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How Far Members' Satisfaction Mediated Members' Loyalty? Investigating Credit Cooperative in Sarawak Borneo

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Abstract

Service quality is a global judgment or attitude relating to the superiority of the service, whereas satisfaction is related to a specific transaction. Customer satisfaction has frequently been suggested to be the leading determinant of loyalty. In fact, various scholars proved that there is a significant positive relationship between customer satisfaction and customer loyalty/retention. Service quality is the main thrust of success in business environment as to remain competitive in all businesses even in cooperative business. Thus, this study examines the relationship between service quality dimension, members' satisfaction and loyalty in credit cooperative. The empirical basis for the study stems from self-administered questionnaires that are distributed to 367 credit cooperative members in Sarawak. A mediation test was conducted to assess whether the members' satisfaction variable acts as a mediator between service quality and loyalty. The findings indicate that there is a positive relationship between service quality, members' satisfaction and loyalty. Cooperative members' satisfaction acted as a partial mediation which means there is a partially effect to the service quality mediated by members' satisfaction while another part was directly mediated by other variables that has not been thoroughly investigated in this study. This study has important implications for policy makers, government and stakeholders of cooperatives for devising appropriate interventions that could enhance the commitment, satisfaction and loyalty of members in credit cooperatives.

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1. Introduction

Service quality is important as a marketing strategy. It creates competitive advantage and has gained a lot of recognition, as a service delivery effort and received high attention in the literature review (Boshoff, 1997; Swanson & Kelley, 2001; Hocutt et al., 2006; Morrisson & Huppertz, 2010). Past study has shown there is a positive relationship between service quality and business performance (Parasuraman et al., 1988). Ngadi (2010) highlights some of the challenges faced by credit cooperative in the State of Sarawak when most of their members resigned and decreased in collection from members, thus bringing an impact for the cooperative to provide loans to their members. Efforts should be taken by the cooperative to recover this situation by gaining the confidence among the members, especially in providing the best service.

Members' satisfaction is recognized as an important measure to ensure the business success. The goal is to meet the objectives through services offered. Harris & Harrington (2000) also underline that customer satisfaction can be achieved by understanding the needs of their customers and effectively provide goods and services. Therefore service quality of the organization is closely related to members' satisfaction; whether members of the cooperative are satisfied with the quality of services offered. The role of cooperatives in promoting business is not only focused on the profit alone, but priority to their clients' needs should also be emphasized. Customers who are satisfied with the quality of services offered will form a basis of cooperative business success. This will lead to customer loyalty towards brand products. The customers will always come back to buy and disseminate the information positively.

Nowadays, customer loyalty is a critical factor in conducting business in a highly competitive market; and banking institutions are no exception. Loyalty refers to the deep commitment of the buybacks or revisit the desired product or service consistently in the future (Oliver et al., 1997; Bae Suk et al., 2009). Loyal customers feel it is an obligation or responsibility for them to persevere in a personal relationship whether in good times or vice versa (Reynolds & Arnold, 2000). Loyal customers help in promoting the business by making a positive spread by word of mouth, creating business referrals and serving in the board of advisors (Reichheld, 2003).

According to Machima (1992), among the challenges faced by cooperatives, one of them is the lack of involvement and communication among their members. This gives us a hint or indication of incompatibility and lack of cooperation among the members of the cooperative. Seligson (1987) in his study found that cooperative members have positive attitudes and perceptions towards the administration and management of their cooperative for their active involvement in the management and business affairs. Here clearly illustrates the active involvement of members in the administration and management reflects the values and positive attitude that need to be owned by the members of a cooperative society.

Many studies which have been made empirically show it is more profitable to retain existing customers than to find new customers (Lee-Kelley et al., 2003). Review by Hafeez and Muhammad (2012) found that by conducting various types of loyalty programs, it is said to bring a positive impact on customer loyalty, then this is certainly a profitable organization by maintaining existing loyal customers. Jati (2012) in his study also proves that the retention of existing customers among banks in Malaysia were able to push the performance benefits.

The findings of this study show the importance of customer loyalty in organizations such as cooperatives to provide goods and services to their members. Unfortunately, the present trend shows that cooperatives in Malaysia are still not able to stand and compete with other business operators who can offer their products and services more competitively. Even though with a wide range of business and size of the membership, cooperatives are still far behind in terms of business volume, growth and diversification compared to private businesses and small firms (Azmah & Fatimah, 2008).

In Malaysia, the most successful credit cooperatives are among the 'government based', where most of the members represent government staff. Almost 77 percent cooperatives were in micro and small scale. According to Hayati et al. (2008), credit cooperatives currently are receiving vast competition from the financial institutions that provide various loans to the public apart from the quality of services offered. There is also a licensed credit institution that is still operating. As various credit products grow in the market, this has given a challenge to manage credit cooperatives due to small scale operation. In the National Cooperative Policy Plan 2011-2020, financial services cooperatives are encouraged to offer various financial products such as Ar-Rahnu and credit financing and to provide other financing services so as to support business development.

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