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Research Article

Unveiling the Dynamics of Service Quality and Member Loyalty: A Comparative Analysis of Different Savings and Credit Cooperatives in Nepal

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ABSTRACT

This study explores the level of service quality and member satisfaction within the context of Savings and Credit Cooperatives (SACCOS) in Nepal. By using data from a survey of 1209 randomly selected SACCOS members, the study dealt with the demographic composition, service quality perceptions, and member satisfaction levels across three distinct SACCOS: Bindabasini-Kavrepalanchok, Mahila Milan-Makawanpur, and Siddhartha-Kapilbastu. The analysis uncovers intriguing patterns in demographic characteristics and establishes a positive correlation between service quality dimensions and both member loyalty and positive words of mouth. The findings highlight the crucial role of tailored service quality dimensions in fostering member loyalty, positive advocacy, and overall cooperative success. Findings of this study not only contributes to the understanding of cooperative management strategies but also provides insights for the enhancement of member experiences, leading to sustained growth and impact. Thus, the findings of this study have important implications for cooperatives,

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researchers, policy makers, cooperative movement, government for devising appropriate intervention to enhance members' satisfaction levels.

Keywords: Loyalty, members' satisfaction, savings & credit cooperatives, service quality,

INTRODUCTION

Cooperatives are organizations where people come together to collectively achieve common goals by solving each other's problems and promoting self-help values and practices (Ryder, 2010). Within the formal banking sector, the Savings and Credit Cooperative Society (SACCOS) represents a specific category of cooperatives focused on fulfilling members' social and economic needs (Sharimakin & Akinlo, 2022). These community-based cooperatives strive to enhance member well-being (Simkhada, 2013) while emphasizing collective efforts.

In the realm of hospitality, research has grown significantly, particularly in service quality and customer satisfaction. Various studies have applied theories like the Service Quality (SERVQUAL) framework to industries such as restaurants and lodging Uslu & Eren (2020); Getty & Thompson (1994) introduced the expectancy-disconfirmation model, which has been utilized in hotels and restaurants. Although SERVQUAL has been widely used, its application within cooperatives remains limited.

Nepal, in particular, has seen research in service quality and member satisfaction in sectors like banking Khan & Fasih (2014) but lacks substantial research within the SACCOS context. Yacob et. al. (2016) suggested that personal interaction positively affects member satisfaction in credit cooperatives, emphasizing the need for improvement. This context prompted a study to explore the relationship between service quality and member satisfaction in SACCOS in Nepal, evaluate perceived service quality levels, assess member satisfaction, examine the correlation between service quality and member satisfaction, and determine how member satisfaction influences service quality (Oanda, 2015). This research aims to contribute valuable insights into the cooperative sector's understanding of service quality and member satisfaction.

Service quality within SACCOS is a crucial aspect, impacting members' satisfaction and the sustainability of their relationships with the organization. This judgment is formed based on a comparison between the expected service and the service actually received (Desiyanti et. al., 2018). One widely adopted model for measuring service quality is SERVQUAL, introduced by (Parasuraman et. al., 1985). SERVQUAL focuses on five dimensions of service

quality, emphasizing the difference between customer expectations and perceptions across 22 measurement items. Researchers perform these comparisons indirectly, a practice that has attracted criticism (Desiyanti et. al., 2018).

Peter et. al., (1993), criticizes the indirect difference score approach of SERVQUAL, citing reliability issues and problems related to variance restriction. Brown et. al. (1993), noted that difference scores produce poorer reliabilities than component scores. Another critique revolves around measuring expectations, with Teas (1993) arguing that SERVQUAL's scale induces various types of expectations that customers cannot differentiate when providing evaluations.

Service, inherently different from physical products, is intangible, changeable, produced and consumed simultaneously, and non-storable. It is defined as a process involving interactions between customers, employees, and physical resources/systems that solve customer problems (Ladhari, 2008). Furthermore, service quality is seen as a judgment of consumers regarding the overall excellence and overall privilege offered by a firm (Parasuraman et. al., 1994).

Similarly, the expectancy-disconfirmation model has faced validity challenges concerning expectation measures. Oh & Kim (2017) reported that customers have several types of expectations, including ideal, minimum, predicted, and normative performance, leading to variations in their relationship with other constructs in the model (Buttle, 1996). Members evaluate service quality based on five criteria: reliability, assurance, tangibles, empathy, and responsiveness (Ramachandran & Chidambaram, 2012) .

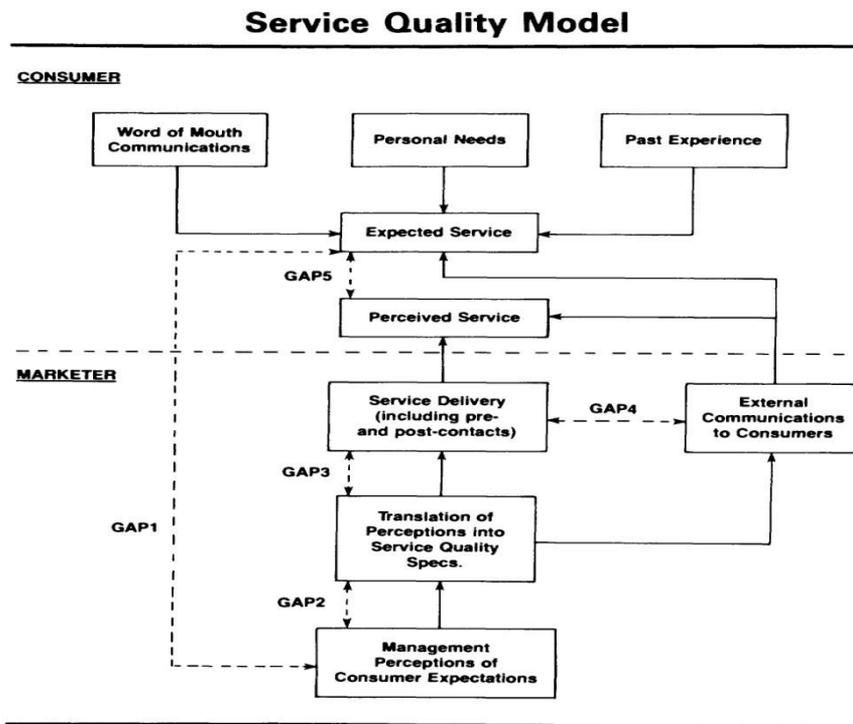
Assurance in SACCOS encompasses the courtesy, knowledge, and ability of employees to instill confidence and trust among members. It includes friendly and polite staff, comfortable interiors, financial/non-financial advice, an experienced management team, and ease of access to account information.

Empathy involves the individual attention and care that the organization provides to its members. This dimension focuses on giving personalized attention and convenient opening hours. Responsiveness is vital in meeting customer expectations, emphasizing the readiness and willingness of employees to provide the right service at the right time. This includes understanding customer needs and issues, offering individual attention, and ensuring convenient operating hours. A responsive approach can delight members and enhance their loyalty to the organization (Razak et. al., 2007).

Theoretical Framework-Service Quality Model

Figure 1

Service Quality Model, adapted from Parasuraman et. al. (1985).



Member Satisfaction

The expectancy-disconfirmation model, introduced by Oliver (1997) and later further explained by Dietz (1997) and Reynoso (2010) is a theory for studying customer satisfaction in the retail and service industries. It posits that customer satisfaction results from subjective comparisons between expectations and perceptions. Customers directly evaluate these comparisons using a “worse than/better than expected” scale, leading to the formation of “subjective disconfirmation.” Customer satisfaction is then directly influenced by the size and direction of this disconfirmation. Confirmation results in a state where customers are neither satisfied nor dissatisfied. Expectations and perceptions also impact customer satisfaction and subjective disconfirmation in various situations (Agrawal & Singh, 2016).

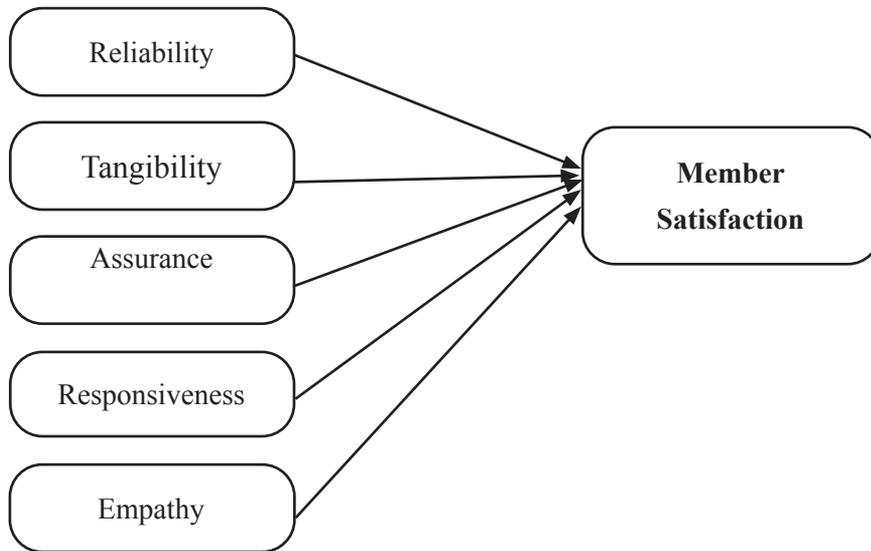
In contrast to SERVQUAL, the expectancy model seeks to explain the consumption

process, while SERVQUAL primarily measures perceived service quality at a specific point in time (Parasuraman et. al., 1994). The expectancy model measures disconfirmation subjectively, whereas SERVQUAL does it arithmetically. Customer satisfaction is the key variable in the expectancy model, while SERVQUAL focuses on service quality.

The model operates on the premise that service quality can be assessed as the gap between perceptions and expectations of a given service. Parasuraman et. al. (1985) identified ten essential elements for evaluating service quality, which later evolved into SERVQUAL, a comprehensive instrument with seven dimensions: tangibles, reliability, responsiveness, assurance, empathy, credibility, and communication. SERVQUAL has become a standard tool for measuring perceived service quality. The model's RATER attributes are vital for assessing service quality, especially in the private sector (Parasuraman et. al., 1991).

Figure 2

Conceptual Framework of Member Satisfaction with Independent Variables



The current study aimed at assessing the level of service quality of three different SACCOS by their respective members. In the meantime, the study also intended to explore the level of satisfaction among the members from the range of services they use from their SACCOS. Likewise, this study explored the extent of relationship between the quality of service and satisfaction of the members thereof.

DATA AND METHODS

This study employed a positivist research paradigm and deductive approach because it emphasizes on quantitative method and scientific tools in exploring social reality instead of viewing knowledge as personal experience rather than acquired in objective ways. This research features descriptive and cross-sectional studies. The basic reason for carrying out descriptive research is to find out the explain the causes. This research has used a structured instrument, designed to measure the characteristics described in the research questions (Grönroos, 1990).. Variable of interest in a sample of subjects are examined once and the relationships between them and determined. The quantitative analysis was used to determine the correlation between dependent and independent variables (Mishra & Min, 2010).

The population for the study was 39,030 beneficiaries. The survey considered the diversities in terms of age, gender, ethnicity and caste, income, employment status, and education level. Every variable has a different standard for member satisfaction.

Yamane's formula was applied to determine the sample size which is algebraically given by: $n = N/(1+Ne^2)$ (Yamane, 1967) to each SACCOS individually, where, n = corrected sample size, N = population size, and e = margin of error (MoE), $e = 0.05$ based on the research condition

The calculation based on individual SACCOS produced a total sample size of 1134. Considering the grace of an additional 10% to this number, 1248 HHs were pursued for data collection. In this course, information gathered from 39 HHs were deprived of completeness and hence were removed from analysis resulting to a total of 1209 HHs.

In order to make sure that respondents can understand and respond to the questionnaire, the English designed questionnaire set were translated into Nepali for field purpose. The content of the questionnaire was divided into three major parts. The first part solicited relevant personal information, such as participants' age, gender, educational level, job and income. The second part measured participants' perceptions and expectations of the SQ. This part contained ten attributes which reflect the dimensions of institution services. Furthermore, these attributes were described by the statements that reflect participants' perceptions of the services. This was according to Likert scale a five-point scale range from 1 (strongly disagree) to 5 (strongly agree) to be selected as their responses. The third part was of four questions that measure MS level.

In this phase, the cross-sectional survey design was used. The survey instrument was to test the hypotheses generated for this research. As a major unit of analysis 'household survey'

questionnaire was administered to elicit information because households are the lowest unit where members are getting services. In this study, as per requirements, the questionnaire was prepared, developed KOBO collect™ app, to upload questionnaires. A total of 16 enumerators were oriented on the questionnaire and objectives of the data collection. The enumerators were oriented on the installation of the KOBO collect™ app, testing the questionnaires of the first five individuals under close supervision of the lead researchers in each research site. Upon refinement by the lead researcher and the advisors, the real field data collection was done by the enumerators. The collected primary data were analyzed with the help of statistical tools and techniques using IBM SPSS™. Mainly, the relationships between the SQ dimension and MS are examined using the correlation coefficient.

Ethical concerns must be considered throughout the entire process of the study, from research design to interpreting the findings (Spreng & Mackoy, 1996) and as such, the researcher complied with acceptable ethical practices during the study period including disclosure of identity and confidentiality of the information provided except for academic purposes. The reliability of the information collected were checked whether or not the similar pattern be recorded if the survey was to take place in a later date. Cronbach’s alpha test was administered as suggested by Best & Kahn (2006) with the test result of 0.908 which satisfied the minimum requirements.

RESULTS AND DISCUSSION

The findings of this study shed light on several important aspects related to the demographic composition, service quality, and member satisfaction within the selected SACCOS. The analysis of demographic characteristics reveals interesting patterns in terms of age, gender, marital status, educational level, and ethnicity across the three SACCOS: Bindhabasini SACCOS Mahila Milan SACCOS and Siddhartha SACCOS, (Table 1).

Table 1

Demographic Information of Respondents Across the Samples SACCOS

Variables	Bindhabasini (N, %)	Mahila Milan (N, %)	Siddhartha (N,%)
Age			
Adolescent	7 (1.72)	0 (0)	0(0)
Youth	205 (50.25)	232 (58.59)	127(31.36)
Adult	179 (43.87)	131 (33.08)	193(47.65)

Variables	Bindhabasini (N, %)	Mahila Milan (N, %)	Siddhartha (N,%)
Senior Citizens	17 (4.17)	33 (8.33)	85(20.99)
Sex			
Male	145 (35.54)	0 (0)	50(12.35)
Female	263 (64.46)	396 (100)	355(87.65)
Marital Status			
Married	334 (81.86)	337(85.1)	354(87.41)
Unmarried	59 (14.46)	38 (9.6)	11(2.72)
Widow/Widower	14 (3.43)	20 (5.05)	40(9.88)
Divorced	1 (0.25)	1(0.25)	0(0)
Educational Level			
Illiterate	80 (19.61)	194 (48.99)	187 (46.17)
Basic Primary	89 (21.81)	61(15.4)	77(19.01)
Secondary	162 (39.71)	101(25.51)	120 (29.63)
University	77 (18.87)	40 (10.1)	21(5.19)
Ethnicity			
Dalit	16 (3.92)	11(2.78)	52(12.84)
Janajati	148 (36.27)	326 (82.32)	166(40.99)
Brahmin/Chhetris	242 (59.31)	52 (13.13)	162(40)

Source: Field Survey, 2021

Findings revealed that Bindhabasini SACCOS stands out with a higher percentage (52%) of youth members compared to the other two SACCOS. This could be indicative of Bindhabasini SACCOS' effective outreach strategies towards the younger population. It is intriguing to observe that Mahila Milan and Bindhabasini SACCOS have a significantly higher proportion of female members (100% and 64%, respectively) compared to Siddhartha SACCOS (87%) (Table 1). This suggests a potential need for Siddhartha SACCOS to focus on strategies to enhance female membership engagement.

Furthermore, the prevalence of married members in all three SACCOS highlights the significance of these cooperatives as financial institutions catering to family-oriented needs (Aduda & Obondy, 2021). The educational distribution across the SACCOS is diverse, with notable variations in the levels of illiteracy and higher education attainment (Table 1). This emphasizes the need for tailored communication and educational approaches to effectively serve members with differing educational backgrounds (Simkhada & Bhattarai, 2022).

Ethnicity-wise, it is interesting to observe that Bindhabasini SACCOS has a relatively

higher representation of Brahmin/Chhetris (59.31%), while Mahila Milan SACCOS is dominated by Janajati members (82%) (Table 1). This variation could be attributed to the cooperative’s outreach strategies, community dynamics, and cultural factors that influence membership trends. Understanding and respecting such ethnic diversity is crucial for ensuring equitable service delivery (Kang & James, 2004).

Level of Service Quality

One of the important objectives of this research was to explore the perceptions of the cooperatives’ members on service quality. In this study, service quality was measured based on 22 quantitative questions developed by Parasuraman et. al. (1985) on a Likert scale explained earlier in the Data and Method section. Responses from the respondents were analysed to figure out the mean and standard deviation through SPSS™ software which is summarized in Table 2 below.

Service Quality Analysis of SACCOS: A Positive Member Perspective

This study recorded the perceived service quality of SACCOS by members on a 1-5 Likert scale and were broadly categorized into reliability, responsiveness, assurance, empathy, and tangibles. Table below (Table 2) demonstrates the quality of service rendered by different SACCOS. The responses were almost homogenous and were either medium or high levels of significance. The ‘empathy-related indicators recorded the lowest which was 3.53 on the 5-point scale while, in contrast, the highest was recorded on assurance-related indicators of SQ with a score of 3.83.

Table 2

Description of the Level of Service Quality Recorded Across the SACCOS

Items	Mean	Std. Deviation	Interpretation	Rank
Reliability				
When SACCOS promise to do something by a certain time, they should do	3.65	.675	Medium	1
SACCOS must address the grievances I have on their products or services or	3.63	.606	Medium	2
SACCOS must welcome error free records and should correct them on time.	3.62	.663	Medium	3
A member has a problem, SACCOS must show a sincere interest in solving	3.56	.641	Medium	4

Items	Mean	Std. Deviation	Interpretation	Rank
SACCOS must provide the service the first time right	3.42	.662	Medium	5
Average Assurance	3.57		Medium	
The behavior of employees in SACCOS should instill confidence in members	3.92	.625	High	1
Members of SACCOS must feel safe in transactions.	3.87	.713	High	2
Employees of SACCOS must be consistently courteous with members.	3.79	.631	High	3
Employees of SACCOS must have knowledge to answer members' questions	3.75	.570	High	4
Average Tangibles	3.83		High	
Employees at SACCOS should be neatly dressed and pleasant looking	3.97	.610	High	1
SACCOS should have modern looking equipment	3.77	.604	High	2
Materials associated with the service	3.66	.599	Medium	3
The physical facilities at SACCOS should be visually appealing.	3.65	.607	Medium	4
Average Empathy	3.76		High	
SACCOS must give members the individual attention	3.61	.680	Medium	1
SACCOS must have their member's best interests at heart	3.53	.599	Medium	2
The employees of SACCOS must understand the specific needs of their members	3.53	.613	Medium	3
The employees of SACCOS dealing with members in a caring	3.52	.612	Medium	4
SACCOS should have operating hours convenient to all their members	3.47	.651	Medium	5
Average	3.53		Medium	

Items	Mean	Std. Deviation	Interpretation	Rank
Responsiveness				
Employees of SACCOS should inform members exactly when services will be performed	3.68	.655	High	1
Employees of SACCOS should always be willing to help members.	3.64	.588	Medium	2
Employees of SACCOS should always find time in responding to members' request	3.61	.606	Medium	3
Employees of SACCOS should provide prompt service to members	3.49	.617	Medium	4
Average	3.60		Medium	
Overall average	3.65		Medium	

Source: Field Survey, 2021

Key: Mean range interpretation and level of service quality (Darbyshire & McDonald, 2004; Becker et. al., 2009)

- 3.68 and above: High
- 2.34-3.67: Medium
- 2.33 and below: Low

SACCOS are generally cultivated by the members and are nurtured in a community for their welfare while the case of the commercial banks is different and are deemed are profit making institutions with lesser accountability to the community (Hasibuan & Setyanugraha, 2021). Comparatively lower scale of reliability of banks in Rwanda (Felix, 2017) than the SACCOS of Nepal could explain this phenomenon. Likewise, the relatively lower records of scores across assurance, tangibles etc. in banks than in the cooperatives could also be explained by the same phenomenon.

Status of Member Satisfaction within SACCOS: Insights and Implications

This study delves into member satisfaction within the SACCOS, examining two key dimensions: “Members Loyalty” and “Positive Words of Mouth” (Table 3). Findings revealed that within the “Members Loyalty” dimension, the mean scores for various satisfaction items range from 2.13 (low) to 3.91 (high), signifying diverse levels of contentment across their members (Table 3). The critical analysis of this diversity of responses indicate that the

members are not satisfied with the loan and non-financial products offered by their SACCOS don't meet their HHs' aspiration. In contrary, the satiety over the service level and suitability of saving products was high (Table 3).

Another category of indicators defining MS, positive words of mouth, had somehow recorded exceptionally positive responses from the sampled members. The overall average of all indicators is high with the score of 3.85 (Table 3). Most interestingly, their commitment to spread positive messages to their neighbourhood is high with the score of 3.97 (Table 3). Similar pattern with slightly lower score around 3.8 or above were recorded for their affinity to stay attached their SACCOS, referring their friends and neighbours and expanding business with their SACCOS.

Table 3

Description of the Level of Member Satisfaction Across SACCOS Members

Members loyalty	Mean	Std. Deviation	Interpretation	Ranks
I am satisfied with the level of service of my SACCOS?	3.91	.551	High	1
The savings (deposit) products suit my personal/HH needs?	3.88	.508	High	2
The non-financial products/services suit my personal/HH needs?	3.48	.812	Medium	3
If yes, how much are you satisfied?	2.33	.871	Low	4
The loan products suit my personal/HH needs?	2.13	1.977	Low	5
Average	3.14		Medium	
Positive words of mouth				
I will say positive things about my SACCOS to my neighbors and families, friends	3.97	.700	High	1
I wish to continue to do more business with the SACCOS.	3.88	.735	High	2
I will encourage my neighbors/friends/families to be associated with the SACCOS	3.83	.827	High	3
I consider my SACCOS as my primary financial partner	3.82	.728	High	4
I have strong preference to this SACCOS	3.77	.835	High	5
Average	3.85		High	

Members loyalty	Mean	Std. Deviation	Interpretation	Ranks
Overall average	3.49		Medium	

Source: Field Survey, 2021

Key: Mean range interpretation and level of member satisfaction (Darbyshire & McDonald, 2004; Becker et. al., 2009)

- 3.68 and above: High
- 2.34-3.67: Medium
- 2.33 and below: Low

Correlation between Service Quality and Member Satisfaction

The correlation of SQ indicators with that of the MS indicators were tested with statistical significance and are presented in Table 4. Two major categories of MS indicators ‘members’ loyalty’ and ‘positive words of mouth’ were tested against five broad indicators of SQ. The broader picture of the result indicated that members loyalty is invariably (very high level of significance i.e. $P < 0.001$) but weakly explained by SQ indicators. The coefficient for correlation below 0.35 and very high level of significance explained such feeble relationship (Table 4).

However, another MS indicator ‘positive word of mouth’ had either high or very high degree of correlation with all SQ indicators which were further testified statistically with all analyses with the P-value below 0.001 (Table 4).

The analysis of these correlations reveals consistent patterns across the service quality dimensions and their impact on both member loyalty and positive word of mouth. The positive relationships indicate that as service quality improves in different dimensions, members are more likely to exhibit loyalty and advocate for the SACCOS through positive word of mouth. These findings emphasize the critical role of service quality in shaping members’ perceptions, attitudes, and behaviors (Navarro & Bacatan, 2023).

The rejection of the null hypothesis for all correlations underscores the significance of these relationships. It confirms that service quality dimensions are indeed correlated with both member loyalty and positive word of mouth, reinforcing the interconnectedness of these constructs within the cooperative context (Nautwima & Asa, 2022).

These results hold implications for SACCOS’ management strategies. Strengthening service quality across dimensions such as reliability, responsiveness, assurance, empathy, and tangibles can contribute to fostering member loyalty and enhancing positive word of mouth.

These findings can serve as a guide for cooperative leaders to make informed decisions that enhance member experiences and organizational success.

Table 4

Correlation Between SQ and MS Across SACCOS

Variables corelated	Beta	P*	Interpretation
Member loyalty vs. Reliability	0.345	0.000	Significantly low level of interdependence
Member loyalty vs. Responsiveness	0.321	0.000	Significantly low level of interdependence
Member loyalty vs. Assurance	0.204	0.000	Significantly low level of interdependence
Member loyalty vs. Empathy	0.319	0.000	Significantly low level of interdependence
Member loyalty vs. Tangibles	0.336	0.000	Significantly low level of interdependence
Positive word of mouth vs. Reliability	0.567	0.000	Significantly high level of interdependence
Positive word of mouth vs. Responsiveness	0.751	0.000	Significantly very high level of interdependence
Positive word of mouth vs. Tangibles	0.559	0.000	Significantly high level of interdependence
Positive word of mouth vs. Empathy	0.629	0.000	Significantly high level of interdependence
Positive word of mouth vs. Assurance	0.818	0.000	Significantly very high level of interdependence

*Source: Field Survey, 2021 *: value below 0.01 is considered highly significant*

The relationship between indicators of SQ and MS has been found to the positive. Similar responses were recorded in a Nigerian study conducted in banking sector significant positive relationship was reported (Sulaiman et. al., 2021). Likewise, similar pattern of relationship was reported from Botswana where SQ and customer satisfaction were studied (Mosimanegape et. al., 2020).

Analogy of pattern in this study could be attributed to the financial services members received and enjoyed in these sample SACCOS as were the case in those African banks. Contrary to this the relationship of SQ indicators with 'positive words of mouth' across the

customers of Rwandan banks had very weak relationship (Felix, 2017). This could largely because of the quality of service rendered by these banks or the perceived difference among their customers.

CONCLUSION

The demographic analysis of the respondents revealed noteworthy insights into the composition of SACCOS members. The distribution of age groups, gender, marital status, educational level, and ethnicity among the different SACCOS showcased interesting variations. These demographic factors potentially play a role in influencing perceptions of service quality and member satisfaction.

Likewise, the assessment of service quality was conducted using established dimensions, such as reliability, assurance, tangibles, empathy, and responsiveness (Neupane, 2014). The results indicated that SACCOS generally exhibited high to very high levels of service quality across these dimensions. This suggests that SACCOS have been successful in establishing a positive customer service experience.

Furthermore, member satisfaction was evaluated through components of member loyalty and positive word-of-mouth. The results demonstrated a generally high level of member satisfaction, with positive word-of-mouth receiving particularly strong endorsement. This suggests that SACCOS have managed to cultivate a level of satisfaction that encourages members to promote their services to others. The interrelation of service quality of the SACCOS with that of their members satisfaction was evaluated. The loyalty of members had weak yet significant relationship with SQ indicators while positive word of mouth had both strong and significant relationship with SQ indicators. Hence, the studied SACCOS are suggested to work harder on improving the loyalty of members.

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