

CHAPTER I

INTRODUCTION

1.1 BACKGROUND OF RESEARCH

Customers are the lifeblood of any organisation because customer satisfaction is the key to its continued survival. The quality of service is pertinent to measuring user satisfaction. Satisfaction is particularly important in relation to organisations that deliver services rather than goods (Nicholls *et al.*, 1998). Although the banking service is an important component of the service sector, which largely contributes to the national economy of Libya, the increased significance of financial services in recent years has prompted number of private agencies and foreign banks to enter the Libyan market, thus increasing the competition. The onset of competition from private players and the initiation of early banking reforms have increased the emphasis on efficient customer service. Moreover, given the tough competitive arena in which these banks operate today, maintaining service quality is necessary for its survival. Therefore, the measurement of service quality has been gaining increasing interest among service providers (banks) and scholars (Sharma and Mehta, 2005). Therefore, measuring customer satisfaction in banks and the quality of their services is of crucial importance in the field of management, particularly in dealing with business organisations that value quality service.

A number of researchers have studied service quality and have determined their corresponding dimensions. They have agreed that the overall quality of service is a

measure of the degree to which the level of service would satisfy customers. However, numerous organisations are careless about applying these studies, which has broadened the gap between the service provided to customers and the services expected of them. According to Hansemark and Albinson (2004), satisfaction is either an overall customer attitude toward a service provider or an emotional reaction to the difference between what customers anticipate and what they receive in terms of the fulfillment of needs, goals, or desires.

Nevertheless, the competition between organisations has prompted them to provide excellent services. They have set strategies for satisfying the needs and desires of customers and gaining their loyalty. Other strategies include setting high standards for quality services and using a system for monitoring and evaluating service delivery for it to meet customer expectations. The banking sector is one of the most important sectors affecting the economic activities in various countries. This is because this sector provides financial support to individuals and organisations that contribute to several projects required by the government to support the economy and increase the financial returns of its various institutions.

In the present study, the researcher analyzes the views of customers of the banking sector in Libya to understand the relationship between customers' satisfaction with banking services and their loyalty. This goal is accomplished by identifying whether customers' expectations for the service corresponds to the actual performance of the service provided by the employees. In specific, this study is measures customer satisfaction in Libyan banks that operate under the Islamic window system by examining the perceived quality,

expected quality, and awareness of customers and their effects on customer satisfaction. This study also examines the awareness level of Libyan customers on various Islamic products, including the understanding of the key concepts of banking services, such as Mudharabah, Musharakah, Murabahah, Ijarah financing, and a number of interest-free banking services.

The Libyan banking sector consists of several banks, some of which are specialised and aimed at social development, such as savings bank and real estate investments, Agricultural Bank, Rural Bank, and Development Bank. Furthermore, numerous private banks exist in Libya, such as the Mediterranean Bank, the United Bank for Trade and Investment, Bank of the Arab Consensus, Trade and Development Bank, Al-Aman Bank, Al-Sarai Bank, Arab Commercial Bank, and Al-Wafa Bank. Only one bank specialises in financial businesses abroad and performs some banking, the Libyan foreign bank. Many commercial banks also exist, such as Jamahiriya Bank, (the biggest bank in Libya), Wahda Bank, National Institutional Bank, National Commercial Bank, and Sahara Bank. At the moment, however, only three banks provide Islamic banking facilities, namely, Jamahiriya Bank, Wahda Bank, and Sahara Bank.

1.2 PROBLEM STATEMENT

The success of commercial banks in gaining new customers while maintaining their existing ones in this highly competitive environment requires them to measure customer satisfaction and the quality of service performance. This premise indicates that all types of commercial banks should improve their service quality to overlap with customer

expectations (Safakli, 2006). Thus, all organisations in this modern era are interested in modern marketing and aim to fulfill the demands and wishes of their customers by providing better banking services.

According to Saleem (2005), Islamic banks give little attention to their quality of services which they already offer, especially if they enjoy positions where they can exercise some monopolistic control in the marketplace, which, most of the time, is based on religious legitimacy.

However, nowadays the monopolistic position is deteriorating, the reason behind that lies in the multiplicity of Islamic banks in many countries and the entry of conventional banks into the Islamic finance market (Saleem, 2005). In this case, the ability of the Islamic banking industry to secure a greater market share is dependent on the strategic positioning of the Islamic banking players to maintain their offering of services that satisfy customers' needs (Dusuki and Abdullah, 2007).

Nevertheless, customers of Islamic banks are no longer only looking at the compliance of Shariah (Amiri, 2008) or the religious loyalty. Their trust in subscribing to Islamic financial products does not simply come from the products or services being Islamic, but also in their positive performance and the quality of services provided by Islamic banks which will lead to customer satisfaction.

Studies related to the subject of the level of customer satisfaction with regard to the services provided by banks in Libya are few. Only few studies have focused on service quality measurement in the banking sector and the significance of customer satisfaction in

the banks in Libya. Results of other studies performed in the region for example (Logasvathi M and Haitham A. A, 2015) will differ to the situation in Libya as the demographic, social, political, economic, and technological factors in each countries are unique despite similar regional characteristics they share. Moreover, no study on customer satisfaction is available on Islamic banking window operations, since Islamic products and services only have been introduced in Libya in 2009,

This study attempts to identify the views of customers who deal with banks in Libya. It seeks to determine the customers' degree of satisfaction with the services provided to them and identify the condition of these current services. The study also aims to ascertain whether or not the services provided conform to customers' expectations. The study aims to determine the possibility of knowing customer awareness of the Islamic services and products, which are provided by Islamic windows in commercial banks.

The researcher notes that the customers tend to stand in queue at some banks. Standing in line for a long time at the banks is unproductive. In addition to the issue of customer satisfaction to the quality of services provided the banks customer awareness of Islamic banking operation is lacking. This may be due to limited numbers of specialized officers at the branch level who would educate customers to further understand about Islamic financial products. While it is true that Libya has recently opened its doors for Islamic finance, there are a growing number of institutions converting their operations to Islamic banking, which require studies on customer satisfaction to further improve service delivery of this segment of banking operations. In order to examine the level of customer satisfaction of Islamic banks, Libyan banks that provide Islamic window system are

examined in relation to their service quality in a comparative manner. This study hence fills an important gap in the literature in customer satisfaction and its relation to service quality.

1.3 OBJECTIVES OF THE STUDY

This study examines the level of customer satisfaction with the services provided and customer awareness of services and products provided through the Islamic windows in commercial banks in Libya. The research has the following specific objectives:

- 1- To study the awareness of Libyan customers of Islamic banking products and services in the Islamic windows in commercial banks;
- 2- To examine the dimensions of the expected quality of customer service in the Islamic windows in commercial banks;
- 3- To explore the dimensions of the perceived quality of customer service in the Islamic windows in commercial banks;
- 4- To study the difference between expected quality and perceived quality by the customers in the Islamic windows in commercial banks;
- 5- To investigate the relationship between perceived service quality and customer satisfaction, moderated by demographic variables such as gender and marital status in the Islamic windows in commercial banks;

- 6- To investigate the relationship between customer awareness and customer satisfaction, moderated by demographic variables such as gender and marital status in the Islamic windows in commercial banks;
- 7- To study the relationship between expected service quality and customer satisfaction mediated by perceived service quality in the Islamic windows in commercial banks.

1.4 RESEARCH QUESTIONS

This study attempts to answer the following research questions:

- 1- What is the level of awareness of Libyan customers of Islamic banking products and services provided by Islamic windows in commercial banks?
- 2- What are the dimensions of the expected quality of customer service in the Islamic windows in commercial banks?
- 3- What are the dimensions of the perceived quality of customer service in the Islamic windows in commercial banks?
- 4- Do any differences exist between the expected quality and the perceived quality by the customers in the Islamic windows in commercial banks?

- 5- What are the relationships between perceived service quality and customer satisfaction, moderated by demographic variables such as gender and marital status in the Islamic windows in commercial banks?
- 6- What are the relationships between customer awareness and customer satisfaction, moderated by demographic variables such as gender and marital status in the Islamic windows in commercial banks?
- 7- What is the relationship between expected service quality and customer satisfaction mediated by perceived service quality in the Islamic windows in commercial banks?

1.5 SIGNIFICANCE OF THE STUDY

There are numerous theoretical and empirical studies which have investigated the phenomenon of service quality in the West such as (Zeithaml et al., 1990; Fisk and Grove, 1995). Nevertheless, research investigating the expectation, perception and attitudes toward service quality and the service quality in Libyan banks remains embryonic. With the newly introduced specialized type of banking, namely Islamic banking, it is critical for a study that examines the customers' satisfaction of this segment of banking, so that imperfections could be identified and improvements could be made. Thus, this study aims to fill the observed gap in the literature by studying the Islamic banking windows in Libya.

Moreover, there is a crucial need to conduct research on awareness of the customers on Islamic services and products since this type of service was just newly introduced in Libya. Islamic banks are established based on religious framework that involves a series of contracts and operations which are used to create financial products in the market. This is entirely different from the conventional banks where interest is an important part of their business, while Islamic banks are created to avoid interest in all financial transactions. Customer awareness of the types of financing that Islamic window operation offers is critical to the success of its operation in the long term. If the customers are able to identify the advantages of Islamic banking products, they will put a premium to this service and this will results to Islamic banking operation to be sustainable in the long term, Thus, it is pertinent to study customer awareness on Islamic banking concepts that are used in its operation.

Moreover, the evaluation of Islamic banks' customer satisfaction and service quality are essential for all parties in an aggressive and competitive financial market as in Libya. Their performance will be the imperative indicator used by investors, depositors, bank managers and regulators (Samad and Hassan, 1999).

While Islamic banks are considered to attract individual customers mainly due to their religious orientation, with the increasing number of Islamic banks and Islamic windows, other factors such as quality may play a role in determining customer patronage and satisfaction. For this reason, there is a growing volume of literature available in the case of Islamic banks as well (Abdullah and Kassim, 2009; Abdullrahim, 2010; Almosawi, 2001; Al-Tamimim et al., 2003; Amin and Isa, 2008; Erol and El-Bdour, 1989; Gait and

Worthington, 2008; Metawa and Almossawi, 1998; Al Zaabi, 2006; Othman and Owen, 2002a; Othman and Owen, 2002b). A similar situation is encountered in Libya. Even though the majority of the populations of Libya are Muslims, the reasons for Islamic banking patronage are not known; either due to their religious orientation or other factors that relates to service quality provided in the Islamic banking operation. Thus this study addresses the gap.

As for the case study on Libya, as known since the revolution, Libya has not had any significant presence of Islamic banking and finance. The Central Bank of Libya started the initiatives to develop Islamic banking practices in Libya with the publication of its guideline numbered A. R. N. M. No. (9) in 2009 that granted approval for commercial banks to start the development and delivery of Islamic- banking products. This study attempts to fill this observed gap in the existing body of knowledge by providing insights into customer satisfaction and service quality of Islamic banks in Libya. It is also important to note that customer satisfaction and service quality can be essential factors in customer retention and new customer intake.

Finally this study sheds light on the apparent lack of measurement and analysis of the satisfaction levels and quality of banking services from the customers' perspective. The study also sheds light on the nature of Islamic windows in commercial banks in Libya and the challenges faced by them in the current circumstances of open markets and globalization. The banking service is an important component of the service sector, which largely contributes to the national economy of Libya.

The findings of this study explain the impact of customer satisfaction with the quality of banking services and the tendency of customers to repeat their transactions, as it would help banks to assess customer needs and attract new customers. The findings may also assist these banks to develop and implement successful service marketing strategies in the Libyan banking market.

1.6 CONTRIBUTIONS OF THE STUDY

This study contributes to the theoretical development in the field of customer satisfaction in the banking sector by combining the relationship between the SERVQUAL theory, contrast theory, cognitive dissonance (assimilation theory), and assimilation–contrast theory. It also proposes a model to explain the structural relationships among service quality (Expected - Perceived), customer awareness, and customer satisfaction. It adds to the previous knowledge by developing a model that explains how service quality (Expected - Perceived) and customer awareness influence customer satisfaction. This study provides an insight into the relationships between customer awareness and customer satisfaction. The most important theoretical contribution of this study is initiating the development of theoretical foundations for the relationships between customer awareness and customer satisfaction. Another contribution stems from the methodological application, that is, the third-order confirmatory factor analysis of the perceived service quality.

On the other hand, the findings of this study explain how the multi-dimensional framework developed allows banking service providers to identify the most and the least important dimensions that underlie customers' perception of service quality (Expected - Perceived). The results of this study also indicate that customers perceive the PSQ sub-dimension variables as more important sub-dimensions of the ESQ than the customer awareness (AWARE) sub-dimension in the Libyan banking market. Therefore, managers of the banking industry should allocate more resources to improve their PSQ to meet their expectations and improve the customer awareness.

1.7 SCOPE OF THE STUDY

This study focuses only on examining the customer satisfaction in Islamic windows in commercial banks operating in Libya; other topics pertaining to full Islamic banks operations, such as measuring the level of customer awareness of the services provided by these banks, shall be explored in future research. The study also analyses the relationship between perceived service quality and customer satisfaction, and between customer awareness and customer satisfaction, moderated by demographic variables such as gender and marital status in the Islamic windows in commercial banks. Then, the study attempts to evaluate the experiences of Islamic windows in commercial banks in Libya in general. Therefore, the study focuses only on Islamic windows in commercial banks that have branches distributed in Libya.

1.8 DEFINITIONS OF KEY TERMS

The following is a list of the key terms of the study:

- 1- **Customer satisfaction** is a function of the customer's assessment of service quality, product quality, and price (Zeithaml, Berry, & Parasuraman, 1993). Customer satisfaction can be thought of as a user or purchaser having his/her needs and expectations fulfilled. According to Hanssens and Albinson (2004), satisfaction is the overall customer's attitude towards a service provider, or an emotional reaction to the difference between what customers anticipate and what they receive.
- 2- **Quality** is the total composite product and service characteristics of marketing, manufacturing, engineering, and maintenance through which the product and service in use will meet customers' expectations (Feigenbaum, 1983). A more specific definition is "conformance to requirements" (Crosby, 1984).
- 3- **Expectations** refer to the factors that customers desire in a service, and customers operationalise such expectations as the level of service that they expect an organisation to deliver (Parasuraman et al., 1988).
- 4- **Perceived service quality** represents the discrepancy between consumers' expectations and the actual performance that the consumers perceive they have received (Parasuraman et al., 1988; Gronroos, 1984; Czepiel, 1980; Lewis & Booms, 1983).
- 5- **Service quality** is the consumer's overall impression of the relative inferiority/superiority of the organisation and its services (Booms & Mohr, 1994).

Parasuraman, Zeithaml, and Berry (1985) defined service quality as “a function of the differences between expectations and performance along the quality dimensions.”

- 6- **Awareness** denotes an individual’s understanding of, or familiarity with, something. When someone says, “I am aware of the service,” for instance, service awareness is evident.
- 7- **Disinformation** is defined as the discrepancy between predictive expectations and perceived performance (Oliver, 1980).
- 8- **Demographic variables** are the characteristics of the aggregate population that marketers use to segment the market; these variables include age, ethnicity, income, education, gender, and race. Other characteristics include occupation, family size, religion, and social class. These characteristics are the link to buyers’ wants and needs and they affect the purchasing behavior. Carefully studying population groups enables marketers to develop marketing mixes that maximise customers’ activity.

1.9 OUTLINE OF THE STUDY

This study is divided into six chapters, as shown in Figure 1.1, which is briefly outlined below:

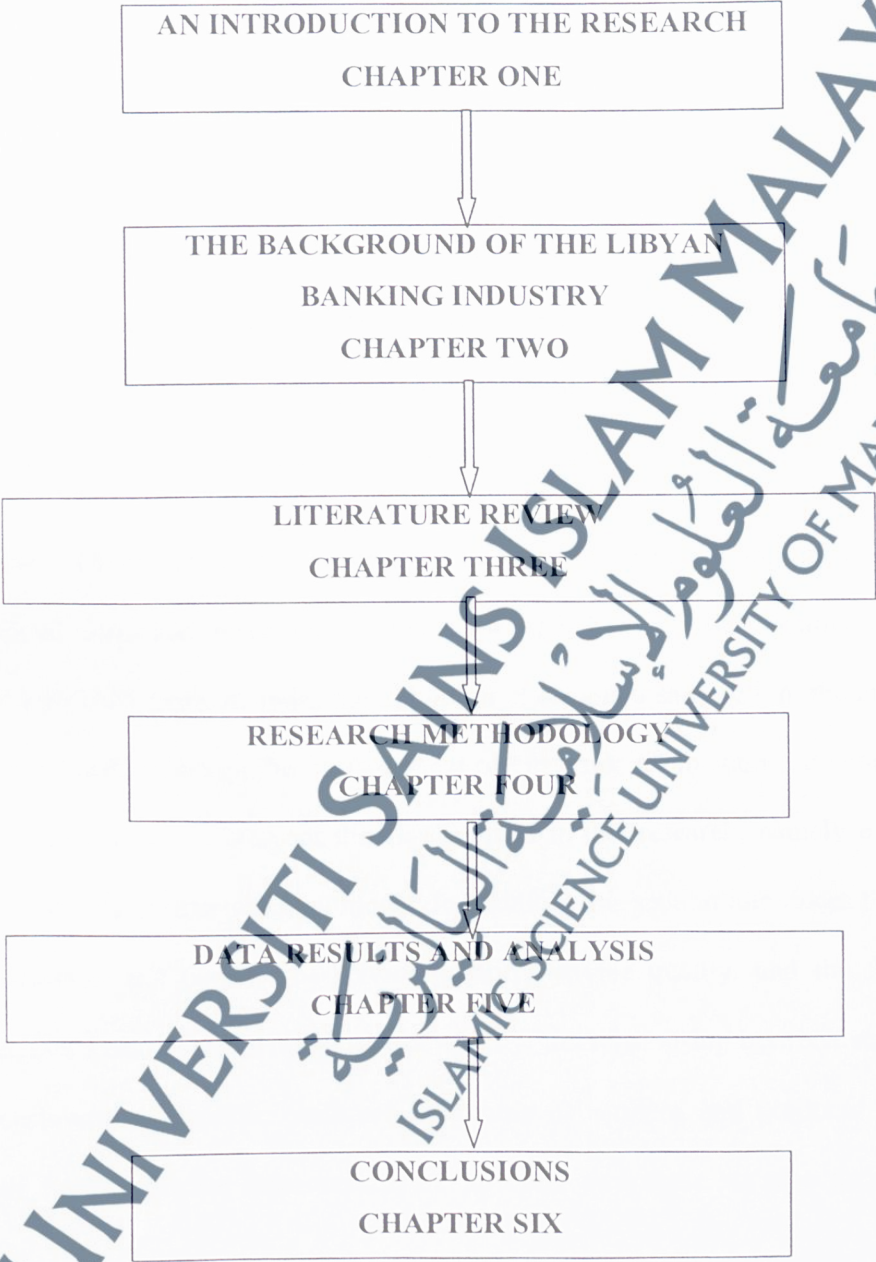


Figure 1.1 Outline of the study

Chapter One consists of the background of the research, problem statement, objectives of the study, research questions, significance of the study, contributions of this study, scope of the study, definition of key terms, and an outline of the study.

Chapter Two contains the background of the Libyan banking industry, which comprises an introduction about Libya, the structure of the Libyan financial system, the structure of the Libyan banking sector, the Central Bank of Libya, the Libyan Foreign Bank, state-owned banks, and specialised banks. Specialised banks aim at social development, and state-owned banks include commercial banks and private banks. It also consists of an overview of Islamic-window operations in Libyan banks, Islamic modes of finance, Islamisation of banking service in Libya and conclusion.

Chapter Three provides a review of the relevant literature regarding the conceptualisation and measurement of customer satisfaction, service quality and customer awareness. The review includes the definition of customer satisfaction, the importance of customer satisfaction and the measurement of customer satisfaction. Literature review is also conducted on the relevant theories adopted in this research, namely psychological theories and the disconfirmation model. In addition, this section introduces the readers to the definition and concept of service quality, service quality, and the SERVQUAL model. Antecedent studies about service quality, the relationship between service quality and customer satisfaction, customer awareness of services and products provided by Islamic banks, and the measurement of customer awareness are also included in this section.

Chapter Four provides discussion on the methodology adopted in this study. It consists of the research strategy, discussion of the research questions and model development and hypotheses of the study. The explanations on how the researcher performed the questionnaire design and research design which includes the identified the population of the study, determined the sample size and identified the data collection method are provided in this section. The preliminary results necessary for data screening, missing data remedy, outlier detection, the normality test, exploratory factor analysis, unidimensionality analysis as well as reliability and validity analyses are presented in this chapter. The initial structural equation modeling, and measurement models, which include the confirmatory factor analysis are also reported in this chapter. Finally, this chapter includes summary of methodology which have been used in this study.

Chapter Five covers the data analysis and results, which start with descriptive statistics for demographic variables, and then the second part provides a description of the customer awareness of products and services provided by Islamic window banks. The third part provides a descriptive analysis of the service quality (Perceived - Expected) dimensions. The fourth part presents the results of the normality test for this questionnaire. The fifth part also establishes the results of the confirmatory factor analysis conducted to confirm the factor structure of the constructs. The sixth part explores the structural equation modelling (SEM). Next, the seventh part examines the results of the hypothesis tests by (SEM) and a paired sample t-test. The eighth part examines the gap analysis between expected and perceived service quality. The ninth part presents the results of hypothesis testing that was performed via the SEM and a paired sample t-test, including the testing of direct relationships, moderating effect, and indirect relationships

and the final part presents the discussion of research objectives and research questions and summary of the chapter.

Chapter Six offers the conclusion of research which includes the summary of the findings of the study, followed by the implications of the study which includes theoretical and practical implications, also, provides limitations which have faced the researcher during doing his PhD. This chapter also features some suggestions for future research.

