Customer Behavioral Approach for using Micro-Credit:

Analysis of Rural Community of Pakistan

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Abstract

Micro financing has become integrated in the financial system of Pakistan for overcoming increasing level of poverty. Approach of micro-credit by which small loan is landed to lower income people play a great role in enhancing poor ones income. This study investigates the level of benefits like encouragement for financial independence, mobilization and allocation of resources, female's control over resources, smooth cash flows, and decision making at family level due to micro-credit. The result should assist the micro finance institutions (MFIs) to ascertain whether micro-credit financial system is working properly. A survey of MFIs clients (Male and female) shows behavioral intentions and effects of micro-credit to fulfill their planned purposes of borrowings. Respondent's attributes the increase, to their standard of living, to micro-credit and MFIs efforts. Thus, this study indicates the planned used by micro-credit and minimal level of use of micro-credit for no planned purposes. It had been practically amplify that the increase in scope of micro-credit is necessary for poverty alleviation in Pakistan.

Keywords: Microfinance, Customer behavior, Micro-credit in Pakistan, Microfinance performance, Behavior intension.

JEL Classification: **M1; M10; M12**

Introduction

In the developing countries of South Asia like Pakistan, Bangladesh, and Sri Lanka, Where huge part of the population had been under poverty, at a such ground, peoples intension to enhance their living standard moves them to use such a type of means, that can help to boost their economic position. In the developing countries like Pakistan, Where 65%of the population lives in rural areas, schemes like micro financing, gives a marvelous shore up, by taking loans under easy term and conditions.

Usually customers approach of taking micro financing loan had to become related to fulfill basic needs of the daily practical life for their family, although group based loans had also been used to fulfill or complete economic need, and effect to be provided to large part of the population of a specific area an(Shirazi & Khan, 2009), but most of the people of rural areas used loans of the micro credit financial system for their own and family based benefits.

The main idea that had been highlighted to increase the economic development of a whole area lies in effective way of utilization of micro credit loans and increase its benefits to big part of the population by increasing, inter alia, encourage and awareness among lenders to use rational way of utilization of loans by investing in farming and livestock or entrepreneurial business.

(Khan & Rahaman, 2007) describe microfinance as the term for collateral free loans to lower level income people. Particularly in rural areas that are repayable in frequent and easy installments. These are effective mechanisms for poverty reduction, to improve health, education, legal rights, sanitation (Murty, Kiran, & Goel)and other living standards.

The most recent entrants to the microfinance industry are commercial banks. This modality includes many variants: transformed microfinance NGOs, government owned

development banks, reformed state banks and diversification into microfinance by existing commercial banks.

Little research had been carried out on the importance of the behavioral intention of micro credit lenders. Most of the researches have paid attention to describing the features of micro-credit.

This study analyzed how customers motivated to use MFIs services, Secondly the level of benefits that they have got according to their behavioral intentions.

More specifically, the study aimed to achieve the following specific objects:

- To determine the impact and perception of micro-credit financing system in the rural community of Pakistan.
- To determine behavioral approach of customers on the basis of different assumptions, towards, micro-credit.
- The role of MFIs in creating awareness and increasing living standard of poor communities in Pakistan.

The study of this paper is on the behavior of customers. Results are analyzed by using some simple basic statistical tools. Table 1 provided an explanation of customer responses towards researcher questions.

After introductions, section 2 presents a brief review of literature. Section 3 deals with the methodology adopted in the paper with the description and results of findings. While the remaining sections 4, 5, 6 presents concluding remarks, references and appendix respectively.

Literature Review

The basis of this research was the extant literature on the motivation factor of rural community for using micro-credit for productive purpose or unplanned purposes in the scenario of increasing living cost of Pakistan.

We will review the customer level of satisfaction and provide some empirical results related to customer satisfaction and behavioral approach in Micro-finance.

Descriptive review

We will describe behaviors of rural community for using micro financing under the survey data of researcher of rural clients on micro-credit and discuss the motivational factor behind using such bottom line benefited finance system.

Customers Behavior and Motivation

There are limitless theories that explained customer behavior and motivation. As according to (Foxall, 1990)"customer choice is usually understood as a problem-solving and decision-making sequence of activities, the outcome of which is determined principally by the buyer's intellectual functioning and rational, goal-directed process of information."

When we study customer behavior, we came to know that their main focus is to level of satisfaction from a product that fulfills their needs.

Motivation is defined as the process that initiates, guides and maintains goal-oriented behaviors. There are three major components of motivation: activation, persistence and intensity. Activation involves the decision to initiate a behavior, Persistence is the continued effort toward a goal, even though obstacles may exist, and finally, intensity can be seen in the concentration and vigor that goes into pursuing a goal cited by (Cherry, 2011).

According to Maslow theory of "hierarchy of need", among many motivational drivers, need for food, safety and shelter are the most important ones. These drivers are also called basic need of any human being. Higher-level needs include social ones (for relationships and love), esteem needs (recognition and status) and self-actualization needs (fulfillment of self). According to(Maslow, Frager, Fadiman, McReynolds, & Cox, 1970), an individual must meet lower-level needs before being motivated to fulfill higher-level needs.

Importance to know about customer Behavior and Motivation in a firm

In order to fulfill the want and needs of the customer, that a so important to offer such a product attributes that can attract a certain target community.

*"*Consumer Behaviour reflects the totality of consumer decisions with respect to acquisition, consumption, and disposition of goods, services, activities, experiences, people and ideas by human decision-making units (over time)"(Jacoby & Chestnut, 1978). Initialization of a financial system that target to a specific community, know about the method to approach them by understanding product attributes that more specifically gave benefit to them is very important.

Motivation According to (Vroom, 1964) *"a process governing choice made by persons among alternative forms of voluntary activity".* It claims motivation as a direction and purpose of a human behavior.

Motivation leads a customer to get comfort. Motivation ads up to provoking desirable amounts of commitment towards work and labour from the workers which are the subjects of study for the sake of the firm (Richard, Mowday, & Shapiro).

In fact, " with clients, institutional costs decrease as the institution needs to do less marketing, less new client orientation, and fewer new client background checks, staff

productivity increases because loan officers work with established clients whom they know well, clients income increases as loan sizes generally increase with experienced clients" ((Water field, 2006); (Korauš, 2002))**.**

Customer Behaviors towards Micro financing

This paper aims to examine behavior approach of rural community of Pakistan towards micro financing. We are interested in exploring motivation and the way of the customers in the rural community of Pakistan for using micro-credit. In addition, we also seek to identify which type of behavioral component will have significant impact on consumers' behavior.

The loan programs typically of MFIs almost entirely consist of enterprise loans. According to (H.-B. Burki, 2009) and (B. Burki & Mohammed, 2008) research, increasing in living cost is one of the factors for using micro financing. The loan programs typically of MFIs almost entirely consist of enterprise loans. But In Pakistan, the majority of loans diverted to unplanned consumption and used for household needs ranging from day-to-day expenses to house floor repairs. On average, 52% of loan amounts were spent on consumption and the rest on the enterprise. The second major unplanned use was unexpected medical expenses. On average, 40% of loan amounts were diverted to covering medical expenses, education fees, other household expenses and rent.

The empirical study shows that the cost of goods and the cost of living had increased and continues to increase at a double-digit rate in Pakistan, incomes and income-earning opportunities may not be increasing equality for all. Thus, the majority of borrowers feel that they do not have the capacity to absorb larger debt and meet still larger repayment obligations. These borrowers do not recommend larger loan or multiple borrowing.

Evaluation of Customer

There are many practices and ways to measure customer behavior and motivation. This is an exploratory research in which the satisfaction level of the customers is analyzed. For example, they have installed tube wells that improve irrigation system of land and cause productive effects on crops. The research discovered that 51.1% respondents fully agreed that the collateral free lending system of MFIs is the most major success factor of micro-credit which suited for the poor without no collateral. However, the borrowers must repay the loan on a weekly installment basis over a year(Hussain, Maskooki, & Gunasekaran, 2001).

Allah had blessed to Pakistan with unlimited resources that are if, productively utilized, then Pakistan can be in the rank of developing countries. Through the financial system of micro-credit, unused human resources and local resources of land can be sufficiently utilized. Most of the rural community sources of earning is agriculture. Land of southern areas is full of minerals that if cultivated by utilizing modern technology, then it can give huge return.

More than 50% population of Pakistan consists of female, thus for the development of the country and reduce poverty in Pakistan had been very important to encourage and utilize women power for the welfare and prosperity of the country. Females also consume most of her income in household consumption like health, education and such other basic need more than males and according to a research of KHTAR ALI, Assistant professor at IUB, BWP (Ali, Topping, & Tariq, 2010), females in Pakistan are more hardworking and honest than males.

One of the most important challenges for poverty alleviation is to reduce the irregular way of income earned by poor's, i.e. most of them are daily wagers, do cultivation of the land of others, etc. at such a case, micro-credit provides incentive to have a smooth cash flow to

fulfill their basic needs. Following table explains the approach undertaken to find answers to questions of customer behavior related to micro-credit.

Table 1: Approaches undertaken to find answers to questions of customer behavior

Attitude	Indicators	Variables
Customer Behavioral approach for use of micro financing	Encouragement for financial independence Mobilize and allocate resources Female's control over resources Smooth cash flows Decision making at family level	**Gender** 1.Male 2.Female

Research Methodology

Micro-credit that is being called a financial system to facilitate poor's had been increasingly prevailed in Pakistan, 67% population of Pakistan living in rural areas. Today micro-credit facility had prevailed to 40% area of Pakistan (Beck, Demirgüç-Kunt, & Levine, 2009).

To increase the impact and enhance the facility of micro-credit among rural community of Pakistan, it had been very important to know the behavioral approach of micro-credit. Out of 2 million total borrowers of this micro-credit industry, Data had been collected from 10 villages of southern area of Pakistan who have taken micro-credit from different MFIs that gave a picture of compatibility of micro-credit benefit to achieve main goal of human resource development through this financial system. Survey of the customer of micro-credit had been taken through face to face interview, questionnaire and judgmental sampling techniques.

Sample frame of research was consisting of approximately 1,000 clients. By using the technique of surveying potential clients, by using Likert scale method, results had been concluded.

The research carried out in the logical positivism method in conjunction with inductive and quantitative approach. The questionnaire and face to face interview method of survey was applied and distributed in the 10 villages of southern Punjab that used micro-credit and associated with MFIs (figure I). The purposive sampling technique designed to choose the sampling unit. As a consequence, questionnaire and face to face interviews conducted with clients of rural area, who have seen a difference in their lifestyle or have got some effects due to micro-credit financing system.

In this research, the quantitative method of close-structured questionnaire had been conducted by researchers. There were some multiple-choice questions in a questionnaire to collect answers from the respondents. Besides, researcher also applied the 'psychometric" approach which is one of the most useful methods (Rensis Likert).Researcher used a five point Likert items (Strongly Agree, Agree, neutral, Disagree, strongly Disagree). From these Likert scales, the respondents have an inclination. The fact is that the linker scale had the advantages, as it presents a load of data for conducting the research in a limited time period and is able to analyze, very, simply and effectively.((Likert, 1974);ibid). Meanwhile, this research was carried out from the few rural areas of Pakistan, from different rural areas of southern Punjab including the villages of the district of Bahawalpur, Multan, Vehari and Bahawalnager. With such data that being may be can a seen as a basic psychology of whole clients in rural areas of Pakistan, was analyzed by STATA software. Stata software can import data in a variety of formats (Press & Tool)so we used Stata software to analyze data.
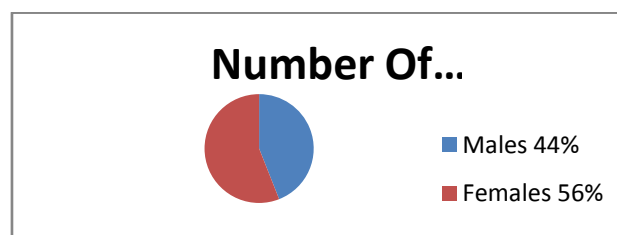

Figure 1: In sample frame of 1000, 540 respondents were female while 440 were males

CUSTOMER BEHAVIORAL APPROACH FOR USING MICRO-CREDIT

Data Analysis and Findings

In findings, the researcher had indicated the major success factors of microfinance and accomplished a wide-ranging re-evaluation of literature for ascertaining the structure on the basis of this investigation.

Discussion of Findings concerning financial independence:

From the results of the questionnaire and face to face interview, it had been concluded, that 53% strongly agreed that micro-credit helps them to increase productivity. Within that the majority of respondents fully agreed with Question stated in regards as the level of awareness and guidance of MFIs staff to take steps in a productive way. They highly appreciate the coordinate system of MFIs with borrowers and the training sessions in which special meetings being converted gives awareness among rural community, most of them are illiterate .As such MFI staff plays a great role in enhancing human resource productivity in Pakistan.

Discussion of Findings regarding mobilization of resources

From the survey, it had been found that, the living standard of 83% people had been increased after become a client of MFI. Development of a village had been also increase that helped in increase country economic development (ELAC).

Discussion of Findings regarding female control over resources

From the findings of our questionnaire and face to face interview, it had been seen that through credit loan without any collateral terms and conditions, they have own their own assets like to sew machine, shops, etc. From the survey it had been found that approximately 30% females become an entrepreneur in our female sample frame that consisted of 560.And they all are clients of MFIs.

Meeting, training session conducted by micro-credit staff member to literate them also play a major role in creating enthusiasm and motivation for increasing the productivity.

Discussion of Findings regarding smooth cash flow

From the research, it had been found that approximately 83% respondents were strongly agreed, that due to micro-credit, they have earned smooth cash flow that had increased their living standard and had got reached a place to fulfill their basic need of food. Under the easy terms and conditions of loan cycle, they gradually enjoyed a progress day by day under conditions of little risk.

Discussion of Findings regarding decision making at family level

One of the most important factors of making decision making in rural areas is income. As such the person, who earns the most, got a status of more respect and credibility than the person who earns less. 62.9% respondents strongly agreed that, their position to take a part in family decision making had been increased due to increase in income, this finding had been taken, including total sample frame of 1000 respondents including male (440) and females (560).

Statistical Analysis of data

Statistical tools and techniques are used to analyze data. For convenience, codes are allocated to Likert items;

Strongly disagree (1), Disagree (2), Neutral (3), Agree (4), Strongly Agree (5). The Complete descriptions of the statistical analysis are shown in the following table (Table 2):

Table 2: Results and descriptive analysis of Data collection

Variables	Likert Scale Elements (Code)	Freq.	Percent	Cum.	Mean	Standard Deviation	Variance
Financial independence	Strongly disagree(1)	10	1.00	1.00	4.457	.693276	.4806316
	Disagree(2)	13	1.30	2.30			
	Neutral(3)	17	1.70	4.00			
	Agree(4)	430	43.00	47.00			
	Strongly agree(5)	530	53.00	100.00			
Mobilization of resources	Strongly disagree(1)	40	4.00	4.00	4.607	.9723664	.9454965
	Disagree(2)	11	1.10	5.10			
	Neutral(3)	80	8.00	13.10			
	Agree(4)	40	4.00	17.10			
	Strongly agree(5)	829	82.90	100.00			
Female control over resources	Strongly disagree(1)	0.00	0.00	0.00	2.938	1.376245	1.89405
	Disagree(2)	680	68.00	68.00			
	Neutral(3)	1	0.10	68.10			
	Agree(4)	20	2.00	70.10			
	Strongly agree(5)	299	29.90	100.00			
Smooth cash flow	Strongly disagree(1)	1	0.10	0.10	4.536	1.077899	1.161866
	Disagree(2)	150	15.00	15.10			
	Neutral(3)	0.00	0.00	0.00			
	Agree(4)	10	1.00	16.10			
	Strongly agree(5)	839	83.90	100.00			
Decision making at family level	Strongly disagree(1)	1	0.10	0.10	4.403	.8873434	.7873784
	Disagree(2)	44	4.40	4.50			
	Neutral(3)	135	13.50	18.00			
	Agree(4)	191	19.10	37.10			
	Strongly agree(5)	629	62.90	100.00			

Statistical tools and techniques applied to the collected data by using software. The measure of central tendency, which is the center of the data being found out by means. A measure of dispersion and spread find out by standard deviation and variance.

Spearman's Rank Correlation being used to test the strength of association between two ranked variables. Our results on statistic dependence show a perfect Spearman correlation of +1 or −1 as each of the variables is a perfect monotone function of the other.

Table 3: Spearman's Rank Correlation

Variables	Financial independence	Mobilization of resources	Female control over resources	Smooth cash flow	Decision making at family level
Financial independence	1.0000				
Mobilization of resources	1.0000	1.0000			
Female control over resources	0.5000	0.5000	1.0000		
Smooth cash flow	0.5000	0.5000	1.0000	1.0000	
Decision making at family level	1.0000	1.0000	0.5000	0.5000	1.0000

Conclusion

This paper had given the importance of two of the basic premises, behavior and motivation, to make microfinance a successful market solution to strengthen the financial system.

This Study indicates the importance of relationship efforts for success of achieving targets of MFIs. As to create and increase awareness of products of MFIs among bottom line people, it had been necessary that whole staff and employees of MFIS should be well trained, motivated and rewarded for making relationship efforts with their clients.

This study strongly provides support for the importance of awareness and impact of MFIs in yielding positive results from micro credit.

No doubt, today MFIs play a great role in changing the lives of millions of poor people, but efforts and its scope should also continue to increase to give its benefits to more poor people of Pakistan.

Recommendations

Although the sample size was deemed acceptable, a larger sample size would have allowed us to run more powerful authenticated results. Secondly, current research limited to five elements of behavioral intension i.e. Encouragement for financial independence, mobilization and allocation of resources, female's control over resources, smooth cash flows, and decision making at family level. Future work should consider other potential elements of the behavioral intention of customers, towards, use of micro-credit financing system.

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