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THE DETERMINING FACTORS OF LOYALTY INTENTION AMONG CO-
OPERATIVE MEMBERS' TOWARDS CONSUMER CO-OPERATIVES IN
MALAYSIA

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ABSTRACT

The objective of this research is to investigate the relationship between the determining factors and loyalty intention among cooperative members' towards Consumer Co-operatives in Malaysia. Drawing on the deterministic approach that visualizes human to behave, act rationally and in a predictable manner under the influence of the predetermined factors, intention and behavior therefore can be forecasted and managed when the underlying determining factors are identified and explained. This research addresses five (5) variables as the determining factors in the attempt to predict loyalty intention among co-operative members' towards Consumer Co-operatives. Three (3) of the variables were derived from the Theory of Planned Behavior, a renowned theory, highlighted on the reason people act in accordance upon knowing the reasons. These variables are Attitude, Group Norm and Switching Cost. Two (2) additional variables, namely Trust and Service Quality were also incorporated due to the abundance of repetitive occurrence as predictors in the loyalty intention literatures. Questionnaires were distributed using simple random technique to the co-operative members' in the Consumer Co-operatives listed in the Top 100 Co-operatives Index for the year 2014. 407 completed questionnaires were returned for the purpose of analyzing using SPSS. The findings of this research have demonstrated that all five (5) variables were significantly correlated and predicted loyalty intention among co-operative members' towards Consumer Co-operatives where Attitude became the strongest predictor. It can be concluded that all these determining factors contributed successfully in predicting loyalty intention among co-operative members' towards their Consumer Co-operatives. The implication of this research are discussed especially in encouraging various stakeholders in stimulating vital strategies of increasing and strengthening loyalty intention among co-operative members' towards Consumer Co-operatives in Malaysia.

FAKTOR-FAKTOR PENENTU NIAT KESETIAAN DALAM KALANGAN ANGGOTA- ANGGOTA KOPERASI TERHADAP KOPERASI PENGGUNA DI MALAYSIA






ABSTRAK

Objektif kajian ini adalah untuk mengkaji hubungan di antara faktor-faktor penentu dengan niat kesetiaan di kalangan anggota-anggota koperasi terhadap Koperasi Pengguna di Malaysia. Berdasarkan kepada pendekatan penentu yang menggambarkan bahawa manusia berkelakuan dan bertindak secara rasional serta boleh dijangka berdasarkan pengaruh faktor-faktor penentu yang telah ditetapkan, niat dan gelagat manusia dapat diramal dan diuruskan dengan baik sekiranya faktor-faktor penentu ini dapat dikenalpasti dan diterangkan. Kajian ini menggunakan Lima (5) angkubah sebagai faktor-faktor penentu untuk meramalkan niat kesetiaan di kalangan anggota-anggota koperasi terhadap Koperasi Pengguna. Tiga (3) daripada angkubah berkenaan diperolehi daripada Teori Gelagat Terancang, sebuah teori terkenal yang menerangkan bahawa manusia bertindak berdasarkan sebab-sebab yang telah dikenalpasti. Angkubah ini ialah Sikap, Norma Kumpulan dan Kos Pertukaran. Dua (2) angkubah tambahan iaitu Kepercayaan dan Kualiti Perkhidmatan turut dibangunkan berdasarkan penemuan yang meluas sebagai peramal di dalam sorotan kajian berkenaan niat kesetiaan. Soal selidik telah diedarkan menggunakan kaedah persampelan rawak mudah kepada anggota-anggota koperasi bagi Koperasi Pengguna yang disenaraikan di dalam Indeks 100 Koperasi Terbaik bagi tahun 2014. 407 soal selidik lengkap telah dikembalikan bagi tujuan penganalisaan menggunakan SPSS. Dapatan kajian menunjukkan semua Lima (5) angkubah mempunyai korelasi serta regresi yang signifikan di dalam meramalkan niat kesetiaan di kalangan anggota-anggota koperasi terhadap Koperasi Pengguna di mana Sikap menjadi peramal terkuat. Kesimpulannya, semua faktor-faktor penentu ini dengan jayanya menjadi penyumbang ke arah meramalkan niat kesetiaan di kalangan anggota-anggota koperasi terhadap Koperasi Pengguna di Malaysia. Implikasi kajian turut dibincangkan terutama dari segi menggalakkan semua pihak pemegang kepentingan untuk menjana strategi yang penting bagi meningkatkan serta mengukuhkan niat kesetiaan di kalangan anggota-anggota koperasi terhadap Koperasi Pengguna di Malaysia.

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CHAPTER 1

INTRODUCTION



1.1 Introduction

Co-operative is defined as an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise (International Co-operative Alliance, 2005). Co-operative is a distinct type of organization owned and controlled by its members, who are the users or workers, and are formed to meet their common interests and abide by the seven co-operative principles (Dunn, 1988; International Co-operative Alliance, 2005). A member is a person who contributes equity capital in order to control the co-operative on the basis of co-operative principle which is based on one member, one vote and not in the proportion of how much equity he holds or contribute (Dunn, 1988). While on the other hand, a co-operative serves as a hybrid business of economic and social benefits (Levi & Davis, 2008; Novkovic, 2008).



According to the International Co-operative Alliance (2005), co-operatives around the world now employs more than 100 million men and women and have more than 800 million individual members. Based on the co-operative identity established in 1995, seven prominent principles were established and widely accepted by all co-operatives to conform to the standard of its identification.

1.2 Background of this study

This study is intended to investigate loyalty intention among members in the co-operatives societies and the factors which contribute to members' loyalty intention in patronising the consumer co-operative stores. Most of the studies carried out across the globe on loyalty lie in investigating the unit of analysis of ordinary customers in their decision to purchase or patronise the goods and services provided by the organisations but not directly on co-operative entity (Bloemer & Ruyter, 1998; Homburg, Giering, & Menon, 2003; Magi, 2003; Oliva, Oliver, & MacMillan, 1992; Rust & Zahorik, 1993; Von Wangenheim, 2003).

These are among authors who have conducted their research on non-co-operative areas. To date, it is imperative to understand and recognise individuals as members of co-operatives as soon as they join this organisation, as adequately elaborated in the early chapter of this research. Apart from being just a customer, a member is thus obliged to patronise and to support the success of the coops. (International Co-operative Alliance, 2005; Othman, Kari, Jani, & Hamdan, 2012).

This study is unique in the sense that it sets apart between the definition of members and regular customer as this study will investigate members as the unit of analysis. In this case, according to the principle of Co-operatives which is well recognised and accepted by the international standard to be upheld by all co-operatives, members join co-operative voluntarily and manage the co-operative in a democratic and autonomous way through the holding of certain portion of shares.

This simply means that members who are also the shareholders, stakeholders and owners of the co-operative are also at the same time customers to the co-operative. In this case, through an annual general meeting, they are entitled to set the directions and prospects of the co-operatives through one vote given to each of these individuals which is totally in contrast from what a customer can do.

Thus, this matter sets members apart from the ordinary customers as the intention of this study is trying to investigate the loyalty intention of the member himself, as a shareholder and also as a customer. Like any other customers, members act in a nature that they also have the preferences to choose which service provider that suits their needs and requirements in consuming goods and services, but in the same case, they are also obliged to maintain good performance of the co-operatives as they are the ones who assume responsibilities to ensure the success and failures of these organisations.

As an ordinary customer, making selections from various different entities of businesses does not actually provide any direct effect on themselves, whether the company makes any profit or otherwise, they would not be getting anything from it.

However, in the co-operative sector, if the members decide not to be loyal or to diverge from the co-operative, the situation would be different as it will directly feel the impact upon them.

If the co-operative fails to maintain its businesses, it is because the members themselves do not contribute their knowledge, efforts, time and money to its success. Furthermore, if the co-operative do not profit from their activities, the members would also not be entitled to get dividends on their contributions to this cooperative. Hence, loyalty of members and loyalty of ordinary customers in this situation affect differently. It goes to show that it is necessary for members to put the priorities to shop or patronise at the co-operative stores as they are bound to be the shareholders and stakeholders of interests to it.

In fact, if a customer doesn't turn up to shop in a specific place, they cannot be blamed as the effort to attract them lies on the hand of the operators of the business to conduct specific marketing strategies to encourage people to shop at the cooperative stores. Nevertheless, if a member does not shop at a co-operative store, they can be blamed of not being able to support the business as they actually own and manage it. They should even be held responsible if the co-operatives societies meet a dead end.

In addition, we can define that customer is only an ordinary person when consuming at any particular shop but for members, they must be regarded as 'preferred' customer and consumption at the co-operative stores is a pre-requisite. As the co-operative has been recognised by the government as the third sector that contributes to the development of economy of Malaysia, there have been wide

interests to study in this area and to find ways of improvements on how co-operative sectors can enhance their contributions to the economy.

Currently, co-operative societies only contributed 1% to the Gross Domestic Products of Malaysia and it is intended to grow to 10% in 2020 (Malaysia Co-operative Societies Commission Report, 2013). Thus, it is necessary that many research should follow through to discuss on the areas that can stimulate and encourage active participations of the members and also to improve the performance of the co-operatives in this country. This research is designed to study members' loyalty intention in the consumer co-operatives and it is hoped that it can be beneficial to the movement in explaining member's behaviour and also to encourage many related parties to take a look at the findings and suggestions that can lead to

This research is also aimed at providing ways for other researchers to conduct similar or any studies in the co-operatives societies in order to gain more recognition amongst the societies. The discussion on the theories will be presented further in the Literature Review. Suffice to say at this point that more variables are needed in explaining the loyalty intention influence within the co-operative structure of membership obligations. Trust is deemed as one the most significant variables within the co-operative context because without trust, members may be less likely to patronise co-operative businesses as they see trust as the pulling factor that will differentiate their attraction to the co-operatives and ordinary business premises.

It is postulated that external environment like service quality and physical attraction will have an influence on how they behave as consumers. As such, the theoretical framework which will be discussed in the following chapter will be built upon the discussion of the relevant theories.

1.2.1 Introduction to the Establishment of the Co-operative Movement

The Rochdale Society of Equitable Pioneers, founded in 1844 was the trend setter and the starting point of the foundation of the modern co-operative movement. This co-operative was formed by 28 weavers and other artisans who worked in the cotton mills in the area of Rochdale, England. The purpose of the establishment of the co-operatives was derived from the incapability of the said persons due to the process of mechanisation of the Industrial Revolution that has forced them to fall into poverty as a result of intense depressed working conditions and low wages. Consequently, they were not able to afford the high prices of food and household goods.

It would be almost impossible to get out of poverty that later they realised that their life condition would be enhanced if they collaborated in order to escape from the despair. Together, they successfully formed up their own retail store by pooling 1 pound each and later, when the co-operative shop has been realised, every customer of the shop should become a member so that they would have a stake in the business.

The underpinning principles of how business was done by the pioneers are still accepted and remain essential today as the foundation on how co-operatives operate.



The principle that sets as the guideline by which co-operatives put their values is still held strong until today which will be described below.

1.2.2 The History of the Development of Co-operatives in Malaysia

The British colonial government was responsible to introduce the formation of co-operative in the Federated Malay States in 1922 to encourage savings and to protect farmers and government servants from high debts and deficit spending that were pervasive then. Earlier, Mr. Alexander Cavendish, a British officer, was sent by the British government to India and Burma to learn about co-operatives that were successfully introduced by the two countries. Soon, he proposed his findings to the Federal Legislative Council and finally the “Co-operative Societies Enactment” was established in 1922.

The act was also intimately connected based on the Indian Co-operative Societies Act 1912. Mr. Alexander Cavendish then became the first director of the Co-operative Department and had shaped the co-operative development in this country. With the approval of the Act, the first co-operative was introduced under the activities of thrift and loan co-operative to provide competitive loan and also to curb the high interests of the moneylender in the urban sector (Fredericks, 1986).

The first co-operative to be registered in the urban area was the “Federation of Malaya Postal and Telecommunications Co-operative Thrift and Loan Society



Limited” also known as the “Syarikat Bekerjasama-sama Jimat Cermat Dan Pinjaman Wang Pekerja-Pekerja Jabatan Pos Dan Telekom Berhad”, born on the 21st July 1922.

Then, another co-operative was established in the rural sector. This was basically to alleviate poverty and indebtedness of the smallholder’s and producers of rice, rubber and mixed crops so that with the establishment of the co-operative, the rural people would be able to generate their own capital and free themselves from external financing. The first co-operative that was formed in the rural area is the “Syarikat Kampung Tebuk Haji Musa Bekerjasama-sama Dengan Tanggungan Terhad” located in the state of Perak, to the North of Kuala Lumpur.

This is the second co-operative to be formed in Malaysia. After the implementation of this co-operative, the members no longer have to depend on the traditional ‘cut throat’ concept of ‘padiratus’ or ‘padikunca’ created by the conventional marketing system that were found to be distressing the farmers (Fredericks, 1986). When Malaysia gained independence in 1957, the Malaysian Government begins to recognise co-operatives as an important medium to alleviate poverty and improvement of the socio economic and standard of living of the people (Fredericks, 1986).

1.2.3 The Seven Co-operative Principles of Co-operatives

What differentiates between a co-operative member and an ordinary customer is that a customer does not contribute equity capital in order to control the co-operative in its



daily basis operation. However, they can still purchase the goods and services provided by the co-operative. This factor segregates members of the co-operatives from ordinary customers since members are expected to portray more responsibility in consuming the co-operative goods and services as they have become an owner and obligated towards the success of the co-operative. Every co-operative shares the common principles that govern its day to day operations (International Co-operative Alliance, 2005).

The principles can be briefly elaborated below:

1. Voluntary and open membership.



Co-operatives are voluntary organisations, open to everyone who is able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic member control.

Co-operatives are democratic organisations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In principle, co-operatives, members have equal voting rights (one member, one vote) and co-operatives at other levels are also organised in a democratic manner.



3. Member economic participation.

Members contribute equitably to, and democratically control, the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the co-operative; and supporting other activities approved by the membership.

4. Autonomy and Independence.

Co-operatives are autonomous, self-help organisations controlled by their members. If they enter into agreements with other organisations, including governments, or raise capital from external sources, they do so on the terms that ensure democratic control by their members and maintain their co-operative autonomy.

5. Education, training and information.

Co-operatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Cooperation among co-operatives.

Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.

7. Concern for the community.

Co-operatives work for the sustainable development of their communities through policies approved by their members. Co-operatives put people at heart. Rather than solely focusing on generating profit, co-operatives will first develop the interests and fulfill the needs of the individuals whom the wellbeing are not being executed by any other parties at large. With the co-operative values and principle, co-operatives stand in its own uniqueness to represent the needs of its individual. As it is owned and democratically controlled by the members with a common background, the wider interest of community in the organisation are being secured. Following are the purposes of forming the co-operative;

1. To encourage members with common needs to actively participate in the activities.
2. To uplift the economic and social wellbeing of the members.
3. To encourage deposits, savings or other form of investment for the benefit of its members.
4. To produce suitable funds or credit facilities to assist members for beneficial purposes and to ease their burden during unexpected events.