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SERVICE QUALITY AND CUSTOMER SATISFACTION IN THE BANKING SECTOR-A CASE STUDY FROM LIBYA

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ABSTRACT

As the service industry becomes increasingly competitive, firms continuously look for ways to distinguish themselves from competitors. Service quality has attracted major attention from academic researches as well as marketers over the recent years due to its significant role in business performance and maintenance of customer loyalty. The dynamics of service quality and satisfaction of customer on banks situated in various Libya indicates that earlier studies offered no consensus over the subject, to confirm the issues and trends of these factors which regulate service quality and customer satisfaction. The Libyan banking sector has experienced significant developments particularly following the issuance of laws concerning banks and money by the Central Bank of Libya. The study identified the possible expectations that customers have on the quality of service. The aim of this research is to analyze the impact of service quality on customer satisfaction with reference to Libya selected banking sector. Qualitative research method is used to conduct this study. The selection of primary studies is done by conducting interviews in a bank as professional service industry. The research findings are analysed by qualitative data analyses techniques to build analyses and draw conclusions. Findings reveal that quality of service does effect the customer satisfaction up to some certain level as both concepts are distinct and the relationship found between them is casual. Libya is a developing economy, and its banking sector has wide geographic reach catering to needs of a diverse range of customers. In this regard, the Libyans context offers a good opportunity for examining the issue of banking quality. It also identifies various factors affecting the both constructs. Service firms can adopt various practices as explained in this study in order to improve the quality of service that can best serve existing and future customers. Most customers have difficulty in understanding the complex nature of financial products and thus tend to focus on brand names, which are generally built on quality services.

Introduction

Customer service is considered as an integral part of any facet of industry and it defines the future of any organization. The rapid advances in technology based systems related to internet are leading to fundamental ways in how different organizations interact. This applies same for relation of an organization with its customer. In different services industries the relationship between customer satisfaction and service attributes have been difficult to identify because services nature is intangible[1].

For marketers or service providers, achieving customer satisfaction is important because it is supposed to be an important motive of customer loyalty, repeated business (with customer) and positive word of mouth[2]. However quality is not the only factor that effects the customer satisfaction, there are other factors beside quality like Performance, Expectations[3], desires and price factor affect the customer perceptions and the overall satisfaction level. Where quality of service is a descendent of customer satisfaction as described by Cronin and Taylor (1992)[4], Service quality is not the only factor that has direct impact on customer satisfaction.

Libya is a country extending over an area of 1,759,540 square kilometers and is ranked 17th nation in the world according to size. In the context of land area, Libya is smaller compared to Indonesia and approximately akin to the size of Alaska, U.S. To the north, it is bound by the Mediterranean Sea, to the west by Tunis and Algeria, to the southwest by Niger, to the south by both Chad and Sudan and finally to the east by Egypt. The Libyan economy is primarily dependent on oil sector revenues which makes up almost all export earnings and around a quarter of the GDP (gross domestic product). Banking institutions are facing the challenge of customer satisfaction of in light of their service in several situations; impolite service at the counter, no enough employees to attend customers, busy telephone lines and limited banking times. This is particularly true in Libya, a developing country where the banking culture lacks structure. Therefore, the Libyan banking institutions are required to expend more efforts and to carry out research to direct banking services in the attainment of customer satisfaction

The Libyan banking sector has experienced significant developments particularly following the issuance of laws concerning banks and money by the Central Bank of Libya. In 2005, the Central Bank of Libya played a key role in organizing banks and restructuring capitals inducing them to look for investment opportunities in order to compete in the provision of services akin to that of international banking services and in order to attract depositors and investors to increase the equities and complete the capital. These laws urged banks to have a capital not less than 30 million Libyan dinars. Consequently, banks initiated their new marketing services that used to be lacking in Libya including the Visa Card, Electronic Bank Services, Mobile bank, Western Union and Money Gram. In addition, top financial institutions looked to satisfy the customers' needs and demands for their survival and successful competition in the current dynamic corporate marketplace. In addition, although customer satisfaction has long been the focus of the local press, there is little evidence revealing that it plays a key role in Libyan local banking market[5]. The significance of customer satisfaction in banks vary from one country to another owing to reasons such as social, economic, political and technological environmental factors. Factors relating to customer satisfaction are significant in some countries but are not in others and this relates to the banking services in Libya. This is an empirical study using mainly primary data collected through a well-structured questionnaire. The method of the study Validity and reliability testing of questionnaire using SPSS program for windows version 19, the questionnaire has been personally administered on a sample size of 500 bank customers.

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Review of Literature

Related work and theories of different authors is discussed to explain the purpose and to answer the research problems of the study. It starts with analyzing the effect of service quality on customer satisfaction by describing the relationship between the both constructs.

According to Abdullah. R (1996)[2] who studied the relationship between security and customer satisfaction, it showed that there is a negative relationship between these variables. Among the many studies in literature dedicated to customer satisfaction in banks, Al-bro's (1999)[6] study in the context of Washington, U.S., utilized a benchmark involving bank customers from all geographic areas and bank assets. The study involved asking customers various questions concerning their satisfaction with the banks. Samli and Frohlich (1992)[7] showed that delivering quality services to customers is a must for success and survival in today's competitive banking environment. Tsoukatos and Mastrojianni (2010)[8] examined the determinants of quality retail banking services to build a quality scale and used BSQ in banks to better understand the determinants of quality in the industry.

Statement of the problem

Expansionary economic activities by individuals, corporations and governments are mostly financed by the banking sector. Globally banks are entering a new dispensation. Financial liberalization and deregulation together with globalization of markets exacerbated the intensity of competition. This coupled with rapid technological advancement and improved communication systems, have contributed to the increasing integration and resemblance amongst banks in the financial sector. As a result, banks are now faced with very high and intense competition. Banks must develop customer-oriented strategies in order to compete successfully in the competitive banking environment. The longer a bank can retain a customer, the greater the revenue and cost savings from that customer. Since financial services, particularly banks compete in the marketplace with generally undifferentiated products; service quality becomes inevitably a formidable competitive weapon. In a similar vein, customers are also more prone to changing their banking behavior when they purchase nearly identical financial products provided by retail banks and other financial institutions. Despite general economic recovery and growth, the Libyan banking sector is still haunted by inadequate capitalization, high operational costs, corporate governance problems, liquidity crisis, lack of skilled manpower and unprecedented levels of customer defection, all stifling growth. Service quality is closely related with customer satisfaction[9]. Several studies have emphasized the significance of customer retention in the banking industry. However, there has been little empirical research that investigates the constructs leading to customer retention. Previous empirical work has focused on identifying constructs that are precursors to customer retention

Aims and objectives

The aim of this research is to investigate the link between service quality and customer satisfaction and the ways through which service firms can improve and manage the process of delivering quality standards to their customers in selected bank of Libya. The research mainly focuses on the service industry which is a broad term therefore banking sector is selected among other service institutions. Qualitative methodology is used for the purpose of research. Interviews are conducted of managers involved in developing policies or procedures to improve service quality and to serve current and future customers. The research findings are analysed by qualitative data analyses techniques to build analyses and draw conclusions.

Materials and Methods

The study used both exploratory and descriptive research designs. Data was collected from a sample of managers, employees and customers. Questionnaires were used to collect data from customers and employees. Interviews were used to collect data from managers. Data was obtained

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through questionnaires sent to a sample of customers and employees from Chinhoyi banks. The survey was designed according to the Dillman Total Design Method (1978)[10], which has proven to result in improved response rates and data quality. The questionnaire gathered information on consumers' perceptions of their banks, the reasons they remain with their banks, and reasons why they might switch to a rival. Likert-format items were presented with 5-point scales, where 1 = "strongly disagree," 3 = "neither disagree nor agree," and 5 = "strongly agree." The study made use of both stratified random sampling and purposive sampling techniques. Stratified random sampling process and purposive raised a sample size of (n=500). The sample was considered large enough for findings to be generalized.

Population: The target population comprised of commercial banks in Libya like Jumhouria Bank, National Commercial Bank, Sahara Bank, Wahda Bank, The Libyan Foreign Bank (LFB). The sampling frame was supplied by Central Bank of Libya (CBL) upon written request.

Instruments: Structured questionnaires were used to collect data from 500 customers,100 employees and 12 managers/deputy managers. The customers' questionnaire required them to indicate whether they were satisfied with the banking services, how long they were going to stay with the bank, what attracted them to the bank, reasons why customers defect from the bank and strategies that can be used to retain customers. The employees' questionnaire required them to indicate the reasons for customer defection, strategies to attract customers and retain customers. Interview guide for management had similar questions with those on the employees' questionnaire. In this study the researcher will examine how the independent variables affect the dependent variable. Hence the dependent variable is customer satisfaction, and the independent variables are Customer Loyalty, Service Quality, and Security.

Results and discussion

The questionnaires used had likert scale items that were to be responded to. For reliability analysis Cronbach's alpha was calculated by application of Statistical Package for Social Sciences (SPSS). The value of the alpha coefficient ranges from 0 to 1 and may be used to describe the reliability of factors extracted from dichotomous and/or multi-point formatted questionnaires or scales (i.e., rating scale: 1 = poor, 5 = excellent). A higher value shows a more reliable generated scale. Cooper & Schindler (2008)[11] indicated 0.8 to be an acceptable reliability coefficient. Since, the alpha coefficients were all greater than 0.8, a conclusion was drawn that the instruments had an acceptable reliability coefficient and were appropriate for the study.

Variable	Cronbach's Alpha	Items
Service quality	0.81	6
Service perception	0.86	11
Service expectations	0.84	4

As shown in Table 1, a total of 500 customers were considered. Among these, 284 (56.8%) were male. There were fewer customers with some Libyan banks experience in long-time accounts.

Table 1: The Respondent Profile

Characteristics	Frequency	%
Gender		
Male	284	56.8
Female	216	43.2
Total	**500**	**100**
Age		
18-35	132	26.4
36-55	174	34.8
Over 55	194	38.8

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Total	**500**	**100**
Experience		
Less than 1 year	156.5	31.3
1-5 years	230	46
More than 5 years	113.5	22.7
Total	**500**	**100**

Table 2: Descriptive Statistics

	n	Minimum	Maximum	Mean	Std. Deviation
Customer Satisfaction	500	4.38	6.25	4.93	0.31
Customer Loyalty	500	3.84	5.38	4.44	0.32
Service Quality	500	4.2	7	5.42	0.66
Security	500	3.9	6.5	5.31	0.49

From the Table 2 descriptive statistics, the total sample size (n) is 500 respondents. Customer satisfaction has mean of 4.93 and stander deviation of .31. The lowest value was 4.38 and the highest 6.25. Customer loyalty shows mean of 4.44 and stander deviation of .32. The lowest value was 3.84, and the highest 5.38. Customer loyalty refers to the extent of the customer's desire to continue to deal with the bank and not dealing with the alternatives offered by other banks. This study shows that there is positively correlated between customer loyalty and customer satisfaction. The bank customers in Libya prefer transaction with the banks which they feel it's they belongs. Service quality has mean of 5.42 and stander deviation of .66 the lowest value was 4.2 and the highest 7. Likewise, as for service quality the result indicates that 1% change in service quality leads to 51.9% increase in customer satisfaction. Almost same with customer loyalty, this result suggests that service quality also has a big influence on customer satisfaction. There is a significant and positive relationship between service quality and customer satisfaction (t-statistic=6.178, $p<0.01$). The positive relationship indicates that the higher the service quality is expected that the bank provide a higher customer satisfaction in respective banks. Security has mean of 5.31, and stander deviation of .49 the lowest value was 3.9 and the highest 6.5. This result suggests that security has influence on customer satisfaction. There is a negative relationship between security and customer satisfaction with a statistical significant (t-statistic= -3.595. The negative relationship indicates that less security is expected that the bank provide more customer satisfaction in respective banks. The negative relationship indicates that high security provide less customer satisfaction due to high documentation and other banks procedures in applying or getting banking products and services.

Multicollinearity Analysis: The F test is used to determine whether there is a significant overall relationship between the dependent variable and the set of all independent variables, while Multi co-linearity is used to determine the relationship among the independent variables one another. In short the Multi co-linearity refers to the correlation among the independent variables. Multicollinearity is a problem in multiple regressions that develops when one or more of the independent variables are highly correlated with one or more of the other independent variables[12]. The Variance Inflation Factor (VIF) is widely used measures of the degree of Multicollinearity of the independent variable with the other independent variables in regression model. So if the value of VIF reaches 10 the Multicollinearity regarded as a serious one, if so should reduce the co linearity by eliminating one or more variables[13].

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Table 3: Multicollinearity Analysis on Libyan Banking Sector

	Co-linearity Tolerance	Statistics - VIF
Service Quality	0.976	0.983
Customer Loyalty	0.424	2.265
Security	0.972	0.987

As can be clearly seen from the above Table 3 hat there is no multicollinearity is-sue, whereby the VIF value is less than 10. Hence, the assumption of multicollinearity has not been violated.

Perception of the banks physical facilities: The technology and equipment used in the bank was indicated as state of the art. 238 out of the 500 respondents ranked it 5 or 4 making a total of 47.6% .Most of the respondents agreed that the technology and equipment used in most of their banks was state of the art as illustrated in the pie chart below.

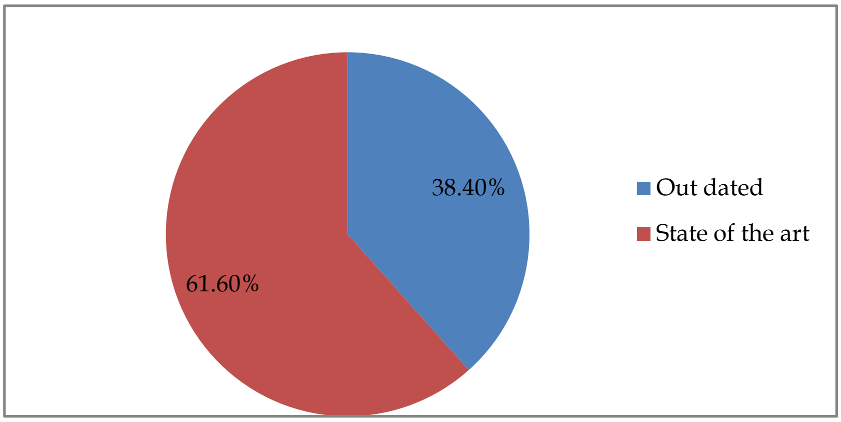

Figure 1: A pie chart illustrating customer perception of technology and equipment use in the bank

Customer satisfaction levels: The customers were given a chance to give their opinion on what they felt needed to be done to increase the level of satisfaction with bank services and products .Reponses were categorized into themes and the following results were obtained:

Amount of time customers spend at the queue had the highest frequency with 270 out of 500 respondents categorically stating that they expect their banks to reduce the time spent serving customers, cost also had the highest frequency with 221 out of 500 respondents categorically stating that they expect their banks to reduce service costs and reduction of the amount of paperwork involved in obtaining credit facilities was mentioned by 102 respondents. The bar graph (Figure 2) below illustrates the findings.

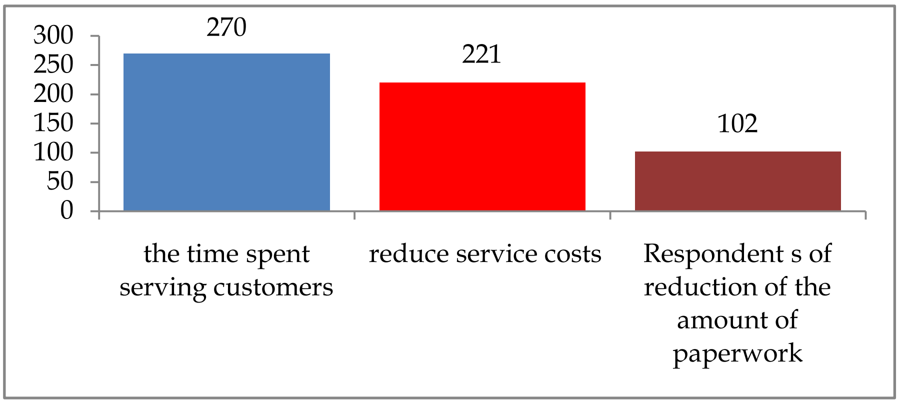

Figure 2: A bar graph illustrating factors that customers felt needed to improve to increase level of satisfaction.

Conclusions

Findings reveal that quality of service does effect the customer satisfaction up to some certain level as both concepts are distinct and the relationship found between them is casual. Also the quality of service has significant contribution towards customer satisfaction because it is affected by various factors such as human interaction, physical environment, value, price, performance etc. To improve performance system companies should focus more on introducing employee oriented policies by establishing a service culture followed by a strong strategy in place and by removing gaps between management – employees and its customers. It is found that through proper planning and constant monitoring firms can develop effective strategies to improve quality levels and to retain their existing & future customers. Due to the wide variation of the responses, both public and private banks need to consider the weak areas in order to meet customer requirements. Hence, to be successful in banking sector, banks must provide service to their customer that at least meets or better if exceeds their expectations, and this study provides some sort of guidelines to the policy makers (managers) of banks to take appropriate decisions to improve the quality of services in Libyan banking sector.

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