with their perceptions of the service received. It identifies five dimensions of service quality: reliability, responsiveness, assurance, empathy, and tangibility.

Reliability refers to an organisation's ability to provide services accurately, consistently, and dependably. In SACCOs, reliability involves accurate record keeping, timely loan processing, and error-free financial transactions. Reliable service strengthens customer trust and confidence, encouraging members to continue using SACCO services. Kotler and Keller (2022) argue that reliable service delivery enhances institutional credibility and promotes repeat patronage.

Responsiveness refers to employees' willingness to assist customers promptly by providing timely information, resolving complaints efficiently, and reducing waiting time. Zeithaml, Bitner, and Gremler (2021) note that responsiveness has become a major determinant of customer satisfaction because customers increasingly expect fast and convenient services. Within SACCOs, responsiveness is demonstrated through prompt communication, timely loan approvals, and efficient handling of customer enquiries.

Assurance relates to employees' knowledge, professionalism, courtesy, and ability to inspire trust and confidence. Customers are more likely to remain loyal when they believe employees possess adequate expertise and uphold high ethical standards. Wilson et al. (2021) explain that assurance reduces customers' perceived financial risk and strengthens long-term customer relationships.

Empathy refers to providing personalised care and attention to customers by understanding their individual needs, listening to their concerns, and offering appropriate solutions. According to Kotler and Keller (2022), customer-centred organisations build stronger emotional relationships with customers through personalised interactions, resulting in greater loyalty and retention. Within SACCOs, empathy may include respectful treatment, financial guidance, and flexibility in responding to members' needs.

Tangibility includes the physical aspects of service delivery such as office facilities, technological infrastructure, equipment, printed materials, and employees' appearance. Although financial services are largely intangible, customers often judge service quality through visible physical evidence. Zeithaml et al. (2021) argue that clean offices, modern technology, organised work environments, and professional employee appearance reinforce customers' confidence in service providers.

The SERVQUAL model suggests that these five dimensions collectively determine customers' perceptions of service quality. When customers consistently experience high-quality services, they develop greater satisfaction, trust, and loyalty, ultimately increasing customer retention.

Complementing SERVQUAL is Expectation Confirmation Theory (ECT**)**, originally proposed by Oliver (1980) and later refined by Oliver (1997). The theory explains that customer satisfaction results from comparing expected service performance with actual experiences. Before receiving a service, customers form expectations based on previous experiences, organisational reputation, and marketing communications. After receiving the service, they compare actual performance with these expectations.

When service performance meets or exceeds expectations, positive confirmation occurs, leading to customer satisfaction, trust, loyalty, and continued patronage. Conversely, when performance falls below expectations, customers become dissatisfied and are more likely to switch to alternative providers (Oliver, 1997). Bhattacherjee (2001) further demonstrated that customer satisfaction strongly influences customers' intentions to continue using services over time.

The integration of SERVQUAL and Expectation Confirmation Theory provides the theoretical foundation for this study. SERVQUAL identifies the dimensions of customer service quality, while ECT explains how customers' evaluations of these dimensions influence satisfaction, loyalty, and customer retention among SACCO members.

### 3.2 Empirical Literature Review

Customer retention has become a strategic priority for financial institutions because retaining existing customers is generally less costly than acquiring new ones. Numerous studies have demonstrated that customer service quality is a major determinant of customer satisfaction, loyalty, and long-term retention. As competition from commercial banks, microfinance institutions, fintech companies, and mobile money providers continues to increase, SACCOs must improve service quality to maintain their membership base and enhance organisational performance.

Reliability has consistently been identified as one of the strongest predictors of customer retention. Customers expect financial institutions to process transactions accurately, maintain correct records, and fulfil service promises consistently. Sharma, Singh, and Sharma (2022) found that reliable service delivery significantly improves customer confidence and reduces switching behaviour. Similarly, Al-Hawari and Ward (2021) reported that reliability positively influences customer satisfaction and loyalty in retail banking. Studies conducted among SACCOs in Kenya and Uganda also found that efficient loan processing, accurate account management, and dependable financial services strengthened member confidence and encouraged long-term membership (Wanjiku & Muturi, 2021).

Responsiveness has also been widely recognised as an important determinant of customer satisfaction and retention. Customers expect prompt responses to enquiries, efficient complaint resolution, and minimal waiting time. Zeithaml et al. (2021) argue that organisations demonstrating high responsiveness build stronger customer relationships because customers perceive them as efficient and committed to meeting their needs. Supporting this view, Nguyen and Nguyen (2022) found that responsiveness significantly improved customer loyalty through increased satisfaction and trust. Likewise, Mwangi and Njuguna (2023) reported that prompt communication and reduced waiting times positively influenced customer retention in East African financial institutions. These findings suggest that improving response times remains essential for SACCOs operating in competitive financial markets.

Assurance has equally received strong empirical support as a determinant of customer retention. Because financial transactions involve risk, customers rely heavily on employee competence, professionalism, and ethical conduct. Wilson et al. (2021) argue that assurance strengthens institutional credibility by reducing customers' perceived financial risk. Kumar and Reinartz (2022) similarly found that knowledgeable and trustworthy employees significantly improve customer confidence and long-term loyalty. Studies within African banking institutions have also shown that employee professionalism and transparency positively influence customer commitment and organisational reputation (Munyoki & Karanja, 2022).

Empathy remains another important factor influencing customer retention. Customers increasingly expect personalised service that recognises their individual needs rather than standardised interactions. Employees who provide financial guidance, actively listen, and treat customers with respect create stronger emotional connections with members. Boateng and Narteh (2022) found that personalised customer service significantly improves customer satisfaction and loyalty within financial institutions. Similar evidence from cooperative financial organisations indicates that respectful treatment and individual attention strengthen member commitment and reduce customer attrition.

Tangibility also influences customers' perceptions of service quality. Although banking services are intangible, customers frequently judge service quality through physical facilities, employee appearance, technological infrastructure, and the overall service environment. Zeithaml et al. (2021) observe that modern facilities and attractive service environments reinforce customers' confidence in organisational competence. Likewise, Narteh and Mahmoud (2023) found that investment in modern facilities and digital banking technologies significantly improves customer satisfaction and loyalty. However, many SACCOs in developing countries continue to experience challenges related to outdated technology and limited digital infrastructure, reducing their competitiveness against commercial banks and mobile money providers.

Despite substantial international evidence supporting the relationship between customer service quality and customer retention, important research gaps remain. Most previous studies have focused on commercial banks in developed countries and emerging Asian economies, while comparatively fewer studies have examined cooperative financial institutions within Sub-Saharan Africa. Existing African research has largely concentrated on Kenya, Uganda, Ghana, and South Africa, leaving limited empirical evidence from Malawi. Furthermore, many previous studies have examined individual SERVQUAL dimensions independently instead of assessing their combined influence on customer retention.

Within Malawi, research on customer service quality in SACCOs remains limited despite the sector's significant contribution to financial inclusion and socio-economic development. Most available studies focus on commercial banks, mobile banking, or microfinance institutions, creating a knowledge gap regarding cooperative financial institutions.

This study therefore addresses these gaps by examining the combined influence of reliability, responsiveness, assurance, empathy, and tangibility on customer retention among SACCO members in Lilongwe District. The findings are expected to contribute to the limited literature on customer service quality in Malawi's cooperative financial sector while providing practical recommendations for improving customer satisfaction, loyalty, and long-term member retention.

## 4. RESEARCH METHODOLOGY

### 4.1 Research Design

This study adopted a quantitative research approach using a descriptive research design to examine the effect of customer service quality on customer retention in selected Savings and Credit Cooperative Societies (SACCOs) in Lilongwe District, Malawi. A quantitative approach was appropriate because it enabled the collection of numerical data and the application of statistical techniques to examine relationships between customer service quality and customer retention. The descriptive design allowed the researcher to collect and analyse respondents' perceptions without manipulating the study environment, making it suitable for describing existing conditions and identifying relationships among variables.

The study was guided by the SERVQUAL framework, which measures service quality through five dimensions: reliability, responsiveness, assurance, empathy, and tangibility. These dimensions served as the independent variables, while customer retention was the dependent variable. The framework enabled the study to assess how each dimension contributes to retaining SACCO members.

### 4.2 Study Area and Population

The study was conducted in Lilongwe City, Malawi, where several SACCOs operate alongside commercial banks, microfinance institutions, and mobile money providers. Lilongwe was selected because of its competitive financial environment, making customer service quality an important factor influencing customer retention.

The target population consisted of both SACCO employees and SACCO members. Employees included Member Service Officers, Loan Officers, Managers, Information Technology Officers, and Cashiers who are directly involved in service delivery. SACCO members represented the recipients of these services and provided information on their experiences and satisfaction. Including both groups ensured balanced views from service providers and service users.

### 4.3 Sampling Procedure and Sample Size

The study employed simple random sampling to select SACCO members and purposive sampling to select employees involved in customer service delivery. Simple random sampling ensured equal chances of selection for members, while purposive sampling enabled the inclusion of knowledgeable employees.

The sample size was determined using Slovin's Formula at a 95% confidence level and a 5% margin of error, resulting in a target sample of 67 respondents. Of these, 61 questionnaires were successfully returned, producing a 91% response rate, which was considered adequate for reliable statistical analysis.

### 4.4 Data Collection and Analysis

Primary data were collected using structured questionnaires developed from the SERVQUAL dimensions. The questionnaire contained demographic information, statements measuring customer service quality, and items assessing customer retention. Responses were measured using a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5).

The collected data were coded and analysed using the Statistical Package for Social Sciences (SPSS). Descriptive statistics, including frequencies, percentages, means, and standard deviations, were used to summarise the data, while Pearson correlation and multiple regression analysis were employed to determine the relationship between customer service quality and customer retention.

## 5. Data Analysis and Interpretation

### 5.1 Response Rate and Demographic Characteristics

Out of the 67 questionnaires distributed, 61 were completed and returned, giving a 91% response rate, which was considered satisfactory for statistical analysis. The respondents consisted of 30 SACCO employees (49.2%) and 31 SACCO members (50.8%), ensuring balanced representation from both service providers and customers.

The gender distribution was relatively balanced, with 47.8% males and 43.2% females, while 9% did not disclose their gender. Most respondents were aged between 26 and 45 years, representing the economically active population. In terms of education, 37.3% held diplomas and 22.7% possessed university degrees, indicating that respondents were capable of providing informed responses.

### 5.2 Reliability and Customer Retention

The findings showed that reliability is one of the strongest determinants of customer retention. About 62.7% of respondents agreed that SACCO services were delivered accurately, while 63% confirmed that financial records were reliable. In addition, 55.1% believed loan processing was handled efficiently, and 63% stated that reliable service encouraged them to remain members.

These findings indicate that accurate transactions, dependable services, and consistent fulfilment of service promises strengthen customer trust and loyalty. Conversely, service errors and delays may reduce confidence and encourage customers to switch to competing financial institutions.

**5.3 Responsiveness and Customer Retention**

The findings revealed mixed perceptions regarding responsiveness. Although many respondents appreciated employees' willingness to assist, concerns were raised about slow service delivery, long waiting times, and delayed responses to enquiries. Approximately one-third of respondents disagreed that services were consistently delivered within the promised time.

The results suggest that improving response times, simplifying procedures, and adopting modern technologies would enhance customer satisfaction and strengthen customer retention.

**5.4 Assurance and Empathy**

The study established that assurance and empathy positively influence customer retention. A total of 77.7% of respondents agreed that employees possessed adequate knowledge and competence, while 73.1% appreciated their professionalism and respectful behaviour. Furthermore, 59.7% believed employees provided personalised attention and demonstrated genuine concern for customers' needs.

These findings indicate that knowledgeable, professional, and caring employees strengthen customer trust, satisfaction, and long-term loyalty. Continuous staff training and customer care programmes are therefore essential for improving service quality.

**5.5 Tangibility**

The findings regarding tangibility were generally positive. Most respondents (90.7%) appreciated employees' professional appearance, 74.7% were satisfied with the cleanliness and organisation of SACCO offices, and 82% described the service environment as comfortable.

However, 48% expressed dissatisfaction with the adequacy of equipment and technological infrastructure. These findings suggest that although physical facilities create positive customer impressions, SACCOs need to modernise their technologies and service systems to improve operational efficiency, customer satisfaction, and long-term competitiveness.

## 5.6 DISCUSSION OF FINDINGS

The findings of this study confirm that customer service quality significantly influences customer retention among Savings and Credit Cooperative Societies (SACCOs) in Lilongwe District, Malawi. The results indicate that the five dimensions of the SERVQUAL model reliability, responsiveness, assurance, empathy, and tangibility collectively influence customers' perceptions of service quality and their willingness to maintain long-term relationships with their SACCOs. These findings support both the SERVQUAL Model (Parasuraman, Zeithaml, & Berry, 1988) and Expectation Confirmation Theory (Oliver, 1997), which explain that customers become satisfied and loyal when service performance meets or exceeds their expectations.

**Reliability and Customer Retention**

The study found that reliability is one of the strongest determinants of customer retention. Most respondents agreed that their SACCOs provided accurate financial transactions, maintained reliable account records, and consistently fulfilled service promises. These findings suggest that members place considerable value on dependable service because financial transactions require accuracy, consistency, and trust. When SACCOs provide reliable services, customers develop confidence in the institution and are more likely to continue their membership.

These findings are consistent with Kotler and Keller (2022), who argue that reliability is fundamental to customer satisfaction and loyalty because customers prefer organisations that consistently deliver what they promise. Similarly, Zeithaml, Bitner, and Gremler (2021) identify reliability as the most important dimension of service quality since customers judge service providers based on their ability to perform services accurately and consistently.

The findings also agree with Sharma, Singh, and Sharma (2022), who reported that reliable financial services significantly improve customer trust and reduce switching behaviour. Likewise, studies conducted in East African SACCOs have shown that dependable financial services, accurate record management, and efficient loan processing encourage members to maintain long-term relationships with cooperative financial institutions. The findings therefore suggest that improving operational efficiency and ensuring consistency in service delivery are essential strategies for strengthening customer retention in SACCOs.

**Responsiveness and Customer Retention**

The study established that responsiveness has a positive but moderate influence on customer retention. Although respondents appreciated employees' willingness to assist customers, concerns were raised regarding delays in service delivery, prolonged waiting times, and slow processing of transactions. These delays reduced customer satisfaction and affected members' perceptions of overall service quality.

The findings indicate that while SACCO employees demonstrate commitment to serving customers, operational inefficiencies continue to hinder service delivery. In today's competitive financial sector, customers expect prompt responses, quick complaint resolution, and timely access to financial services. Failure to meet these expectations may encourage members to seek alternative financial institutions that provide faster and more convenient services.

These findings support Zeithaml et al. (2021), who argue that responsiveness is a key determinant of customer satisfaction because prompt service demonstrates organisational commitment to customer needs. Similarly, Nguyen and Nguyen (2022) found that responsiveness positively influences customer loyalty by improving customer satisfaction in commercial banks. Studies conducted by Mwangi and Njuguna (2023) also reported that long waiting times negatively affect customer retention within financial institutions.

The findings suggest that SACCOs should improve responsiveness by simplifying internal procedures, strengthening communication with members, reducing waiting times, and investing in technologies that enhance service efficiency.

**Assurance and Customer Retention**

The findings further revealed that assurance contributes significantly to customer retention. Most respondents agreed that SACCO employees possessed adequate knowledge, professional competence, and the ability to provide trustworthy financial services. Employees' professionalism, courtesy, and confidence when dealing with customers strengthened members' trust in their SACCOs.

Financial services involve sensitive transactions that require customers to have confidence in the competence and integrity of employees. Customers are therefore more likely to remain loyal when they believe employees possess sufficient knowledge to provide accurate information and appropriate financial advice.

These findings support Wilson et al. (2021), who argue that assurance reduces customers' perceived risk and strengthens confidence in service providers. Similarly, Kumar and

Reinartz (2022) found that employee competence and professionalism positively influence customer trust and loyalty within financial institutions.

The findings also support Expectation Confirmation Theory, which suggests that customers become satisfied when employees meet or exceed their expectations regarding professionalism and service delivery. Continuous employee training and professional development are therefore essential for strengthening customer confidence and encouraging long-term retention.

**Empathy and Customer Retention**

The study established that empathy is another important determinant of customer retention. Respondents appreciated employees who listened carefully to their concerns, provided personalised attention, and treated customers with respect and courtesy. These behaviours strengthened customer satisfaction and created positive emotional relationships between members and their SACCOs.

The findings demonstrate that customers value organisations that understand their individual financial needs and provide personalised assistance. Employees who demonstrate patience, understanding, and genuine concern encourage customers to maintain long-term relationships with their financial institutions even when alternative service providers are available.

These findings are consistent with Kotler and Keller (2022), who emphasise that personalised customer care strengthens customer loyalty and relationship quality. Similarly, Boateng and Narteh (2022) reported that empathy improves customer satisfaction because customers feel respected and valued when employees provide individual attention.

The SERVQUAL model identifies empathy as an essential component of service quality because positive interpersonal relationships complement technical service performance. SACCOs should therefore continue promoting customer-centred service delivery by encouraging employees to communicate respectfully and understand members' individual needs.

**Tangibility and Customer Retention**

The findings further revealed that tangibility influences customers' perceptions of service quality and retention. Respondents generally expressed satisfaction with the cleanliness of SACCO offices, organised service environments, and employees' professional appearance. These physical characteristics created positive first impressions and reinforced confidence in the institutions.

However, the study also identified weaknesses regarding technological infrastructure and service equipment. Many respondents expressed dissatisfaction with outdated technologies and inadequate equipment, suggesting that these limitations reduce operational efficiency and negatively affect customer experiences. As customers increasingly expect digital financial services, technological improvements have become necessary for maintaining competitiveness.

These findings agree with Zeithaml et al. (2021), who argue that tangible elements influence customers' perceptions because physical facilities reflect organisational professionalism and competence. Similarly, Narteh and Mahmoud (2023) found that investment in technological infrastructure enhances customer satisfaction by improving convenience, service reliability, and operational efficiency.

The findings therefore suggest that SACCOs should invest in modern technologies, digital banking systems, electronic record management, and improved service facilities to enhance customer experiences and strengthen retention.

**Implications of the Findings**

Overall, the findings demonstrate that customer retention is influenced by the combined effect of all five dimensions of customer service quality rather than by a single factor. Reliability emerged as the strongest predictor because members highly value accurate and dependable financial services. Assurance and empathy strengthened customer trust and emotional attachment, responsiveness influenced satisfaction through timely service delivery, while tangibility shaped customers' perceptions of organisational quality.

The findings support the SERVQUAL Model by confirming that improvements in reliability, responsiveness, assurance, empathy, and tangibility contribute to higher customer satisfaction and stronger customer retention. They also support Expectation Confirmation Theory by demonstrating that customers are more likely to remain loyal when service performance meets or exceeds their expectations.

From a practical perspective, the findings suggest that SACCO managers should adopt a comprehensive approach to improving customer service quality. This includes maintaining reliable financial services, investing in employee training, improving responsiveness by reducing waiting times, strengthening personalised customer care, and modernising technological infrastructure. Implementing these strategies will enhance customer satisfaction, strengthen member loyalty, improve organisational competitiveness, and contribute to the long-term sustainability of SACCOs in Malawi.

## 7. RECOMMENDATIONS

Based on the findings, the study recommends the following:

1. Improve Service Reliability: SACCOs should strengthen internal systems to ensure accurate records, timely loan processing, and consistent service delivery.
2. Enhance Staff Responsiveness: Management should provide customer service training and establish performance standards aimed at reducing waiting time.
3. Invest in Employee Development: Regular training should be conducted to improve staff competence, professionalism, and customer relationship skills.
4. Promote Personalized Services: SACCOs should adopt customer relationship management practices that recognize individual member needs.
5. Modernize Infrastructure: Investment in digital banking, automated systems, and modern equipment should be prioritized.
6. Introduce Loyalty Programmes: Financial education sessions, customer appreciation initiatives, and loyalty rewards can improve retention.
7. Strengthen Communication: SACCOs should use digital communication channels to improve interaction with members.

## 8. CONCLUSION

This study examined the effect of customer service quality on customer retention in selected Savings and Credit Cooperative Societies (SACCOs) operating in Lilongwe District, Malawi. Guided by the SERVQUAL Model and Expectation Confirmation Theory, the study assessed how the five dimensions of service quality reliability, responsiveness, assurance, empathy, and tangibility influence customer retention among SACCO members.

The findings revealed that customer service quality significantly affects members' decisions to remain loyal to their SACCOs. Among the five dimensions, reliability emerged as the strongest predictor of customer retention, with members placing high value on accurate transactions, dependable services, and consistent fulfilment of service promises. Assurance and empathy also contributed positively to customer satisfaction and loyalty, as knowledgeable, professional, and caring employees strengthened members' trust and confidence in their SACCOs.

The study further found that responsiveness positively influenced customer retention, although delays in service delivery and prolonged waiting times reduced customer satisfaction. Tangibility also shaped customers' perceptions through clean office environments, professional staff appearance, and comfortable facilities. However, inadequate technological infrastructure and outdated equipment limited service efficiency and negatively affected the overall customer experience.

Overall, the study concludes that customer retention is influenced by the combined effect of all dimensions of customer service quality rather than a single factor. SACCOs that consistently provide reliable, responsive, trustworthy, personalised, and well-managed services are more likely to retain their members and strengthen long-term relationships.

The study therefore concludes that customer service quality is a strategic resource for improving customer retention, organisational performance, and competitiveness within Malawi's financial sector. SACCO managers should prioritise continuous service improvement by investing in employee training, modern technologies, efficient service delivery systems, and customer-centred practices. These initiatives will enhance member satisfaction, strengthen loyalty, improve institutional sustainability, and support the growth of SACCOs while contributing to financial inclusion and socio-economic development in Malawi.

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