KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

INSTITUTE OF DISTANCE LEARNING

THE IMPACT OF CUSTOMER SERVICE ON LOAN PERFORMANCE IN THE MICROFINANCE SECTOR. THE CASE STUDY OF SOME SELECTED MICROFINANCES IN TAKORADI

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A thesis submitted to the department of marketing and cooperate strategy Kwame Nkrumah university of science and technology graduate school of business in partial fulfilment of the requirements for the degree of master of science in marketing.

Graduate School of Business, KNUST

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DECLARATION

Candidate's Declaration

I hereby declare that this submission is my own work towards the Master of science marketing and that, to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of the university except where due acknowledgement has been made in the text.

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(Supervisor)	Signature	Date

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Prof. Ahmed Agyapong	……………………	………………………..
(Head of Department)	Signature	Date

DEDICATION

This research is dedicated to God for his grace and to my supportive wife and family for their concern and efforts throughout my academic work.

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ABSTRACT

The main objective of the study was to analyze the impact of customer service on loan performance in the microfinance sector using selected Microfinance Institutions in Takoradi as case study. This research sought to address the following objectives: to identify the customer service practices in these Microfinance Institutions; to examine the key challenges in the implementation of customer service practices and to determine the relationship between customer service and loan performance. The study adopted a descriptive study approach. Descriptive survey aims predominantly at observing, describing and documenting aspects of a situation as it naturally occurs rather than explaining them. The design provides a more accurate picture of events at a point in time. The study was purely quantitative in nature. The population of the study comprised all the employees of the selected microfinances namely, Coastal Commerce microfinance, First Rate microfinance, Loan line microfinance, Yalex microfinance and Cashpoint microfinance. For this study, fifty (50) employees were sampled out from the entire population. A simple random sampling technique was employed to select the 50 employees out of all the employees. A questionnaire was chosen as the data collection instrument. The Statistical Package for the Social Science (SPSS) was used for data coding, entry and analysis. Good customer service is one of the essential skills needed to be adopted by employees of corporate world in order to retain its customers. Most studies such as Nagar and Rajan, (2005) and Peppers and Rogers, (2004) showed that, satisfaction of customers leads to retention of customers and hence a better organizational performance. In light of data presented, it can be said that customer service has a positive impact loan performance. The study recommends that management of MFIs should ensure that, there is a strong relationship between employees and clients of the MFI to ensure a free flow of information and complaints from the customers to the employees in order for management to find efficient ways of addressing the day-to-day complaints expressed by customers.

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CHAPTER ONE

INTRODUCTION

1.0 Background of the Study

Customer service is a concept for managing a company's interactions with customers, clients, and sales prospects. It involves using technology to organize, automate, and synchronize business processes (Peppers & Roggers 2014). The objectives of customer service are to enhance profitability, income, increase competitiveness and customer satisfaction. To attain customer service, many organizations use a set of tools, technologies, and procedures to support the relationship with the customer to enhance sales. Therefore, customer service is an issue of strategic business and process rather than a technical one (Dowling, 2012). The significance of customer satisfaction cannot be dismissed because happy customers are like free advertising for the company. It is necessary to put the customer at the centre of the business according to its strategies, events and processes. In fact, it is easier and more profitable to sell to present customers than to find new ones. Organizations are setting themselves up with strategies to ensure they remain competitive and also ensuring their employees are more customer-focused and service-oriented (Mohsan et al., 2011).

As Baker (2013) indicates, all businesses have been affected to some degree by evolution which is happening in the global market place. Now, it is not enough for organizations to aim to satisfy the customers but they attempt to do this more efficiently and effectively than their rivals in the competitive market place to attain their goals (Kotler & Armstrong, 2011). The most important goal of an organization is to maintain customer loyalty and focus on customer centric approach in their organizational and marketing strategies (Jain and Singh, 2012). Bowen and Chen (2011) argue that having satisfied customers is not sufficient. This is because customer satisfaction needs to have direct impact to organizational competitiveness.

Over time there has been a gradual move in marketing thoughts and practices, from product centric approach to customer centric approach, and from concentrating on selling as much products as possible to acquiring, keeping, retaining and delighting as many customers as possible. This change in marketing prospective is taking place because of the high competition and the numerous alternatives provided to the customers (Peppers & Roggers 2014). “The globally competitive market place provides today’s customers with choices never before imaginable by previous generations” (Hoots, 2015). Moreover, the customers in the new marketing approach moved toward the top of the pyramid with new terminologies like “customer is the king” and “customer always right” being intensively used by managers in today’s business environment. Hence, the goal of every enterprise, once it strips away all the activities that keep everybody busy every day, is simply to get, keep and grow customers. Whether a business focuses its efforts on product innovation, operational efficiency and low price or customer’s intimacy, that firm must have customers or the enterprise isn’t a business (Peppers & Roggers 2014).

As more and more enterprises realize the importance of becoming customer centric in today’s competitive economy, they embrace customer service management as a core business strategy (Wu, 2018). With such effective use of information and communication technology, organization can offer their customers a variety of products, lower prices and personalized services. While marketing effectively to the individual customers, companies gather information from both internal and external sources and use it to provide a unified view or profile of the customers for target marketing purposes (Karakostas, et al., 2014). This information helps the organization to better understand its customers and tailor the services or products to meet their expectations and deliver high customer values.

Firms are motivated to adopt customer service management strategies for both defensive and offensive reasons. Offensive arguments are associated with a desire to improve profitability by reducing cost and to increase revenues through improved customer satisfaction and loyalty. Defensive arguments apply when a firm's leading competitors have adopted customer service management successfully, and it fears losing consumers and revenue (Buttle, 2014). The fundamental reasons why firms desire to build relationships with consumers are based on economic considerations. Firms generate better results when they manage their consumer base in such a manner as to ensure that they identify, satisfy and retain their most profitable consumers. The rationale for the implementation of customer service management strategies is that it improves business performance by enhancing customer satisfaction and increasing customer retention (Wilmshurst & Mackay, 2012).

Business success is defined by a firm's ability to build and sustain long and profitable cares with its clients. It is a well-established fact that the best customer service can be rendered through the implementation of relevant customer service management strategies (Hoots, 2015). Good customer relations are at the heart of business success. If customer relations are the heart of business success, then customer service management is the valve that pumps a company's life blood. As such, customer service management is best suited to help businesses use people, processes, and technology to gain insight into the behavior and value of customers.

The banking sector in Ghana have experienced a number of banks and other non-banking institutions such as rural banks, savings and loans, micro finance and credit unions failures; with loan default becoming the forerunner to these financial institutions ultimate failures in Ghana (Aballey, 2019). Loan default result from the inability of debtors to repay their loans and their interests within the specified time resulting in adverse effects on the financial condition of the creditor (Agu & Okoli, 2013). Even though one of the major causes of serious banking problems continues to be ineffective credit risk management, the provision of credit remains the primary business of every financial institution in the world. For this reason, credit quality is considered a primary indicator of financial soundness and health of financial institutions.

Default of loans and advances poses serious setbacks not only for borrowers and lenders but also to the entire economy of a country. Studies of banking crises all over the world have shown that poor loans (asset quality) are the key factor of bank failures. Stuart (2005) stressed that the spate of bad loans (non-performing loans) was as high as 35% in Nigerian commercial banks between 1999 and 2019. Umoh (2014) also pointed out that increasing level of non-performing loan rates in banks' books, poor loan processing, undue interference in the loan granting process, inadequate or absences of loan collaterals among other things, are linked with poor and ineffective credit risk management that negatively impact on banks profitability.

Logically, defaulting loans take their name from the fact that they are practically in opposition to the financial situation of the financial institution. By the time they are referred to as "bad loans", there is the fear that the amounts involved and their interest cannot be fully paid by the debtor (Awunyo-Vitor, 2013). According to the Monetary Policy Committee (MPC) of the Bank of Ghana's report on the economy, the Non-Performing Loans (NPL) ratio of the country deteriorated from 16.2 percent in December 2019 to 17.6 percent as at December 2010. (Myjoyonline, 2011). In this regard, a financial loss is encountered instead of a profit, leading to adverse effects on the financial institution. Loan defaults need to be avoided in view of the fact that their effects are multidimensional; thus, they do not only hinder profitability among banks, but they also limit lending to the defaulting organization, individuals and other corporations.

According to Kassim and Rahman (2008), some major reasons or causes of loan default are poor customer service and management skills, non-existence of an efficient and effective loan policy, insufficient loan analysis, documentation errors, much emphasis on profit as against the quality of the loan to be granted, dishonest practices and attitudes, political and economic challenges in terms of depression and instability, unhealthy competition, inconsistent policy and regulation and political and social influences on the management of the banks.

1.1 Problem Statement

Over the years there has been an increase in the number of bank failures in both centralized and decentralized economies (The Economist, 2012). In Africa, failures have been experienced in more than forty countries including Ghana, Kenya, Bukina Farso, Burundi, Cameroon, Congo, South Africa, Uganda, Tanzania etc. (Kimei, 2018). Bank failures affect the customer in terms of relationships and its benefits (Ogema & Smith, 2018). Bank failures can lead to contraction of activity and decline in output in the economy. The effects and impacts sometimes go beyond the firm which has banking relations (Grossman, 2013). The impact of bank failure is larger if the failing bank is considered as "a Too Big to Fail Bank (TBTB), because it could trigger the collapse of the entire banking system or the economy as a whole. Considering the importance of the TBTB, it has been common for governments to intervene and bail out such failing banks (Chijoriga, 2017).

Customer service management is used in many industries and it is a much-discussed topic among researchers. Ramani and Kumar (2008) explain that if a firm succeeds to manage the relationship it has with its customers, they have managed to encourage consumers to provide information and ideas, even when not asked. Even though several researchers argue for the positive effects of customer service management, many firms seem not to succeed in implementing it. One problem is that many companies have failed to use the data gathered from customer service management activities to make successful innovations, and that is a major challenge for firms in different industries.

Ahearne et al. (2017) argue that up to 70% of firms implementing customer service management activities lose, or make no improvements, in performance. Firms implement customer service management to different degrees and there are no strategic guidelines of how to work with the strategy. Therefore, researchers argue that it is of major importance to identify customer service management activities that generate profitability and lead to the competitiveness of the firm (Reinartz et al., 2014).

In fact, most organizations are designed to control customers rather than satisfy customers. Products and procedures are set up for the convenience of the organization rather than that of the customer (Jain & Singh, 2012). A large organization may have as many as three vice presidents responsible for guarding its assets, but no one to take care of customer service and complaints. Organizations usually give customer service very low priority, and accordingly assign it to a low level, if not lowly-paid manager (Domingo, 2010). It must however be noted that, the lifeblood of any business is its customers.

Profit comes from sales minus cost. Sales must be realized first before cost becomes relevant for the firm to remain competitive (Xu et al., 2012). Customers decide sales based on their perception of product and service quality. In short, quality determines profits, and customers alone define and determine what that quality is and should be. In every business organization, an effective implementation of a widespread customer service management ensures positive returns on investment with minimal wastage of valuable resources and cost reduction which then leads to organizational competitiveness. Therefore, there is the need to conduct a thorough study to assess the influence of good customer service on loan performance.

1.2 Research Objectives

The main objective of the study is to analyse the impact of customer service on loan performance in the microfinance sector using selected Microfinances in Takoradi as case study. This research seeks to address the following objectives:

1. To identify the customer service practices in these microfinances.
2. To examine the key challenges in the implementation of customer care service practices.
3. To determine the relationship between customer service and loan performance.

1.3 Research Questions

The study was guided by the following questions.

1. What is the customer service practices among these microfinances?
2. What are the key challenges in the implementation of customer care service practices?
3. What is the relationship between customer service and loan performance?

1.4 Significance of Study

The study is crucial to emerging financial institutions as it will provide answers to the questions pertaining to customer service in Ghana. It is equally significant for top managers of such institutions and other policy makers in the industry to be aware of the effects of customer service management with the view of making strategic decisions and improving loan performance. The research findings are also aimed at providing information for future investigations into this field as well as proposing recommendations that will help reduce its challenges. Finally, the study adds to the existing literature, and is a valuable tool for students, academicians, institutions, corporate managers and individuals who want to learn more about customer service management and loan performance.

1.5 Scope of the Study

Geographically the research was conducted in the Takoradi Metropolis in some selected microfinances companies. The microfinances include: Loan Line Microfinance, Coastal Commerce Microfinance, First Rate Microfinance, Cash Point Microfinance and Yalex Microfinance. The study will cover employees of the microfinances selected. The period of the study will span from 2019 to 2022.

1.6 Limitations of the Study

The research is likely to encounter certain challenges given the limited scope and explanatory nature of the study and they are as follows: respondents consider some information sensitive and inaccessible to the public. Furthermore, an attempt to carry out the study in all microfinances in the whole of the Ghana will not be possible given the limited time available to the researcher. Also, because only few microfinances in the Takoradi Metropolis has been selected for the study, it will be difficult to generalize the results of the study to cover the whole of Ghana.

1.7 Methodology

The study adopts the descriptive research design and was purely quantitative in nature. The population comprised all employees of each of the selected companies, out of which 10 persons were sampled from each of the five (5) selected companies for the study. A simple random sampling technique was employed to select the 50 employees out of all the employees of these microfinances. A questionnaire was chosen as the data collection instrument. Data collected from the respondents was edited and processed using Statistical Package for Social Sciences (SPSS v.21).

1.8 Organisation of the Study

The structure of the study encompasses five chapters. The chapter one includes the introduction, statement of the problem, objectives of the study, research questions, significance of the study, scope of the study, limitations of the study and organisation of the study. The chapter two discusses the review of available literature on the topic. Chapter three introduces the methodology employed in the study to achieve the research objectives. The chapter four contains the data presentation and analysis. Chapter five presents a summary of issues covered in the study as well as the empirical and theoretical conclusion and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter presents a comprehensive review of relevant literature in an attempt to position the study in an appropriate theoretical framework.

2.1. Definition of a Customer

A customer is a person who becomes accustomed to buying from a supplier (Jaakkola et al, 2017). Without a strong track record of contact and repeat purchase, this person is not your customer; he or she is a buyer. A true customer is grown over time. A loyal customer is one who: makes regular purchases, purchases across product and service lines, refers others and demonstrates immunity to the pull of the competition.

2.1.1 Types of Customers

First Time Customers: The sale is not the objective of the marketing process but rather the beginning of a life time customer relationship. It is a rare case when a customer can be sold something only once. The first-time customer is essentially trying out a product or service. If continuing relationship is going to be developed, it has to begin with the first purchase. If the first purchase does not satisfy the customer, there will probably not be a second. From the buying experience, the buyer forms a set of perceptions. If the perceptions meet or exceed expectation, there is a good likelihood that the buyer will repurchase (Chakravorti, 2016).

Repeat Customers: Every interaction should be seen as an opportunity to add value. It is important that constant interaction with repeat customers works to deepen the relationship. The customer in turn responds by giving out more personal information, become increasingly loyal and continues to drive sales and profits upward. These actions enable the repeat customer to view the business not just as a building at a particular address or a phone number, but as a company of human beings with who he has formed a relationship (Bozkurt, 2010).

Client Stage: One of the benefits of the client stage is that the relationship has progressed in trust so that you can now be more proactive with the client. You have proved yourself dependable and accountable. You have now earned his confidence, and he increasingly seeks your input for ideas and services. With this level of contribution, you add more value. As the customer goes out of his way to be served by you, even if doing so means paying more for your services, he ceases to see you as a salesperson; he sees you as an ally and partner. When the relationship moves to this level, there is little a competitor can do to lure your customer away (Lin & Hseih, 2011).

2.1.2 Customer Development Stage

According to Jia and Reich (2013), customer loyalty doesn't just happen. It develops in stages. These stages are;

Stage One: A suspect is anyone who might possibly buy your product or service. We call them suspects because we believe or suspect that they might buy from us. We don't know for sure.

Stage Two: A prospect is someone who has a need for your product or service and is able to buy. Although a prospect has not yet purchased from you, he may have heard about you, read about you, or had someone recommend you to him.

Stage Three: This stage involves disqualified prospects. These are those who don't need, or do not have the ability to buy your products.

Stage Four: At this stage, we are introduced to first time customers. These are customers who have purchased from you one time. This person can be a customer of yours and a customer of your competitor as well.

Stage Five: Repeat customers are people who have purchased from you two or more times.

Stage Six: A client buys everything you have to sell that he can possibly use. This person purchases regularly. You have a strong, ongoing relationship that makes him immune to the pull of the competition.

Stage Seven: Like a client, an advocate encourages others to buy from you. He talks about you and does marketing for you.

2.2. Customer Service

Customer service is an organization's ability to supply their customers' wants and needs. Customer service is the provision of service to customers before, during and after a purchase. It also means serving the customer, and involves all contact with the customer, be it face-to-face, or indirect contact (i.e. dealing with complaint letters) (Lin & Hseih, 2011). According to Jamier (2012), "customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation. Customer service can be expressed in personal and interpersonal skills such as communication skills, listening skills, language, gestures and posture, telephone techniques. According to Firnkorn and Shaheen (2016), it is a series of activities designed to enhance the level of customer satisfaction - that is, the feeling that a product or service has met the customer expectation. Customer service may be provided by a person (e.g., sales and service representative), or by automated means called self-service.

2.2 Developing Good Customer Service Improvement Strategy in an Organization

A firm can improve the quality of its services by developing the service improvement strategy in the organization which requires several steps and measures to trigger improvements in the internal environment. Ladhari (2010) explain some steps for managers through which a company can improve its customer service. Some of the steps Ladhari (2010) research are discussed below.

Listening: Generally, good customer service is defined by the customers and it should be improved according to customer specifications not the company. Listening, understanding and spending wisely on customer's expectations and perceptions can bring improvements in the services of the company as the way customers require and expect. The most common mistake in service improvement that companies do is to spend money in a way that does not improve the services at all. Research shows that company's strengths and weaknesses from service perspective are better explained by those who have experienced it. It is proposed that, in order to improve customer service, companies should install an ongoing research system that provides timely and relevant data (Parasuraman et al., 2010). Also, there is a need to develop customer service information system in the company. The customer service information system basically provides the following information.

- Identify dissatisfied customers and frequent service failure causes.
- Collect customer feedback on continuous basis.
- Create customer forums to get ideas of further improvements.
- Improve internal service quality by focusing on employee issues and concerns.
- Improve customer services by measuring individual employee behaviour to use in trainings, performance evaluations and rewards.
- Analyze the company's service performance compared with competitors to identify strengths and weaknesses.

Reliability: The five dimensions of services; reliability, responsiveness, assurance, empathy, tangibles are used as criteria to judge the quality customer service. These dimensions help service providers to understand customers' expectations regarding customer service offerings. Research reveals that among these five dimensions, reliability is the most important one to judge the quality of the service. When firms fail to deliver their promise, and make frequent mistakes in service delivery, customer loses their confidence on the firm's ability to provide timely and accurate quality service (Parasuraman et al., 2010).

Service Design: Reliability in service delivery as expected by the customers depends on how the various elements in the service system work well together. These elements include people who perform the service, equipments that required performing the particular service and the physical environment in which service is actually performed or delivered. Flaws in any part of this service system affect the quality level. Usually, people who are delivering the services are blamed for poor quality however the real problem lies in the service system design. Service mapping is considered a way to improve the quality of services. Service mapping is the pattern of performances that makes a service system design (Parasuraman et al., 2010).

Service Recovery: When a customer faces a service problem, either the service firm makes things better with the customer or make it worse sometimes. Three things happen when a customer experience any problem; they remain dissatisfied and do not voice their complaint, they complain and become satisfied or become dissatisfied if company does not respond well. Generally, customers are reluctant to complain and company should take the following steps in such situations.

- Encourage customers to voice their complaints and make it easy for them by providing toll free numbers or comment cards.
- Problem resolution system needs to be developed very effectively in the service firms.
- Response quickly to customer complaints because quick response makes a customer feel that company is concerned about his/her interests (Parasuraman et al., 2010).

Surprise Customers: Customers evaluate the service dimension during the delivery process and it is very difficult to go beyond customer's expectations by providing the reliable services only. Therefore, managers must consider the "WOW" factor in their service offerings. To go beyond expectations and delight the customer demands, firms should offer some surprising elements in their service offerings like grace, courtesy, uncommon swiftness, understanding and commitment (Parasuraman et al., 2010).

Fair Play: The customer expectation lies under the concept of fairness. As customers expect from the service providers to treat them fairly, fulfil the promises made and be trustworthy. Mainly customers expect companies to provide quick services (responsiveness), to offer comfortable service facilities and communication channels (Tangibles), to fulfil the commitments (Reliability) to offer personal attention and polite dealing (Empathy) and should provide considerable and competent services (Assurance). It gives the customer a right to evoke the service and charge the compensation if he becomes dissatisfied (Parasuraman et al., 2010).

2.3 Customer Service Strategies

Customer service strategies refer to the processes and actions that make it easier for customers to do business with a company (Kotler, 2000). A good customer service strategy considers its customers' needs and how best to meet them. It always puts the customer first, when creating procedures, conducting daily operations and training new employees (Hitt et al, 2008). A customer service strategy is essential if a business wants to gain a competitive edge in the marketplace by building a large and loyal customer base. If a company is to develop a successful customer strategy, the first step is to accurately identify customer needs. The objective is to enlarge the scope of the advantage, which can only happen at some other firm's expense (Dobni, 2003).

Good customer service strategies enhance employee's performance, hence in the long run the organization's goal is met. Providing a good experience is also important because it affects customer satisfaction and delivers customer loyalty (Pullman & Gross, 2004). Strategy is the direction and scope of an organization over the long term, which achieves advantage for the organization through the configuration of its resources within a challenging environment and is geared towards meeting the needs of the markets as it fulfils stakeholder expectations (Johnson & Scholes, 2002). Strategy creates a fit among company's activities (Porter, 1996).

In the banking sector where profit maximization is key, good customers service strategies ensures the objectives of the organization are effectively achieved. Porter argues that strategy is about competitive position, about an organization differentiating itself in the eyes of the customer, and about adding value through a mix of activities different from those used by competitors. The concept of strategy is therefore built around winning. The hardest thing for competitors to copy is the customer service strategy a company creates (Hunsaker, 2010). Hence each company has to choose a strategy that work best for it. According to Richardson (2010), every company provides customer service regardless of whether it's created consciously. For financial institutions to increase their market share, good customer service strategy has to be in place. Gupta (2012) asserts that customers who experience poor service levels often tell their friends and family members about the bad experience to warn them away.

2.3.1 Implementation of Customer Service Strategies

Customer service has been viewed as a significant issue in the banking industry by Stafford (1994). Since banking services are generally characterized with undifferentiated products, it becomes imperative for financial institutions to strive for improved customer service if they want to distinguish themselves from the competition. Positive relationship between high levels of customer service and improved financial performance has been established by Roth and van der Velde (1991) and, Bennet (1992). Similarly, Bowen and Hedges (1993) documented that improvement in quality of customer service is related to expansion of market share. In the current marketing literature, much attention on the issue of customer service as related to customers' attitudes towards services is focused on the relationship between customer expectations of a service and the perceptions of the quality of provision.

Successful and effective customer service will inure to the benefits of any service organization. For customer service to be effective within the banking sector, Fitzsimmons and Fitzsimmons (2006) believed that it would result in part from personal programs that stress training, standards of performances, career development and rewards. He indicates that service quality is enhanced by the attitude a company takes towards its employees. In this direction, he outlines the following:

Staff Training: People constitute an important dimension on the management of service as both service providers and customer service employees are the most important assets in every service organization keeping the promise that the company makes to its customers hence there is the need to carefully select, train and monitor performance of employees. Staff competencies in terms of skills must be updated in the areas of company knowledge, communication, human relations and leadership skills (Peppers & Roggers 2014).

Individual Development: Using programmed instruction manuals, new management trainees acquire the skills and technical knowledge that are needed for the entry – level position of assistant manager. For a geographically dispersed organization, this manual ensures that job skills are taught in a consistent manner (Agu & Okoli, 2013).

Management Training: Management personnel through the middle levels attend one management development session each year. A variety of professional management topics are addressed in 2 and 3-day seminars that are attended by lower-level managers from various operating divisions (Aballey, 2019).

Human Resource Planning: The kind of people who will be needed to fill key company positions in the coming years must be identified and an inventory of good prospects created for future promotion. A key element of the plan should be a periodic performance review of all management personnel (Wilmshurst & Mackay, 2012).

Standard of Performance: Performance standard must be established and communicated to each staff. The criteria for setting standard include quality, quantity, cost and time (Karakostas, et al., 2014). For example, a set of booklets can be used to instruct employees about how to conduct themselves when dealing with guests and in some cases, even in how to speak, how to make a guest feel welcome and special. The switchboard operator can be taught in detail how to speak with a guest and handle variety of specific situations. Adherence to these standards should be randomly checked (Buttle, 2014).

Career Progression: A job advancement program with a ladder of positions of increasing skills and responsibility gives employees the opportunity to grow with the company (Wu, 2018).

Fair Treatment: Employees must be provided with a handbook of company expectations and obligations to its personnel. Formal grievance procedure must be accessed by an ombudsperson to help resolve difficulties (Hoots, 2015).

Profit Sharing: A profit sharing plan recognizes that employees are responsible for much of the company's success and that they deserve more than just a pay cheque for their efforts. The reward system must be established to ensure that staffs are rewarded based on competence and on merit (Baker, 2013).

Opinion Survey: Trained personnel at each unit can conduct an annual rank and file opinion survey. Subsequently, the results can be discussed at a meeting. This survey can act as an early warning sign to head off the building-up of unfavourable attitudes (Dowling, 2012).

Employee Empowerment: Empowerment means giving employees the desire, skills, tools and authority to serve the customer. It must be noted that sometimes managers manage their employee's using thick policy and procedure manuals that severely limit employee's actions in delivering service (Mohsan et al., 2011)

From the available literature, one sees a clear picture of customer service as a fundamental motivating factor behind the success of most financial institutions. At the same time, it appears those who treated customer service lightly many not reap the full benefits. As Cina (1990) rightly put it; for a smooth implementation of customer care programmes, specific conditions must be set, done and fulfilled.

2.4 Impact of Good Customer Service

Regarding qualitative benefits, Oliver (2010), found that, good customer service is an antecedent to satisfaction, and Cronin and Taylor (2012) discovered that perceived customer service quality brought about satisfaction or vice-versa. In addition, Grönroos (2017) suggested that the mutual exchange and promise fulfilment between customers and service providers was a core construct to obtaining customer satisfaction and loyalty during the process of service delivery.

Further, Dawes and Swailes (2009) contend that, retaining an existing customer cost about five times less in money, time and corporate resources compared with attracting a new customer. Additionally, they indicated that an increase in only five per cent in customer loyalty would grow in profitability about 25 to 85 per cent. In contrast, poor customer service will result in a lot of consequent cost and damage, including low customer satisfaction, relatively high customer defection, loss of business sales opportunities, and a decrease in customer retention and excessive costs due to having to attract new customers and overcome a damaged corporate image according to Sivadas, and Baker-Prewitt (2010). Specifically, about two-thirds of customers generally stop having business with a particular organization because of poor customer service.

2.5 Gaps Between Firms' Perception and Customer Perceptions of Customer Service

Though marketers of tangible goods have defined and measured good customer service with increasing levels of precision, it is difficult to describe good customer service according to the marketers of services. Reason is, services cannot be seen, touched and measured before it is actually delivered to the customer. In most services, good customer service occurs during service delivery, usually when customer and service employee interacts (Lehtinen & Lehtinen, 2012). For this reason, service quality is highly dependent on the performance of employees. Sometimes what employees consider about service quality is somehow different from what consumers expect about quality. So, a gap exists between employee's perceptions and consumer perceptions about good customer service and delivery as stated by Parasuraman et al., (2010).

These gaps are the main hurdles in delivering high performance. A firm should identify and remove these gaps by revaluating its operational standards. Firms may not always understand what consumers expect from them and what levels of performance they need to meet customer service standards. These kind of service flaws and gaps effects consumer perceptions of customer service. Marketing, advertising and other communication channels affect the perception of customers regarding the service firms. Short falls between external communication and actual service delivery in the form of exaggerating promises can affect the customer perception and expectations regarding the quality of service (Gronroos, 2017).

2.6 The Concept of Microfinance

Microfinance according to Rahman et al. (2015), entails the provision of microcredit, insurance, remittances, health, education, skill training and social awareness to the poor who are traditionally excluded by formal financial intermediaries. Lorenzetti et al. (2017), define microfinance as a platform designed to assist poor families, especially females, to enhance their role in productive activities, improve their economic and material well-being, decrease vulnerability to financial shocks, and smooth consumption. Generally, microfinance encompasses the provision of financial services and the management of small amounts of money through a range of products and a system of intermediary functions that are targeted at low-income clients (Rashem and Abdullah, 2018). It includes loans, savings, insurance, transfer services and other financial products and services.

According to Yimga (2016), microcredit is thus one of the critical dimensions of the broad range of financial tools for the poor, and its increasing role in development has emanated from a number of key factors that include:

1. The fact that the poor need access to productive resources, with financial services being a key resource, if they are to be able to improve their conditions of life (Mago, 2019);
2. The realization that the poor have the capacity to use loans effectively for income-generation, to save and re-pay loans (Wassie, Kusakari, Hitoshi & Sumimolo, 2019);

3. The observation that the formal financial sector has provided very little or no services to low-income people, creating a high demand for credit and savings services amongst the poor (Cull et. al., 2018);
4. The view that microfinance is viable and can become sustainable and achieve full cost recovery (Diaz-Serrano & Sackey, 2018);
5. The recognition that microfinance can have significant impact on cross cutting issues such as women's empowerment, reducing the spread of HIV/AIDS and environmental degradation as well as improving social indicators such as education, housing and health (Prathap, Mahesh & Karthik, 2018).

Indeed, empirical studies have shown that microfinance helps very poor households to meet basic needs and protects against risks, and is thus associated with improvements in household economic welfare (Gyamfi, 2012). Gender activists also argue that microfinance helps in empowering women by supporting women's economic participation and so promotes gender equity. Other strands of the literature suggest that micro-finance creates access to productive capital for the poor, which together with human capital, addressed through education and training, and social capital, achieved through local organization building, enables people to move out of poverty (Boateng, et, al. 2015).

By providing material capital to a poor person, their sense of dignity is strengthened and this can help to empower the person to participate in the economy and society (Boateng and Oduro, 2018). The aim of micro-finance according to Lensink et al., (2018) is not just about providing capital to the poor to combat poverty on an individual level, it also has a role at an institutional level. It seeks to create institutions that deliver financial services to the poor, who are continuously ignored by the formal banking sector. Cull et. al., (2018) argue that the poor are generally excluded from the financial services sector of the economy so MFIs have emerged to address this market failure. By addressing this gap in the market in a financially sustainable manner, an MFI can become part of the formal financial system of a country and so can access capital markets to fund their lending portfolios, allowing them to dramatically increase the number of poor people they can reach (Mago, 2019).

2.6.1 Microfinance Industry in Ghana

Microfinance which encapsulates the provision of savings, credit, and other financial products to the poor grew rapidly in Ghana during the 2000s in existing institutions, performing well by international benchmarks for MFIs and raising the percentage of the population that is financially included (GHAMFIN, 2014). While the universal banks have the bulk of the assets of the financial system, microfinance institutions (MFIs) reach more clients (around 8 million) through over 3,000 outlets spread throughout the country (Acquah-Hayford, 2016). Although not all such institutions were directly regulated by the Bank of Ghana (BoG), capacity building, oversight and monitoring support from MFI Associations and donor-supported programs helped ensure stable growth (World Bank, 2015).

During the late 2000s, however, new types of unregulated microfinance service providers proliferated, increasing the number of operators who lacked sufficient capacity, skills, governance, transparency, and accountability to act as responsible financial intermediaries (Acquah-Hayford, 2016). This posed a risk to the sector, with increasing incidents of reported fraud, insolvency, and loss of savings by low-income households (World Bank, 2015). In 2011, BoG initiated measures to bring all types of MFIs under a consistent regulatory framework by issuing Guidelines for MFIs. The spread of microfinance methodologies during the decade of the 2000s helped raise financial inclusion in Ghana (World Bank, 2015). The number of total clients of MFIs grew from 1.3 million in 2001 to 3.5 million in 2006, to 5.5 million in 2010, and finally to around 8 million by the end of 2013 (Acquah-Hayford, 2016).

Microfinance has reached a wide range of market niches in Ghana, from rural smallholders to traders to urban small enterprises, due to the variety of different types of institutions engaged in microfinance (most of them savings-based), including: rural and community banks (RCBs), savings and loans companies (S&Ls), credit unions (CUs), financial non-governmental organizations (FNGOs), and mobile savings collectors (known as susu collectors) (GHAMFIN, 2014).

The current MFI legal framework takes a tiered approach, consistent with emerging international trends. Those already being licensed by BoG are deposit-taking institutions in Tier 1 (Rural and Community Banks [RCBs] and Savings and Loan Companies [S&Ls]) (Acquah-Hayford, 2016). Deposit-taking institutions in Tier 2 include Credit Unions (CUs), which are long-established and supervised by their association (i.e. Ghana Co-Operatives Credit Unions Association), and Microfinance Companies (MFCs), a newly-designated category to accommodate the new forms of businesses engaging in micro-finance services, which are supervised by BoG (World Bank, 2015).

Tier 3 includes Financial Non-Governmental Organizations (FNGOs), which had helped introduce modern microfinance methodologies since the 1990s, and Money Lending Companies, a new designation for those business engaged in lending; both are non-deposit-taking in principle, (although they may take compulsory savings held as security against loans), and supervision by BoG for Tier 3 (especially FNGOs) tends to be lighter than for MFCs (Acquah-Hayford, 2016). Tier 4 is reserved for individuals engaged only in savings (Susu Collectors) or in lending (Money Lenders). Licensing/registration, capital and other requirements are tailored to the different capacities, sizes, and levels of risk across the tiers (GHAMFIN, 2014).

During the latter part of the 2000s, however, the microfinance sector was disrupted by the rapid growth of businesses pursuing profit by mobilizing savings and investment from the public and lending out the funds at relatively high interest rates (typically 8-10 percent per month, more than double the normal rate of microfinance in the abovementioned institutions) (World Bank, 2015). These were registered as companies by the Registrar-General (often with "susu," "microfinance," "capital," or "financial services" in their name), but were not licensed by the Bank of Ghana (BoG) to take savings from the public (few would have had sufficient capital to meet the minimum required to become licensed as S&Ls) (GHAMFIN, 2014).

BoG and the Ghana Microfinance Institutions Network (GHAMFIN) began to receive a growing number of complaints from people who had lost their savings in such companies due to a combination of poor management, lack of capital, non-repayment of loans, and outright fraud (Acquah-Hayford, 2016). This led to GHAMFIN's advocacy for regulation and subsequent BoG issuance of Guidelines for Microfinance Institutions (MFIs) in 2011, which broadly covered all types of microfinance and established the new categories of Microfinance Companies (MFCs) and Money Lenders. Section III discusses the process and challenges of implementing these Guidelines (GHAMFIN, 2014).

MFIs have maintained strong growth of clients, deposits, and, especially, loans. Over the period 2001-13, total clients of MFIs grew at an annual compound rate of 16 percent, while deposits grew at 21 percent and loans at 26 percent in real terms (GHAMFIN, 2015). Growth in all cases (especially clients) was somewhat faster in the first half of the period (2011- 16) than the latter, as the industry matured. Deposits in the entire MFI sector stagnated in 2013 largely because of a substantial drop in deposits in MFCs due to collapses and uncertainties associated with the introduction of licensing (BOG, 2015).

2.7. Concept of Loans

A loan is usually available on a fixed and spot basis and can be secured or unsecured. Loans are offered for specify amounts for specified periods. Mabvure et.al, (2012), describes loans in general as part of or a major component of the total assets of every bank. The lender cannot seek repayment prior to expiry of the period unless there has been some default. In a legal sense, a loan facility is a contractual promise between a lender and a borrower where the lender usually gives consent to the granting of an amount to a borrower, who intend undertakes to resettle same to the lender either in bulk or in instalments within a specified period of time. A loan may be classified as performing or non-performing.

Performing loans: A performing loan facility takes place when the agreement in terms of the payments of the principal and the interest component between the lender and the borrower are honour up to date. A release by the Bank of Ghana (2008), classified loans that has its principal amount together with the interest being resettled by the borrower as current. Again, to the Central Bank, an overdraft could also be classified as current or performing loan if there has been a consistent action on the facility with no indication of a hard-core of liability building up. This classification means that performing loans are loan facilities that have the interest and principal components repaid within the agreed or stipulated time. This category therefore constitutes huge part of the quality asset portfolio of most financial institutions particularly banks in terms of the interest revenue that are generated by such resources.

Non-Performing loans (NPLs): NPLs are loans that are still in force; however, it is uncertain whether the debtors would be able to often honour their loan obligations. To Goldstein and Turner (1996), the build-up of NPLs is usually attributed to many factors such as economic downturn, macroeconomic instability, moral hazard, high interest rate, extreme dependence on overly high-priced inter-bank borrowings and insider borrowing. Bad loans result from the inability of debtors to repay their loans and their interests within the specified time (Aballey, 2019), resulting in adverse effects on the financial condition of the creditor (Agu & Okoli, 2013).

To Alton and Hazen (2001), NPLs are loans which have its ninety days or beyond past due or which have no longer accruing interest from it. This thought was corroborated by Hennie (2013), who also agrees in the form of an argument that NPLs are loans having no revenue generating from it. In the classification of Basu (1998), “bad or defaulting loans” were mostly used interchangeably with non-performing and impaired loans as noted by Fofack (2015). Berger and De Young, (2017) on other hand, added the term problem loan to this tag of loan. These terms are therefore interchangeable used throughout this research work. Very often credit facilitates that have both its principal and interest in arrears for a long period of time as against the stipulated repayment schedule agreed upon by both parties are classified as defaulting loans or NPLs. Thus, any loan facility granted to a borrower that is not current in terms of repayment of its principal and interest as against the agreed repayment schedule is termed as non-performing.

There have been divergent views by researchers in various countries on the descriptions of defaulting loans. Some adopted quantitative criteria such as number of days that the loan scheduled payments were due but to which it was not honoured while others used qualitative norms such as the background information about the clients’ financial status and the management judgment about future payments of the loan. Defaulting loans take their name from the fact that they are practically in opposition to the financial situation of the bank. By the time they are referred to as “defaulting loans”, there is the fear that the amounts involved and their interest cannot be fully paid by the debtor (Awunyo-Vitor, 2013). In this regard, a financial loss is encountered instead of a profit, leading to adverse effects on the bank, the

2.7.1. Classification of Loans

There are various ways of classifying loans. This process of loan classification helps banks to evaluate the loan facilities so as to be able to grant loans to grades based on the observed risk and other relevant features of the loans. The continual evaluation and categorisation of credit facility makes it possible for banks to monitor the quality of their loan facilities and then take corrective action whenever possible to counter decline in the credit quality of their loan portfolios. To Laurin et al (2012), banks should use more complex internal control classification systems to do away with the more standardized systems that the regulators of bank need in order to evaluate and report on the purposes which are intended to facilitate excessive monitoring. Loan advances portfolios of financial institutions are classified into various categories or types to determine the level of provisions to be made in conformity with the banking regulations stated in the Banking Act of 1963, Act 179. Kone (2016), classified the various loans as current, OLEM, substandard, doubtful and loss. The Central Bank of Ghana has also classified the loan facilities as the following:

Current: This type of loan facility take place when the debtor is up to date in honouring the loan obligation in terms of settling both the principal and the interest component as stipulated in the agreement. The indications that an overdraft facility is current would mean that there has been a regular action on the said account with no signs that a hardcore of debt is accumulating (Conroy, 2013).

OLEM: This is a facility that is presently secured by enough security, both as to the principal and the interest component, but its weak potential could create an undeserved credit risk, although not to the level of justifying this category as substandard. This category would include unusual advances due to the nature of the advance, customer or project, advances where there is a lack of financial information or any other advance where there is more than a normal degree of risk (Mohammed & Hassan, 2008).

Substandard: This type of loan advance shows a distinct loan weakness that endangers the insolvency of the debt incurred. It normally includes loans granted to debtors who are having cash flow element that is not enough in meeting the current maturing debt, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs. Substandard loan advances are not secured by the current sound worth and paying capacity of the client. NPLs and receivables which are more or up to ninety days overdue but not up to the 180 days unpaid are also substandard loan. Thus, loan advances become unpaid when the principal or interest component is due and unpaid for 30 days or more (Agu & Okoli, 2013).

Doubtful: This type of loan advances indicates all the weakness features shown in the substandard loan category with other added features that the loan is not well-secured and the limitation making the liquidation in full on the basis of the facts currently existing together with the conditionality, values which could be highly doubtful. Even though the probability of loss is very high, the existence of certain strong indicative factors may work to the advantage and strengthening of the repayment, deferring its estimated loss categorisation until more exact status determined. NPLs and receivables having 180 days or more unpaid period but not up to the 360 days' unpaid period are classified as doubtful loan advance.

Loss: Loss are said to be uncollectible and of such little value that their continuation as recoverable advances is not warranted. However, this does not indicate that there is no recovery value of the loan advance, but the practicability to defer writing off this type of loan even though partial retrieval may be hampered in the future. This type of loan advance includes liquidated or insolvent companies with bad current asset and cash flow. Financial institutions should however not keep this loan advances within their records no matter the long-term effort made in recouping the advances. Losses should be taken in the period in which they surface as uncollectible. The NPLs and the receivables having the 365 days' unpaid period or more are all termed as a loss (Mohammed & Hassan, 2008).

2.8 Loan Processing in Banks

There is an element of risk in any loan granted because the expected repayment may not occur. Lending involves a lender providing a loan in return for a promise of interest and principal repayment in future (Kay Associate Ltd, 2015). Because of this risk of default in loan repayment, lenders need to project into the future and make sound judgment that will ensure that repayment is affected at the agreed date. Available literature places so much importance on the lender's role in ensuring good decisions relating to the granting of loans in order to minimize credit risk. The lender must always aim at assessing the extent of the risk associated with the lending and try to reduce factors that can undermine repayment. The lender should therefore assemble all the relevant information that will assist him/her in arriving at a sound credit decision (Kay Associate Ltd, 2015).

In view of the possibility of non-payment which leads to NPLs, banks have adopted a standard loan request procedures and requirements usually contained in credit policy manual to guide loan officers and customers. Some of the factors that the MFIs consider before granting loans include the following which are often referred to as the canons of good lending:

1. The character of the prospective borrower
2. Amount being requested by the customer
3. Margin (Interest margin, commissions and relevant fees.)
4. The purpose of the loan
5. Ability of the borrower to manage business successfully.
6. Repayment (source of repayment must be credible)
7. Insurance (security provided by the customer)
8. Technical and financial viability of the business (Tomak, 2013).

Individuals and organisations that go for loans from banks usually go through the stages outlined below;

Preliminary Screening: In this stage, loan applicants make contact with the institution and are carefully screened and asked to answer specific questions regarding the status of their business and household accounts, in order to establish whether they qualify under SAT's eligibility guidelines. This is one of the most critical stages in the loan processing procedures since it is the stage where the information about the business and creditworthiness of the customer is analysed (Saleem, 2015).

Loan Proposal and Credit Committee: Loan applicants are assigned to specific loan officers. Applicants undergo a further review to verify the information taken at the initial stage, and a visit to the applicant's businesses and household is arranged. The information thus developed is organized into a formal loan proposal and presented to the credit committee for approval. The loan amount and tenure are determined based on the adequacy of the cash flows generated by the borrower's business, sufficient personal collateral and or guarantors agreeing to co-sign the loan agreement (Badar & Yasmin, 2013).

Monitoring and Repayment: After disbursement, the account officer frequently visits the borrower's business to ensure that the credit facility(loan) are being used for the specific purpose(s) for which the loan was granted, and to remind borrowers of their next repayment date. According to Rouse (2009) this is one area many lenders pay little attention but if it is properly followed, the incidence of NPLs can be reduced considerably. He identified internal records, visits and interviews, audited and management accounts as some of the things that help in the monitoring and control process. Monitoring can help minimize the incidence of NPLs in the following ways:

1. Ensuring the utilization of the loan for the intended purpose
2. Identifying early warning signals of any problem relating to the operations of the business that are likely to affect the performance of the loan
3. Ensuring compliance with the covenants of the loan facility.
4. Affording the lender, the opportunity to discuss the problems and prospects of the borrower's business (Rouse, 2009).

Borrowers who miss repayments are pressured at this stage; if the arrears continue to pile up, legal action is initiated against the borrower and guarantor(s) to recover any amounts owed, but usually after the designated collateral has been seized and offset against the indebtedness (Hou, 2017).

2.9 Reducing Non-Performing Loans

The incidence of NPLs can be reduced by ensuring that loans are granted to only applicants who demonstrate the ability to repay the loan at the agreed date. Credit analysis of the prospective borrower should be carried out to determine their risk profile and to reach a sound credit decision. Again, loan repayment should be constantly monitored and whenever there is a default in repayment a quick action should be taken. The MFIs should also avoid granting loans to the risky customers or for speculative ventures, monitor loan repayments, and renegotiate loans whenever borrowers get into difficulties (Kay Associates Ltd, 2015).

Golden and Walker (2013) also identify the 5Cs of bad credit, which represent things to guard against to help prevent the incidence of NPLs.

1. Complacency refers to the tendency to assume that because things were good in the past they will be good in the future. Common examples are over reliance on guarantors, reported net worth or past loan repayments success because things have always worked out well in the past (Bektas, 2014).
2. Carelessness involves poor underwriting typically evidenced by inadequate loan documentation, lack of current financial information or other pertinent information in the credit files and a lack of protective covenants in the loan agreement. Each of these makes it difficult to monitor a borrower's progress and identify problems before they become unmanageable (Mileris, 2012).
3. Communication ineffectiveness refers to when a Lender's credit objectives and policies are not clearly communicated. This is when loan problems can arise. Management must effectively communicate and enforce loan policies and loan officers should make management aware of specific problems with existing loans as soon as they appear (Petersson and Wadman, 2014).
4. Contingencies refer to lenders' tendency to play down or ignore circumstances in which a loan might result in default. The focus is on trying to make a deal work rather than identifying downside risk (Azeez, 2015).
5. Competition involves following competitor's behaviour rather than maintaining the lender's own credit standards. Doing something because another lender is doing it does not mean it is a prudent business practice (Golden and Walker, 2013).

2.10 Theoretical Review

Resource-Based View Theory: Peter and Barney (2003), pioneers of this theory emphasize that resource of the firm as essential determinants of competitive advantage and its performance. The model assumes that firm's resources are heterogeneous hence a chance for them to achieve competitive advantage. It also assumes that resource heterogeneity may persist over time since resources used to implement firm's strategies are not perfectly mobile across firms. Resource Based View (RBV) assumes that firms can be conceptualized as bundles of resources and capabilities. The resources and capabilities with which firms compete cannot be bought or sold in markets hence they are: valuable, rare, inimitable and non-substitutable. This approach emphasizes an inside-out business strategy, in which a firm using its internal unique resources and capabilities is better able to outperform its rivals (Barney, 2006). Capabilities must be developed rather than being taken as given resources must satisfy the user need. Business processes or activities could utilize for their execution: people characterized by their knowledge, experience, skills and talents; machines, devices and tools characterized by their technical characteristics and constraints; methodologies, tools and models installed in the organization, or various types of tangible assets buildings, real estate, and intangible assets like patents, brand names (Barney, 2006).

Resource based view definitely promotes the organization to encourage competitive advantage, achieve firm excellence, gain organizational advantage, and enhance corporate performance and business sustainability. Interestingly, technical innovation is the innovation with respect to products, manufacturing and facilities (Liao et al, 2008). It pertains to products, services and production process technology. Resource based view theory emphasizes on company's strategic resources; human resources, physical resources and organizations resources. Hence this theory formed the basis of explaining both human resource management strategies and service delivery environment strategies. In this study, this theory was relevant since it helped to illustrate how banks which are part of the service industry can utilize their resources to improve their performance. Banks are competing for the same market share and therefore a bank that utilizes what it has at its disposal strategically can greatly improve their performance.

RBV is appropriate theory that grounds customer service and loan performance. This is because, the firm's internal resources are the employees, and when the employees are satisfied and happy, the firm will be able to meet its external resources needs; in these case customers being the beneficiaries. The firm should invest heavily in their internal customers; because the results will be depicted from the external customers. The firm should train its employees in order to instil more knowledge and skills required to perform a given task. The highly skilled workforce has a greater potential to constitute a source of competitive advantage because of the productive behaviours they exhibit (Wright et al, 1994).

2.11 Review of Empirical Literature

Morrall (1994) found that the implementation of customer service at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented good customer service, their profitability was also noticeably improved. Loans taken by customers were also repaid easily. Studies by Khan and Fasih (2014) and Lewis (1993) indicate that customer service was one of the most effective means of encouraging clients to repay their loans and improve profit performance.

On the contrary, in agreement with Olaleke (2010), Cuffe (2008) also found out that certain Nigerian banks that were not much conscious of customer service strategies and adjudged as using lowest quality operations declared huge annual profits and had good loan performance. Similarly, International Monetary Fund’s report (2009) indicated that bank profits in Sub-Saharan Africa compared to other regions are high. The finding indicates that in such banks quality customer service alone is neither the only determining factor for loan performance nor the determining factor for profitability but other factors which are outside the scope of this study were.

Kingoo (2011), studied the relationship between quality customer service and loan performance of commercial banks in Kenya where he paid keen attention on the microfinance Institutions in Nairobi. This study looked at the wider customer service strategies. The study identified a positive relationship between the two variables. Similarly, Haron (1994) evaluated commercial banks in Malaysia and noted that loan performance was based upon bankers' ability to understand and satisfy customers' needs. As part of the issues examined, the customer base was uniquely diverse in that it was made up of Muslim and non-Muslim customer bases which on its face had the potential to offer inconsistent results.

A study relating to the selection of banks and banking services among corporate customers in South Africa (Turnbull and Gibbs, 1989) sought to determine the attributes that were considered most important in the selection of a commercial bank. Additionally, the study also sought to determine whether customer service was a contributing factor to loan performance. A sample of 388 persons from were surveyed with a 44 per cent response rate. The study revealed a positive relationship between quality customer service and loan repayment. Nielsen's (2002) survey of banks in Australia showed that customers perceived quality customer service as a prerequisite for loan performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter outlines the methodology that was employed for the study. Specifically, this chapter observes the research design, population and sample, sampling techniques, sources of data, data collection instrument as well as the method of data analysis.

3.1 Research Design

A research design is a strategy for managing data collecting in a methodical way. Research design can be thought of as the logic or master plan of a research that throws light on how the study is to be conducted. It shows how all of the major parts of the research study– the samples or groups, measures, treatments or programs, etc.– work together in an attempt to address the research questions. Research design is similar to an architectural outline. The research design can be seen as actualisation of logic in a set of procedures that optimises the validity of data for a given research problem. According to Mouton (1996) the research design serves to "plan, structure and execute" the research to maximise the "validity of the findings". It gives directions from the underlying philosophical assumptions to research design, and data collection. Yin (2003) adds further that “colloquially a research design is an action plan for getting from here to there, where ‘here’ may be defined as the initial set of questions to be answered and ‘there’ is some set of (conclusions) answers”.

A descriptive research design was used in this study. Descriptive research focuses on watching, describing, and documenting characteristics of a situation as they occur naturally rather than trying to explain them. The design gives a more realistic representation of what happened at a certain point in time. According to Creswell (2003), descriptive research involves data measurement, categorization, analysis, comparison, and interpretation. The research is descriptive in nature since it attempts to determine what is happening at a certain point in time. It also entails acquiring data that characterises occurrences, organising, tabulating, depicting, and describing the information gathered. The research was purely entirely quantitative. Closed-ended replies, such as those found on questionnaires or psychological instruments, are common in quantitative investigations.

3.2 Study Population and Sample Size

All the items under consideration in any field of inquiry constitute a population. It can be presumed that in such an inquiry when all the items are covered no element of chance is left and highest accuracy is obtained. Sekeran (2010) reported that population refers to the entire group of people, events or things of interest that the researcher wishes to investigate. A population refers to any collection of specified group of human beings or of non-human entities such as objects, educational institutions, time units, geographical areas, prices of wheat or salaries drawn by individuals. Some statisticians call it universe. A population containing a finite number of individuals, members or units is a class. a population with infinite number of members is known as infinite population. The population of pressures at various points in the atmosphere is an example of infinite population. The population of concrete individuals is called as existent population, while as the collection of all possible ways in which an event can materialize as the hypothetical population. The population of the study comprised all the employees of the selected microfinances namely, Coastal Commerce microfinance, First Rate microfinance, Loan line microfinance, Yalex microfinance and Cashpoint microfinace

Quite often we select only a few items from the population for our study purposes. The items so selected constitute what is technically called a sample. A sample is simply a subset of the population. The concept of sample arises from the inability of the researchers to test all the individuals in a given population. The sample must be representative of the population from which it was drawn and it must have good size to warrant statistical analysis. The main function of the sample is to allow the researchers to conduct the study to individuals from the population so that the results of their study can be used to derive conclusions that will apply to the entire population. It is much like a give-and- take process. The population "gives" the sample, and then it "takes" conclusions from the results obtained from the sample. It is from the study of this sample that something is known and said about the whole population. For this study, fifty (50) employees were sampled out from the entire population. Thus the employees from the five (5) microfinances selected for this study.

3.3 Sampling Techniques

Sampling technique is the process by which relatively small number of individuals or measures of individuals, objects or events is chosen and analyzed to find out something about the entire population from which it was chosen. There are two types of sampling techniques; sampling and non-probability sampling procedures. In probability sampling, the units of the population are not selected at the discretion of the researcher, but by means of certain procedures which ensure that every unit of a population has one fixed probability of being included in the sample. Some of the characteristics of probability sampling are;

1. Each unit in the sample has some known probability of entering the sample.
2. Weights appropriate to the probabilities are used in the analysis of the sample.
3. Its observations are used for the inferential purpose.
4. Inferential or parametric statistics are used.
5. There is risk for drawing conclusions.
6. Its representatives refer to characteristics.
7. Its comprehensiveness refers to size and area.

In non-probability sampling the units are selected at the discretion of the researcher. Such samples use human judgement in selecting units and have no theoretical basis for estimating population characteristics. Some of the characteristics of non-probability sampling are;

1. There is no idea of population.
2. There is no probability of selecting any individual.
3. It has free distribution.

4. The observations are not used for generalization purpose.

5. non-parametric and non-inferential statistics are used.

6. There is no risk for drawing conclusions.

A simple random sampling technique was employed to select the 50 employees out of all the employees. This technique was used because it ensured that everyone in the population had an equal chance of being selected. The goal of the sampling method was to obtain a sample that is a representative of the population. The technique that was used by the researcher to select the sample size required prior knowledge of the target population which allowed a determination of the size of the sample needed to achieve a reasonable estimate with accepted precision and accuracy of the population.

3.4 Sources of Data

Donald (2006) notes that there are two major sources of data used by researchers; Primary and Secondary data. The study mainly on primary data.

Primary Sources of Data: The source of primary data was influenced by the size of the population, and subject under review. The researcher found it necessary to use a structured questionnaire. This ensured that respondents shared information about intimate and relevant matters concerning the subject under review. For the purpose of this study, primary data comprised of responses obtained through questionnaires administered to target respondents under study. Several advantages are associated with this method and they include:

1. Access to direct data or response from selected respondents
2. Unbiased information
3. Original data

3.5 Data Collection Instrument

Questionnaires were used as the tool for data collection. Amedahe (2012), defines a questionnaire as consisting of a list of questions or statements relating to the aims of the study and the research questions to be verified and answered to which the respondents are required to answer by writing, ticking, marking or circling the response necessary. Emphasis was placed on the fact that the findings were primarily for academic purposes. The questionnaires were given to the respondents and picked up three days later. This gave the respondents enough time to respond to the questions posed in the questionnaire. Close-ended questions were used in the questionnaire, which was separated into many sections to capture the study's objectives.

3.6 Data Analysis

Data obtained from the study was quantitatively analyzed using frequencies distribution tables. The responses were grouped according to their various categories. In this study, the data that was gathered from the field of study was edited to ensure that the questionnaire had been properly completed and contained accurate information. The data was coded and entered on the computer. In order to meet the research goals, quantitative methods of data analysis were used. Analyses were conducted using SPSS version 21 (Statistical Product and Service Solutions). Regression and correlation analysis were utilised in the study to examine the variables. Representations such as pie charts and bar graphs were employed to make the data easier to understand. In addition to percentages, responses were also given.

CHAPTER FOUR

FINDINGS AND ANALYSIS OF DATA

4.0 Introduction

This chapter looks at the presentation of data collected from the field. It gives information on the responses obtained from the various questions posed to the respondents via the questionnaires.

4.1 Demographic Data of Respondents

4.1.1 Age of Respondents

Out of the total respondents, 42% representing the majority were between the ages of 26-32 years, whiles 32% were between 33-39 years. However, 14% representing 7 persons were above 40 years whiles the minority representing 12% were between 18-25 years of age. Thus, majority of the respondents were between the ages of 26-32 years. Table 1 shows the age distribution of the respondents.

Table 1: Age of Respondents

Response	Frequency	Percentage
18 – 25 years	6	12%
26 – 32 years	21	42%
33 – 39 years	16	32%
40 years and above	7	14%
Total	**50**	**100%**

Source: Field survey, 2023

4.1.2. Gender of Respondents

The table provides the gender information which shows that 60% of the respondents were males whiles 40% of them were females. The survey shows that the majority of the respondents were males. Thus, there are more male employees than there are female employees.

Table 2: Gender of Respondents

Response	Frequency	Percentage
Female	20	40%
Male	30	60%
Total	**50**	**100%**

Source: Field survey, 2023

4.1.3 Number of Years at Microfinance

When asked how long they (the respondents) have been working with the microfinance company, majority (56%) said they had worked there for 0-3 years whiles 30% had been there for a period of 3-7 years. Also, 8% had been with the microfinance company for 8-10 years whilst 6% representing the minority said they had worked there for 10 years and above. In summary, majority of the respondents have been with their microfinance companies for 0-3 years. Table 3 reveals the findings.

Table 3: Number of Years at Microfinance

Response	Frequency	Percentage
0 – 3 years	28	56%
4 – 7 years	15	30%
8 – 10 years	4	8%
Above 10 years	3	6%
Total	**50**	**100%**

Source: Field survey, 2023

4.1.4 Management Member

The question posed sought to know whether the respondents are management members at their microfinance companies. The survey saw 58% representing the majority say no, they are not management members while a minority of 42% said yes, they are management members of the company. Thus, most of the respondents to this survey were not management members.

Table 4: Management Member

Response	Frequency	Percentage
Yes	21	42%
No	29	58%
Total	**50**	**100%**

Source: Field survey, 2023

4.1.5 Educational Qualification

Here, the respondents were asked the educational qualification they have. The study saw majority of the respondents representing 76% said they are bachelor/diploma holders while 16% said they are master degree holders. Also, a minority of 8% said others, i.e. SHS graduates, HND, etc. Thus, most of the respondents to this study were bachelor or diploma holders.

Table 5: Educational Qualification

Response	Frequency	Percentage
Bachelors/Diploma	38	76%
Master Degree	8	16%
Others	4	8%
Total	**50**	**100%**

Source: Field survey, 2023

4.2. Customer Service Practices Put in Place

The question posed sought to know whether the MFIs collects data about their clients. The survey saw 34% representing the majority who said collection of data about clients is often done whiles 26% said clients' data collection is done always. However, 12% said clients' data collection is rarely done whiles the minority (8%) said it is done sometimes. Thus, most of the respondents believe clients data collection is often done. Moving on, the question sought to know the frequency of clients' data updates at the company. The study saw majority (46%) who said clients' data update is done always whiles 36% said the updates are rarely done at the company. Also, a minority of 18% said update of client's data is often done. Thus, most of the respondents said the data of the clients is always updated.

When asked the frequency of disseminating clients' information to appropriate officers, majority (62%) said always whiles 22% said sometimes. Also, 16% representing the minority said it is often done. Thus, majority of the respondents asserted that information of clients are disseminated to appropriate officers always. The MFIs were asked how often they visit their clients. The study saw the majority (42%) who said they often times visit their clients while 3% said they always visit their clients. Also, the minority (22%) said they rarely visit their clients. Thus, most of the respondents said they often visit their clients.

Table 6: Customer Service Practices Put in Place

Question	Response	Frequency	Percentage
Collection of data about clients (KYC)	Always	13	26%
	Often	17	34%
	Sometimes	4	8%
	Rarely	6	12%
Update of client data (KYC)	Always	23	46%
	Often	9	18%
	Rarely	18	36%
Dissemination of client information to appropriate officers	Always	31	62%
	Often	8	16%
	Sometimes	11	22%
Times of visit to clients	Always	18	36%
	Often	21	42%
	Rarely	11	22%
Times of call about clients' business performance	Always	27	54%
	Sometimes	23	46%
Customer complaints are handled swiftly and effectively	Disagree	4	8%
	Neutral	26	52%
	Agree	20	40%
Well trained employees to provide the right services the very first time to customers	Neutral	29	58%
	Agree	21	42%
Convenience through loan assessment process	Disagree	17	34%
	Agree	33	66%
Factoring customer needs in loan product design	Disagree	11	22%
	Neutral	17	34%
	Agree	22	44%
Well communicated product features to clients to inform purchase	Disagree	3	6%
	Agree	26	52%
	Strongly agree	21	42%

Source: Field Survey, 2023

Another question posed to the respondents sought to know how frequent the MFIs call their clients about their business performances. Majority (54%) said they always call clients about their business performance whiles the minority (46%) said they sometimes do that. Thus, most of the respondents asserted that they always call clients about their business performances. In addition, the respondents were asked how swiftly and effectively they handled customer complaints. Most of the respondents representing 52% remained neutral to that assertion, 40% agreed whiles a minority of 8% disagreed that assertion. Thus, most of the respondents remained neutral to that assertion.

Furthermore, the question sought to know whether employees are well trained to provide the right services the very first time to customers. The study saw 58% of the respondents representing the majority remain neutral to that assertion whiles a minority of 42% agreed to that assertion. Thus, most of the respondents neither agreed nor disagreed to the company being able to train employees well to provide the right services to customers visiting the company for the very first time. Also, the question posed sought to know whether there is convenience through loan assessment process at the company. The study saw, 66% representing the majority agree to that assertion whiles the minority (34%) said they disagree.

Moving on, the respondents were asked whether the needs of customers are factored in loan product designs. The survey saw 44% representing the majority agreed whiles 34% remained neutral. However, the minority (22%) said they disagree. Therefore, it was seen that most of the respondents to this survey agree that the needs of customers are factored in the company's loan product designs. Lastly, the question posed sought to know whether the company's product features are well communicated to clients to inform their purchase decisions. The study saw 52% representing the majority agreeing to the posed question whiles 42% strongly agreed too. However, 6% representing the minority disagreed to the assertion. Thus, most of the respondents to this study agreed to the assertion that product features are well communicated to clients to inform their purchase decisions.

4.3. Customer Service Challenges

In Table 7 below, the customer service challenges at the microfinance companies was discussed by the respondents. The study saw that inadequate employee training and development programs had a mean and standard deviation of 3.52 and 1.234 respectively whiles employee resistance had a mean and standard deviation of 3.25 and 1.129 respectively. Also, lack of management support from the microfinance company had a mean and standard deviation of 3.11 and 1.134 respectively whiles lack of resources had a mean and standard deviation of 2.91 and 1.048 respectively.

Table 7: Customer Service Challenges

Response	Mean	SD
Lack of management support	3.11	1.134
Lack of resources	2.91	1.048
Employee resistance	3.25	1.129
Inadequate employee training and development programs	3.52	1.234

Source: Field Survey, 2023

4.4 Relationship Between Customer Service and Loan Performance

4.4.1 Regression Analysis between Customer Service and Loan Performance

The regression analysis provides information on the relationship that exist between customer service and loan performance. Analysis on customer service is presented in the tables below. Table 8 presents the model summary of the variables involved in this study. The R value of 0.541 shows the regression coefficient of customer service and loan performance. The regression coefficient shows a high relation between customer service and loan performance. The R^2 value of 0.339 showed the coefficient of determination between customer service as well as loan performance. The coefficient of determination showed that 53.9% variation in loan performance is caused by customer service.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.541[a]	.539	.413	5.50219

a. Predictors: (Constant), customer service, loan performance

Table 9 represents the analysis of variance. From the table, the sig. figure of 0.000 indicate that customer service is significant to loan performance.

Table 9: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	2192.035	3	1644.014	31.736	.000[b]
	Residual	4435.576	63	49.134		
	Total	6627.611	66			

a. Dependent Variable: Loan performance
b. Predictors: (Constant), Customer service

Table 10 represents the effect (B), relationship (Beta) and significance (Sig.) of customer service and loan performance. The B value of 0.394 showed that customer service has a positive effect on loan performance. This means that an effective customer service will influence loan performance. The significant value of 0.000 showed that customer service is significant to loan performance.

Table 10: Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	12.291	4.252		2.771	.006
Customer service	.394	.093	.663	3.524	.137

a. Dependent Variable: Loan performance Sig. <0.05

4.5 Discussion of Findings

The first objective sought to identify the customer service practices in the Microfinance Institutions. The study identified the visitation of clients, swift and effective handling of customer complaints, calling clients about the performance of their business, the collection of data about clients and clients' data update as the customer service practices in the Microfinance Institutions respectively. Similarly, Haron (1994) evaluated commercial banks in Malaysia and noted that loan performance was based upon bankers' ability to understand and satisfy customers' needs. As part of the issues examined, the customer base was uniquely diverse in that it was made up of Muslim and non-Muslim customer bases which on its face had the potential to offer inconsistent results.

The second objective sought to examine the key challenges in the implementation of customer service practices. The study identified inadequate employee training and development programs, employee resistance, lack of management support from the microfinance company and lack of resources as the key challenges in the implementation of customer service practices respectively. Similarly, a study by Turnbull and Gibbs (1989) relating to the selection of banks and banking services among corporate customers in South Africa sought to determine the attributes that were considered most important in the selection of a commercial bank. Additionally, the study also sought to identify challenges in implementation of customer service practices. A sample of 388 persons from were surveyed with a 44 per cent response rate. The study revealed a positive relationship between quality customer service and loan repayment. It however identified lack of employee training and lack of resources as the key challenges in the implementation of customer service practices respectively.

The third objective sought to determine the relationship between customer service and loan performance. The study identified a positive relationship between customer service and loan performance. Similarly, Morrall (1994) found that the implementation of good customer service at First Chicago Bank, Compass Bank, Marquette Bancshares, Inc., and Wachovia Bank gave them a substantial advantage over their competitors. Once banks implemented good customer service, their profitability was also noticeably improved. Loans taken by customers were also repaid easily. Studies by Khan and Fasih (2014) and Lewis (1993) indicate that customer service was one of the most effective means of encouraging clients to repay their loans and improve profit performance. Also, Kingoo (2011), studied the relationship between quality customer service and loan performance of commercial banks in Kenya where he paid keen attention on the microfinance Institutions in Nairobi.

This study looked at the wider customer service strategies. The study identified a positive relationship between the two variables.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.0. Introduction

After carefully analysing the data in the previous chapter, the summary of the study, its conclusion and recommendations are made in this chapter.

5.1. Summary

The main objective of the study was to analyze the impact of customer service on loan performance in the microfinance sector using selected Microfinance Institutions in Takoradi as case study. This research sought to address the following objectives:

1. To identify the customer service practices in these Microfinance Institutions.
2. To examine the key challenges in the implementation of customer service practices.
3. To determine the relationship between customer service and loan performance.

The study adopted a descriptive study approach. Descriptive survey aims predominantly at observing, describing and documenting aspects of a situation as it naturally occurs rather than explaining them. The design provides a more accurate picture of events at a point in time. The study was purely quantitative in nature. The population of the study comprised all the employees of the selected microfinances namely, Coastal Commerce microfinance, First Rate microfinance, Loan line microfinance, Yalex microfinance and Cashpoint microfinance. For this study, fifty (50) employees were sampled out from the entire population. A simple random sampling technique was employed to select the 50 employees out of all the employees. A questionnaire was chosen as the data collection instrument. The Statistical Package for the Social Science (SPSS) was used for data coding, entry and analysis.

The first objective sought to identify the customer service practices in these Microfinance Institutions.

The study identified the visitation of clients, swift and effective handling of customer complaints, calling clients about the performance of their business, the collection of data about clients and clients' data update as the customer service practices in these Microfinance Institutions respectively. The second objective sought to examine the key challenges in the implementation of customer service practices. The study identified inadequate employee training and development programs, employee resistance, lack of management support from the microfinance company and lack of resources as the key challenges in the implementation of customer service practices respectively. The third objective sought to determine the relationship between customer service and loan performance. The study identified a positive relationship between customer service and loan performance.

5.2. Conclusions

Good customer service is one of the essential skills needed to be adopted by employees of corporate world in order to retain its customers. Most studies such as Nagar and Rajan, (2005) and Peppers and Rogers, (2004) showed that, satisfaction of customers leads to retention of customers and hence a better organizational performance. In light of data presented, it can be said that good customer service has a positive impact loan performance.

5.3. Recommendations

1. Firstly, the study recommends that management of MFIs should ensure that, there is a strong relationship between employees and clients of the MFI to ensure a free flow of information and complaints from the customers to the employees in order for management to find efficient ways of addressing the day-to-day complaints expressed by customers.
2. Communication channels between employees and clients must be consciously developed.
3. Finally, it is essential to reward employees who demonstrate excellent customer service by publicizing the name of the individual or team in the airlines "wall of fame". This would motivate all staff to do likewise.

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KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY

THE IMPACT OF CUSTOMER SERVICE ON LOAN PERFORMANCE IN THE MICROFINANCE SECTOR. THE CASE OF SOME SELECTED MICROFINANCES IN TAKORADI

This questionnaire has been designed to solicit information for purely academic purposes. This is to enable the researcher, a final year student of the above-mentioned institution to complete his research on the topic; the impact of customer service on loan performance in the microfinance sector using some selected microfinances in Takoradi as case study.

NB: All information given would be treated with utmost confidentiality.

Section A: Personal Data (kindly tick your appropriate answer)

i. Age
[ ] 18-25 [ ] 26-32 [ ] 33-39 [ ] 40 and above

ii. Gender
[ ] Female [ ] Male

iii. For how long have you been with Loan Line Microfinance Limited?
[ ] 0-3yrs [ ] 4-7yrs [ ] 8-10yrs [ ] Above 10yrs

iv. Are you a management member?
[ ] Yes [ ] No

v. What is your education qualification?
[ ] Bachelors/Diploma [ ] Master Degree [ ] Others……………………

Section B: Customer Service Practices in Place at your microfinance

Please indicate (by ticking) the frequency the company collects data about client

No	**Statements**	**Always**	**Often**	**Sometimes**	**Rarely**	**Never**
1	The company collect data about clients (KYC)					
2	Update of client data (KYC)					
3	Company disseminates client information to appropriate officers					
4	How frequent do you visit clients					
5	How frequent do you call clients about their business performance					

Please indicate (by ticking) to what extent you agree or disagree with the following statements

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
6	Customer complaints are handled swiftly and effectively					
7	Employees are well trained to provide the right services the very first time to customers					
8	Customers find it convenient through our loan assessment process.					
9	13. customer needs are factored in loan product design					
10	Our product features are well communicated to clients to inform their purchase decision					

Customer Service Challenges

Please indicate (by ticking) to what extent you agree or disagree with the following statements

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
11	Lack of management support					
12	Lack of resources					
13	Employee resistance					
14	Inadequate employee training and development programs					

Section C: Loan Performance

Please indicate (by ticking) to what extent you agree or disagree with the following statements

No	Statements	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
15	Collateralized loans perform well in this institution					
16	Most of the time non collateralized loans are defaulted					
17	Loan performance falls because borrowers they don't understand credit terms well					
18	Poorly negotiated credit terms lead to poor loan performance					
19	Loan supervision is relevant for good loan performance					

20	Institutions with high supervision faces little non-performing loan					

THANK YOU