

## Transformation from cooperative to a bank: An analysis of koperasi tentera in Malaysia

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### ABSTRACT

To transform into a cooperative bank, any cooperative must meet certain criteria as outlined by both Malaysian Cooperative Commission (Suruhanjaya Koperasi Malaysia - SKM) and the Central Bank in terms of legislation, governance and financial performance. For the purpose of transformation, cooperatives also need to consider the willingness of its members towards this agenda. Taking into account the willingness of their members is vital as it reflects their commitment in future business related to cooperative. Thus, this study propose to evaluate the readiness of cooperative's member regarding the transformation of the cooperative to bank sector based on surveys using five dimensions of service quality, SERVQUAL. A total of 299 members of Koperasi Angkatan Tentera Malaysia Berhad (KATMB), known as Koperasi Tentera (KT) were interviewed. The finding shows that members are satisfied with the quality of KT's current service at 9.05 min score out of 10. However they are highly skeptical towards the quality of services provided by cooperative bank after transformation, as the expectations value decline to 6.00 min score only. Statistically, there is a significant difference between their perceptions towards service quality of cooperative and the expectations for cooperative bank which is at 0.05 significant levels. Hence, cooperative should take an action to provide a clear explanation and acceptable assurance that this transformation will improve their quality of service and able to give better benefits to their members.

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## 1. Introduction

Co-operative is defined as collaborative which is originated from English word “co-operation” which means “doing things together”. “Co-operative” is an act of collaboration and helping each other. The International Cooperative Association (ICA) defined co-operative 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’. It is a business voluntarily owned and controlled by its member patrons and operated for them and by them on a non-profit or cost basis [1]. Co-operative is a business enterprise that aims to complete the identity ownership, control and use of service components which are three distinct features that differentiate cooperatives from other businesses [2].

The requirement that emphasis the role of cooperative patron as owners, consumers and controllers is important in order to achieve the goals of co-operative. In owner’s perspective, apart from the obligation to invest capitals and supporting cooperative activities, the member patrons are also responsible to control the cooperative. It is consistent with the concept of democracy, namely the electoral system in which each member has one vote and ultimately has an interest on the choices made.

The existence of co-operative in the world of business and commerce is important to generate economic development, particularly in facing the complexity of the world globalization and economic liberalization. Co-operative was also born in the imperfections of the market economy system which does not support some consumers or societies in a country. In the view of that, co-operative is the business entity that triggered from the idea of its establishment by individuals or groups of people with the aim to boost their own economy and facilitate any charity activities.

In Malaysia, cooperative is an organization that helps to improve the socio economic of its members and has been registered under Act 502 (Cooperative Societies Act 1993). This organization is capitalized, governed and run by a group of people with clear understanding of cooperation basis in order to promote socio economic of its member patrons. In short, cooperative is an organization that operates the business activities intended to facilitate and alleviate the financial hardship of its members. Cooperative provides dividend as a profit return for its members and they also gain the cheaper prices for goods and services. Other facilities like a loan services, charitable contribution of death or a special education contribution for member’s children also offered by cooperative to its member patrons.

The transformation of cooperative to cooperative bank is motivated by the ability of cooperatives to manage the banking functions that is capable to generate a higher assets and acquisition compare to other functions. It is important to ensure the sustainability and viability of a cooperative that requires a new potential and wider area. The development and sustainability in generating higher profits allows the member patrons to have benefit from it. Apart of having the higher dividends, the cooperative members also benefited of the chances of obtaining a higher loans as well as other benefits such as insurance and other welfare schemes in higher rates. Table 1 proves that the total assets (RM84,060 millions) and acquisition (RM6,263.80) of only two (2) cooperatives which are operating in a banking functions ranked at the highest compare to other functions. It prove that the performance of cooperative will more sustainable if it transforms to the cooperative bank and it is undeniable that greater benefit will be spread to member patrons.

**Table 1**  
 General Statistics of Cooperative by Operations

No.	Operation	No. of Cooperation	No. Of Members	Share/ Fees (RM million)	Asset (RM million)	Acquisition (RM million)
1	Banking	2	1009647	3349.46	84060.02	6263.80
2	Credit	589	1653139	5342.69	10820.4	1853.52
3	Agriculture-Adult	2318	542130	516.94	2143.41	799.61
	-School	6	433	0.02	0.05	0.02
4	Housing	180	170846	206.46	982.31	304.30
5	Industrial	225	18399	10.03	76.75	40.39
6	Consumer-Adult	2393	591790	288.08	1260.33	846.23
	-School	2280	2177096	22.54	271.34	312.96
7	Construction	173	506314	43.9	360.12	83.86
8	Transportation	447	148874	64.59	299.58	661.69
9	Services	2301	790536	2967.23	7624.58	21806.04
<b>Total</b>		<b>10914</b>	<b>7609204</b>	<b>12811.94</b>	<b>107898.89</b>	<b>32972.42</b>

Source: Malaysia Co-operative Societies Commission (SKM), 31 December 2013

In order to achieve the goal with the existing models, cooperatives should be transforming to the cooperative bank concept. The transformation will not change the fundamental role of cooperative, but it will enhance the efficiency in business management of the cooperative bank. The necessity for the transformation of cooperative to cooperative bank has to obligate certain criteria as outlined by Malaysia Co-operative Society Commission (SKM) and Bank Negara Malaysia (BNM) from the perspective of legislation, governance and financial performance. Furthermore, cooperative also would have to consider its member patrons preparedness towards the transformation. Owing to the fact, any changes in transformation will require 2/3 endorsement of member patrons in annual general meeting. The question is, will the members agreed with the transformation? The transformation of cooperative banks should be viewed from the aspect of organizational readiness and its members. From the point of view of business strategy, the readiness of cooperative members represents their commitment and any changes without considering their opinions will trigger problems in organization. It is crucial for an organization like cooperative to better understand their member's needs or customer needs in order to compete more effectively with global organizations [21].

Hence, the objective of this paper is to examine and analyse the opinion of cooperative members towards transformation of cooperatives to cooperative banks. Further discussion will be focused on: 2) Conceptual framework and literature review; 3) Research methodology; 4) Findings; as well as 5) Recommendations and Conclusions.

## 2. Conceptual Framework and Literature Review

Most researchers employ a measuring instrument SERVQUAL to measure the quality of customer service [4]. The SERVQUAL measurement scale able to measure a service quality by using 22 basic items and structure of 5 dimensions to explore the data, which can be used to investigate the gaps between recent performance and future expectation or perception from the customer's perspective. According to Carrilla [3], the previous comparative studies of expectation and perception stated that

the findings is more appropriate to utilize in research study since the SERVQUAL instrument measure the perception and expectation directly. All of the five dimensions are tangibles, reliability, responsiveness, assurance and empathy.

### *2.1 Tangibles (Physical Aspects)*

The banking industry is extremely competitive. The tangibles are vital in assisting customer convenience. As mentioned by Parasuraman [4], the tangibles of organization is part of the tangibles dimension encompasses the variety of facilities, personnel, equipment and communication materials. A good quality of tangibles will drive customers to have a good perception towards services quality of the organization.

### *2.2 Reliability*

Reliability in banking industry is [5] referring to the timeliness and accuracy of a service by staffs to manage customer's issues in fulfilling their promises towards customers. The previous study proposes reliability as one of the critical attributes towards customers in which it shapes their expectation on services quality [5]. Apart from that, in conformity with reliability is a main driver for overall of service quality in regards with the organization capability in performing services with the accurate and reliable method [4].

### *2.3 Responsiveness*

In the dimension of services quality, responsiveness is pertinent to a willingness of organization to help their customers. Customers are expected to have high quality of service provided by the organizations. Consequently, customers will feel appreciated concerning to a good service quality that they have been experienced. Therefore, this dimension is very essential and must be considered in this study.

### *2.4 Assurance*

The employees who work in the organization develop the assurance component as part of the dimension of service quality. The employees need to be seen as skilled workers in which customers have trust and confidence in them to provide services. If customers are not comfortable while dealing with the employee, there is a probability that they will withdraw a deal and switch to competitor. Therefore, this component is important to consider in this study.

### *2.5 Empathy*

The customer that has been treated as a unique and special by organization or employees will impact the service quality. From the dimension of service quality, empathy refers to the way of firm deal with customers in providing individualized attention to them There is a great probability that customers will maintain their deals with the firm when they have been experienced the empathy dimensions through quality service and individualize attention. Thus, this component is also important to explore in this study.

The needs of customers or members in regards of services quality of cooperative reflect their support to the institution that provides such of services. In industry context which offers products in the form of services, a quality of service provided to its customers is an important factor to dominate the market share and maintains its sustainability in competitive market [6-7]. An outstanding service

quality will drive to the customer satisfaction [8-9]. It develops into one of the essential determinants in service industries such as banking.

Most of the previous studies have stated that the quality of service is an important element in services industry to endure its survival in the market. Study done by Lau [10], was carried out to identify the most important attributes of services quality in retail banking sector from the perspective of bank's customer against service quality. A sample of 119 retail banking customers was drawn from the Hong Kong and Shanghai Banking Corporation (HSBC) in Hong Kong. The questionnaire developed for this study was based on a SERVQUAL model that identified the influence of five dimensions (i.e. tangibility, responsibility, reliability, assurance and empathy) in banking service environments on customer satisfaction. The results indicate that the five SERVQUAL dimensions have a positive influence on customer satisfaction. This study suggests that SERVQUAL is a suitable instrument for measuring service quality in the retail banking sectors in Hong Kong. Therefore, the industry banking practitioners could consider this instrument as a tool to evaluate and helps them to improve their services quality.

Nazia [11], examines the expectations of the customers towards the services rendered by private sector banks. The study has been conducted in Dhaka city of Bangladesh. This study is based on questionnaire methods. A sample of 100 customers has been selected by using the convenient sampling method. The researcher employed construct of five dimensions developed by [4]. This study concluded that among the several dimensions, customers give emphasize on tangibles, responsiveness and assurance while evaluating service quality. The study highlights that the marketers in banking industry should focus more on customer expectation and improves their delivery of service quality.

Daing Maruak Sadeh [12] determine mean comparison all 6 dimensions between Cooperative Bank and Islamic Bank in Leicestershire, United Kingdom. The study compares the ranking for Cooperative Bank and Islamic Bank based on the customer's preference and lastly identifies the similarities between Cooperative Bank and Islamic Bank. A sample of retail banking customers was surveyed through a SERVQUAL and CARTER scale with six dimensions (Compliance, Assurance, Reliability, Tangible, Empathy and Responsiveness), which customized for suitability of both banks. The study indicated that the mean comparison for all 6 dimensions shows that the "compliance" issues were very important for Islamic bank customers, while the same cannot be mentioned for the cooperative bank customers, who gave more importance to empathy and responsiveness. The results also demonstrated similarities in assurance dimension where almost of the items in assurance have a similar ranking for both banks. Ali [13] investigate how service quality is perceived by customers of Pakistani Islamic and conventional banks located in three major cities; Peshawar, Karachi and Islamabad. This study also seeks to find out elements of service quality that are important for bank customers. The researchers employed construct of five dimensions developed by [4] and add one dimension namely "technology". A total of 520 were collected including 190 responses from Islamic banks' customers and 330 from conventional banks' customers by using convenient sampling technique. For data analysis, descriptive statistics and t-tests were used. The results indicate that customer perception is relatively highest on the assurance dimension of Islamic banks and on the tangibles dimensional of conventional banks. However, customer perception is lowest in the technology and responsiveness area of Islamic banks. The study also indicates that overall perception about service quality is highest in Islamic banks. The study suggests that Islamic banks can improve their service quality by improving their internet facilities and online services.

### 3. Research Methodology

In this study, service quality of cooperative members was evaluated by using construct of five dimensions SERVQUAL as explained earlier. As mentioned by Carmen [14], the modification of measurement items is common based on the vicinity of difference organizations. Parasuraman [15] also opines that SERVQUAL model was used in many research of different areas and industries. They explained that SERVQUAL scale consisted 22 items in which, if necessary, it can be customized or designed based on the needs of particular organization research environment. Therefore, in this study, the researcher adds another three items and makes it 25 items in total to treat the environment research.

A questionnaire was divided by two parts in which the first part evaluate a quality of service provided by cooperative (based on perceptions and experience) and the second part examine an expectations of service quality from cooperative members when the cooperative Koperasi Tentera (KT) is transform to the cooperative bank. The analysis process is using primary data obtained through a questionnaire towards a sample of 299 respondents out of 139189 populations of Koperasi Tentera members [16]. Data was collected by using strata and convenient sampling techniques and it was carried out based on three main groups which are army, air force and navy. Based on the collected data, the gap between perception and expectation of cooperative members (customers) were analysed.

The validity of construct item was evaluated by using factor analysis based on the statistic value of Kaiser-Meyer-Olkin (KMO) and Bartlett's Test of Sphericity. The reliability of scale was assessing through the statistic of Cronbach Alpha to ensure that the level of its internal consistency is reliable [19]. After that, this construct will be calculated by using Mean Attribute Perception Score index (MAPS). MAPS calculating the aggregate score of each items that have been answered by all respondents ( $N_i$ , where  $i = 1, 2, 3, \dots, n$ ) all items ( $X_s$ , where  $s = 1, 2, 3, \dots, m$ ) and divided by the total of respondents ( $N_i$ ). The score value is depending on the scale size which is employed to obtain the score. Subsequently, each dimension have been transformed to the summative rating [17], which creates a single variable for each dimension that measure the construct. This method aims to improve the reliability in measurement [18]. In other words, the item for each construct is measured by using interval scale or Likert scale that measure at the agreed level 1 into 10 score (1=strongly disagree to 10=strongly agree).

### 4. Findings

#### 4.1 Respondent Profile

Most of respondents are from army group which is 76.6%, followed by navy 13.4% and air force (TUDM) 10%. A rank of respondents position consist of commissioned officers (49.8%) and non-commissioned officers (50.2%) (Table 2).

**Table 2**  
Military and Ranks Category

Category	Sub-category	n	Percentage
Military	Navy	40	13.4
	Army	229	76.6
	Air Force	30	10.0
Rank	Non-commissioned officer	150	50.2
	Commissioned officer	149	49.8

Majority of respondents which is 77% are aged between 21-40 years old. Most of them (69.9%) are married. In term of the level of education, 34.4% are educated in degree level, 21.4% have a diploma and 25.7% have Sijil Tinggi Pelajaran Malaysia (STPM) and below (Table 3).

**Table 3**  
 Respondent's Profile

Category	Sub-category	n	Percentage
Age	20 years old and below	3	1.0
	21-30 years old	115	38.5
	31-40 years old	115	38.5
	41-50 years old	59	19.7
	51 years old and above	7	2.3
Marital status	Single	88	29.4
	Married	209	69.9
	Divorce	2	.7
Education level	Master degree and above	35	11.7
	Bachelor degree	100	33.4
	Diploma	87	29.1
	SPM/ STPM	64	21.4
	SRP/PMR	13	4.3

#### 4.2 Members Incentive

Table 4 demonstrate the direct incentives that have been received by cooperative members. Majority of members, which are 19.4% of the 299 respondents receive the incentive excellence schemes. A total of 6.7% out of 299 members assisted by health incentive and 3.0% obtained the funeral expenses benefits.

**Table 4**  
 Benefits/Assistance Received by Members

Benefits/ Assistance	n	Percentage
Excellence incentive scheme	58	19.4
Health aid	20	6.7
Funeral expenses ( <i>khairat kematian</i> )	9	3.0
Disaster relief	3	1.0
Bursaries scheme	1	0.3
General aids	0	0

Table 5 shows indirect benefit through financing services provided to cooperative members. Most of the members which is about 46.8% of them, applied a fee-based financing. A total of 40.5% from 299 members were applied a personal loan and followed by other types of financing. These results indicate that many direct and indirect incentives are acquire by cooperative members.

**Table 5**  
 Loan Products for Members

Loan products	n	Percentage
Loan on top of fees	140	46.8
Personal loan	121	40.5
Insurance/ takaful & Road tax	72	24.1
Ar-rahnu (pawn)	53	17.7
Takaful	22	7.4
Micro finance loan	7	2.3
Housing loan	6	2.0
Vehicle loan	5	1.7
Education loan	5	1.7
Items	2	0.7
Travel and Umrah	0	0.0

#### 4.3 Information of Transformation KT to Cooperative Bank

As view from the situation above, where cooperative members obtained direct incentive (in a form of transferred payment) and indirect incentive (such as a loan), it reflects that they seem to be ready or agree for the transformation of cooperative KT to become a cooperative bank. Nevertheless, the findings demonstrate a contrary results in which half of the respondents (63.2%) not agreed for transformation of cooperative KT to cooperative bank. Only 26.4% stated their consent for the transformation and 10.4% are not sure about it. This situation seems to reflect an absence of confidence of members towards cooperative bank management in providing a good and effective service quality for them, as compared to what they have benefited from the cooperative system today (Table 6).

**Table 6**  
 Percentages of Respondents Approved

Transformation of Cooperative to Cooperate Bank	n	Percentage
Disagree	189	63.2
Agree	79	26.4
Not sure	31	10.4

#### 4.4 Service Quality

SERVQUAL construct based on five dimensions of service quality by Parasuraman [4] was used to explore the level of member's consent or their willingness. The evaluation of service quality from the respondent's viewpoint was assessed from their perception as cooperative KT member as well as their expectation if the transformation of cooperative KT to cooperative bank occurs.

The factor analysis is based on the Principal Component Analysis procedure and varimax rotation. Both of these analyses were used to evaluate the validity of a construct for service quality dimension. The factor analysis indicates that Kaiser-Meyer-Olkin (KMO) value for perceptions of cooperative service quality variable is 0.96 and the Bartlett's Test of Sphericity with Chi-Square value = 17266.976 at degrees of freedom = 300 and significant value = 0.000. On the other hand, for the expectation perception of cooperative transformation to bank stated that Kaiser-Meyer-Olkin (KMO) value is 0.96

and Bartlett's Test of Sphericity with the Chi-Square value is 25825.679 at the same degrees of freedom and significant value = 0.000.

It also show the communalities value for each item is more than 0.8 in which it indicates that each item fulfil the requirement of factor analysis [20]. The application of this factor analysis was determined to five dimensions of service quality that have its eigen value more than 0.279 with cumulative variance is 94.40% for cooperative perception. Whilst, the eigen value for expectation perception is 0.075 and above with the significance level of cumulative variance is 98.48% (Table 7 & Appendix A).

The validity analysis used to determine the consistency level of internal items for each dimension of service quality. Statistic of Cronbah Alpha for both perception of cooperative service quality and expectation service quality for transformation to bank indicates more than 0.8. It shows that the validity level of this instrument is good [19-20].

The member's perception towards current service quality is excellent. The score mean in five dimensions is 9.04 from the maximum score of 10 comprehensively. The mean score for 'reliability' dimension is highest, followed by 'Assurance' dimension with mean score of 9.06 (Table 7). The individual item observation confirms that item in reliability dimension which is "Cooperative staffs process a financing within a predetermined time period" stated the highest mean score which is 9.20, whereas the lowest item is in empathy dimension which is "Cooperative service are provided outside the operation time if necessary" with its mean score of 8.88 (Appendix A). From the mean score that have been mentioned above, it demonstrate that cooperative members are satisfied with the service quality.

However, there is a contrary result for transformation expectation KT into a cooperative bank. The overall finding indicates mean score of 6.00 with "Responsiveness" dimension as the lowest dimension which is 5.97 (Table 7). The individual item observation shows that the item in empathy dimension which is "The services provided by cooperative bank is expected to be wider even though it is operating outside of the operation time if necessary" stated a highest mean score 6.06, while the lowest score mean item in reliability dimension is "Cooperative bank staffs is expected not to make any mistake in dealing with their customers" with mean score of 5.91 (Appendix A). This result is not surprising due to initial survey showed that only 26.4% cooperative members agreed for the transformation. Correlation analysis also demonstrates the significant relationship in all dimensions between cooperative perception and expectation perception towards cooperative bank at 0.05 of significant level (Table 8).

**Table 7**  
 Min Score SERVQUAL

Service Quality	Perception on Cooperative		Perception on Transformation of Cooperation into Cooperative bank	
	Min	Cronbach's Alpha	Min	Cronbach's Alpha
Physical facilities (6 items)	9.05	0.983	5.98	0.993
Trustworthiness (5 items)	9.08	0.977	5.99	0.993
Responsiveness (4 items)	9.04	0.973	5.97	0.995
Assurance (6 items)	9.06	0.982	6.00	0.996
Empathy (4 items)	8.98	0.974	6.05	0.996
Total	9.04	0.978	6.00	0.995

There is a significant gap between recent perception of KT and expectation perception towards cooperative bank. The mean score for cooperative perception is higher than expectation perception if it transform into a bank. Statistically, there is a major difference at significant level 0.05 in all dimension of service quality with t value is more than 13.00 (Table 9).

**Table 8**

Correlation Sample Pairing: Perceptions and Expectations for Transformation of Cooperatives into Cooperative Bank

		<b>Correlation</b>	<b>Sig.</b>
Pair 1	Perception & expectation for physical facilities	0.133	0.021
Pair 2	Perception & expectation for trustworthiness	0.144	0.013
Pair 3	Perception & expectation for responsiveness	0.133	0.021
Pair 4	Perception & expectation for assurance	0.145	0.012
Pair 5	Perception & expectation for empathy	0.125	0.031

**Table 9**

T-test Sample Pairing

		<b>Pair differences</b>		<b>t</b>	<b>Sig. (2-ends)</b>
		<b>Min</b>	<b>Std. Deviation</b>		
Pair 1	Perception & expectation for physical facilities	18.42	22.206	14.344	0.000
Pair 2	Perception & expectation for trustworthiness	15.45	18.254	14.643	0.000
Pair 3	Perception & expectation for responsiveness	12.31	14.805	14.382	0.000
Pair 4	Perception & expectation for assurance	18.32	22.014	14.396	0.000
Pair 5	Perception & expectation for empathy	11.89	14.972	13.743	0.000

## 5. Recommendations and Conclusion

The findings indicate that cooperative members are satisfied with the service quality from KT especially in term of staff performance when dealing with members or clients. They also receive a lot of benefits as a cooperative member such as a loan facility with lowest interest and obtain a reasonable profit rate for their investment. However, most of them are disagree for the transformation of KT to the cooperative bank. It has been demonstrate by the low mean score of expectation service quality, relatively. Statistically, it shows a significant gap between mean score of cooperative perception and expectation perception towards cooperative bank. It also represents a sceptical mind of cooperative members towards KT service quality if the KT cooperative becomes a cooperative bank.

This situation occurs perhaps due to the asymmetrical and imperfect information obtained by cooperative members. According to the interviews conducted in this study, most of cooperative transformation information is acquired from the other cooperative members who also have limited information. Therefore, this study proposed that the cooperative management or its staffs deliver the information directly to its members. Management should emphasize this step to ensure member's commitment and their loyalty retain as it is, as well as an institution survival to endure in competitive global banking system. For that reason, the cooperative should take an initiative to

provide a clear explanation and acceptable assurance that this transformation will improve their efficiency in quality services and able to give better benefits to their members.

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