

## Factors considered by rural customers while adopting new microfinance banking services: A Case Study of Upper Sindh

**Author's Details :** <sup>(1)</sup>Muhammad Ismail Soomro (Assistant Professor) Department of Business Administration, Shah Abdul Latif University Khairpur <sup>(2)</sup>Turab Ali Shah (Student of M.S / M. Phil) Department of Business Administration, Shah Abdul Latif University Khairpur <sup>(3)</sup>Syed Hassan Abbas (Student of M.S / M. Phil) Department of Business Administration, Shah Abdul Latif University Khairpur

### Abstract:

*The study was conducted to analyze the factors considered by rural customers while adopting new microfinance banking services by using a questionnaire. We conducted survey for collecting responses of rural customers that which factors they consider more in adopting new services of microfinance banks. We concluded results by applying multiple linear regression technique through SPSS 16. Research was based on quantitative data. Study concluded that selected factors have 14% significance when rural customers adopt new microfinance banking services.*

### Introduction:

In this era every one wants to adopt new things the reason for this may be that people want change. For the sake of providing better value to their customers companies keep making changes in their product and services. They use different ways to know about what customers need and how to provide them greater value from new products and services. The feedback from customers is the most effective way to bring new products to the market or make changes to the existing products. Companies always want to know about the factors considered by their customers in adopting the new products. Once evaluated properly these factors become basis for segmentation, targeting & positioning.

Banking sector plays a very important role in the economy of any country. In under developed countries majority of population don't use banking for financial needs due to variety of reasons. To improve the access of people to the banking services the governments & banking regulators have put in place several initiatives. One of the most effective of those initiatives worldwide has been the "Microfinance".

Consultative Group to Assist the Poor define microfinance as "financial services for poor and low-income clients offered by different types of service providers". Kiva.Org describes microfinance as "financial services to low-income individuals or to those who do not have access to typical banking services". DevelopAfrica.Org explains microfinance as "term for the practice of providing financial services, such as micro-credit, micro-saving or micro-insurance to poor or disadvantaged individuals. The ultimate goal of microfinance is to give low income people an

opportunity to become self-sufficient by providing a means of saving money, borrowing money and insurance (Investopedia.Com).

In Pakistan schedule banks don't have extensive branch network in rural areas, because of higher branch establishment & maintenance cost, low volume of deposits and unavailability of products that suit rural customers. To bring the un-banked segment of the society into the formal banking sector there was need for some specialized banks and banking services.

Government of Pakistan and State Bank of Pakistan took initiatives to provide the microfinance banking services to the un-banked population in the year 2000 through microfinance banks. They introduced microfinance institutions ordinance, provided prudential regulations, tax exemptions and so forth. Now after almost the period of 14 years there are many microfinance banks in the country, with extensive branch network, strong customer base, and operating on sustainable basis. Most of these banks are privately owned, few of them even have foreign capital, which shows the investors trust in the microfinance sector of the country. Potential microfinance market in the country has been measured around 27.4 million. Majority of that potential exists in rural areas. At the moment only 10% of the market potential has been tapped by the microfinance institutions across the country operating through 2,157 branches/offices. Microfinance banks offering new services with each day going forward to keep themselves as first priority of the customer. It is has been very challenging to know that what factors a rural customer considers while adopting new microfinance banking services. In our study we have made an effort to analyze the factors that rural customers consider, while going to adopt new services from microfinance banks. Our study

is limited to the geographic area of upper Sindh province consists of 10 districts; Dadu, Ghotki, Jacobabad, Kandhkot-Kashmore, Khairpur, Larkana, Noshehroferoz, Qambar-Shahdadkot, Shikarpur and Sukkur and the microfinance banks working in these districts. We developed a questionnaire to know that what services people have adopted from the microfinance banks in these areas, how long they have been in relationship with these microfinance banks and then trace out the factors which customers considered, while adopted the microfinance banking services. Then after data collection we listed down the factors and will again asked the respondents that which factors are the most important and which were the least important to make the analysis.

### **Literature Review:**

Personal traits & attributes have affect on adoption of new products. The consumer innovativeness pursues greater benefit rather than cost. This means that while evaluating adoption of new products people with high innovativeness consider cost as less significant in comparison to the benefit they are looking for. But significant of cost consideration increases when people get closer to the new product adoption decision but it has no affect on the benefit consideration (Wang, Dacko, & Gad, 2008).

It has been concluded that new products/brands get exposed quickly to the price changes to its competitive products/brands. Customers who look to buy new products have been found more price-sensitive than those who buy older well established products. In companies' perspective, advertising expense through sales territories produce better results for new product adoption than a national advertising campaign (wagher & Taudes, 1991).

There are two kinds of customers; one who focus on promotion and other who are prevention focused. Prevention oriented customers buy old products due to their reliability. Promotion oriented customers buy new products due to the advancement. Customer self-regulation does not affect new product purchase when the product is being introduced as “not new product”. Self-regulation does affect the new product purchase when product is being promoted as a “new product”. When the risk associated with the adoption of new product is not specified to the customers, promotion oriented customers will show strong purchase intentions than the prevention oriented customers. But when the

customer judgment comes into the context, it makes the risk factor very significant and both types of customers are unlikely to adopt the new product (Herzenstein, Posavac, & Brakus, 2005).

New product adoption is significantly affected by the customer consumption attitudes. Psychographic & Demographic features can be effective discriminating factors for new product adoption. New product adoption has positive relationship with income, education, independent decision making and preference for new technology. While it has negative relationship with age and sticky attitude towards existing products (Wang, Dou, & Nan, 2008).

Customer creativity is one of the most critical factors for the success of new technological product adoption. Because of complexity of the modern day technological products and the environment around the customer such as competitors, customer and technical support providers, local distributors and other customers and technologies can negatively affect the new product adoption (Tanev, Marianne, & Frederiksen, 2014).

In the uncertain environments continuous customer learning and customer commitment are very important factors. In case of product failure the customer commitment help companies counter the negative propaganda. To make the new product adoption work in uncertain environment and reduce the perceived risk associated, market orientation, extensive communication, customer education, engagement and preparation for new product launch are necessary (Eng & Quaia, 2009).

We examined the adoption of microfinance programs through social networks. It was concluded that people who have adopted the microfinance programs are more likely to inform their acquaintances than those who have not adopted the microfinance services. Passing the information does not mean that the receiver of the information will adopt the microfinance services (Banerjee, Chandrasekhar, Dulfo, & Jackson, 2012).

We have identified that demand for banking and financial services and the difficulties faced by customers in availing such services through existing means are the drivers and inhibitors for adoption of mobile financial services among the rural under-banked. At the same time financial cost, lack of trust on technology due to security issues and lower degree of technology readiness are the barriers in adoption of the mobile banking services. To remove or reduce the impact of barriers; the mobile

financial services should be according the needs of the rural under-banked and increased awareness campaign should be run (Dass & Pal, 2011).

In developing countries the way mobile banking is lowering the cost of moving money around & bringing users into contact with formal financial system has proved a significant innovation. It offers funds transfer, virtual wallet, credit, remittances to family, and loans to friends, payments to institutions and so on. Therefore the role of a mobile phone in the developing world is to mediate both social and economic transactions (Donner & Tellez, 2008).

Adoption and the use of mobile phone as tool for effective microfinance and service delivery for people of Sub-Saharan Africa has become game changer. Adoption of the mobile phone is improving development, information sharing and delivery of microfinance banking services (Etim A. S.).

**Technique Used:**

Multiple linear regression technique is used to process the questionnaire response through **SPSS 16** software.

**Model:**

$$AMB = \alpha + \beta_1CS + \beta_2INS + \beta_3LOC + \beta_4COOP + \beta_5OS + \beta_6OSR + \mu$$

**List of variables used in model:**

**AMB** = Adopted new microfinance banking services

**CS** = Customers satisfaction

**INS** = Insurance

**LOC** = Location

**COOP** = Cooperative staff

**OS** = Offered services

**OSR** = Offered services for rural clients

**Sample statistics:**

No of questionnaires survey = 150	
Male	Female
109	41
Age 18 to 25	31

<b>Age 26 to 50</b>	<b>75</b>
<b>Age 50 to 65</b>	<b>44</b>
<b>Education</b>	
<b>Illiterate</b>	<b>54</b>
<b>Literate</b>	<b>96</b>

**Results**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.375	.140	.104	.458

**Coefficients**

Model	Un standardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
AMB	.443	.266		1.663	.099
CS	.174	.048	.359	3.642	.000
INS	-.125	.151	-.080	-.822	.412
LOC	.134	.116	.092	1.151	.252
COOP	.073	.078	.080	.937	.350
OS	.077	.078	.085	.992	.323
OSR	-.043	.077	-.052	-.562	.575

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**Discussion:**

Results of SPSS shows that selected factors considered 14% by rural customers while adopting new microfinance banking services, variable CS has been created by reducing the data from AMB4 to AMB10 using factor regression, the impact of customer satisfaction (CS) on adopting new microfinance banking services was found positive  $\beta = .359$  and significant = .000, the impact of Insurance (INS) on adopting new microfinance banking services was found negative  $\beta = -.080$  and insignificant = .412, the impact of bank location (LOC) on adopting new microfinance banking services was found positive  $\beta = .092$  and significant = .252, the impact of Cooperative staff (COOP) on adopting new microfinance banking services was found positive  $\beta = .080$  and significant = .350, the impact of offered services (OS) on adopting new microfinance banking services was found positive  $\beta = .085$  and significant = .323, the impact of offered services for rural clients (OSR) on adopting new microfinance banking services was found negative  $\beta = -.562$  and insignificant = .575.

**Suggestions for further research:**

Our research work is based on some selective factors of microfinance banking which rural customers consider when they adopt new services of microfinance banks. There is need for further research to analyze the other factors which customers may consider when they adopt microfinance banking services. In the same way there is need for research to analyze the factors urban customers considers when they adopt the microfinance banking services.

**Conclusion:**

Our research concluded that selected factors are considered 14% by rural customers while adopting microfinance banking services in upper Sindh. We have made seven (7) variables from which five (5) variables having positive impact on adopting new microfinance banking services including adoption of new microfinance banking services, customer satisfaction, branch location, bank staff cooperation and offered services. While two (2) variables having negative impact including loan insurance and offered services for rural clients. At the end we concluded that our selected factors have 14%

consideration in the eyes of rural customers while adopting new microfinance banking services, other factors also there which weights 86% when rural customers adopt microfinance banking services.

**Limitations:**

This research was conducted to know the factors considered by rural customers in adopting new microfinance banking services in upper Sindh so this research is under the limitations of upper Sindh. For further research other researchers are suggested that they may consider the other geographic areas for same kind of research.

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