Customer Satisfaction and Islamic Banking Awareness in the Islamic Banking Window System in Libya

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Abstract: This study aims to measure customer satisfaction in Libyan banks which operate under the Islamic window system, by examining the dimensions of the perceived quality and their effects on customer satisfaction. Using the modified SERVQUAL model, the dimensions of the service quality to be examined are: Tangibility, Assurance, Reliability, Responsiveness and Empathy. This study also examines the awareness level of Libyan customers on various Islamic products such as the understanding of the key concepts of banking service, namely *mudharabah, musharakah, murabahah, ijarah* financing and a number of interest-free bank services. 366 samples were taken from three commercial banks in Libya which have been adopting the window Islamic system namely Gumhouria Bank, Wahda Bank and Sahara Bank. The researcher used Cronbach Alpha to measure the reliability questionnaire. Finally, the researcher performed the multiple regression analysis to determine the relationship between customers' satisfaction and the five dimensions of service quality as indicated by the SERVQUAL model. The study finds that there is a positive and significant relationship between customer satisfaction and constructs of service quality like Tangibility, Responsiveness, Assurance and Empathy, with the exception that the Reliability dimension does not have any effect on customer satisfaction. The results of this study will be useful for policy-making by authorities in Libya that are responsible for the development of banking sector, especially the Islamic banking window system. Future research is needed to study further on the readiness of the customers for a full fledged Islamic banking operation.

Key words: Customer satisfaction · Service quality · Customer awareness · Windows Islamic bank

INTRODUCTION

The central bank of Libya is a major monetary authority in Libya and it is an independent financial institution which is owned wholly by the state. The Central bank of Libya started on the first of April 1956, backed by the Libyan Monetary Committee (LMC), which was established in 1951 [1]. The Libyan banking sector consists of several banks-some of them specialized and, which aimed at social development their number four Banks and also there are many private banks their number eight banks. Furthermore, there is only one bank specialized in financial businesses abroad and for its loyal customers to perform some banking activities abroad.

However, there are many commercial banks such as the Jamahiriya Bank as the biggest bank in Libya, Wahda Bank, National Institutional bank, National Commercial Bank and Sahara Bank. At the moment, there are three banks which open up Islamic-banking facilities (Jamahiriya Bank, Wahda Bank and Sahara Bank) which fall within the scope of the study.

The objective of this study is measure customer satisfaction in Libyan banks which operate under the Islamic window system, by examining the dimensions of the perceived quality and their effects on customer satisfaction. This study also examines the awareness level of Libyan customers on various Islamic products such as the understanding of the key concepts of banking service,

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such as *mudharabah, musharakah, murabahah, ijarah* financing and a number of interest-free bank services.

Literature Review

Relationship Between Service Quality and Customer Satisfaction: Service quality is the key to measure users' satisfaction. Few scholarly studies, to date, have been undertaken to identify quality dimensions and detailed aspects of services and their relationship with customer satisfaction [2]. One of the more widely used instruments for assessing customer satisfaction is SERVQUAL developed by Parasuraman *et al.* [3]. Researchers have paid much attention to the close relationship among service quality and customer satisfaction [3, 4, 5]. In addition, this study is carried out to examine the relationship between service quality and customer satisfaction. Banks should focus more on their customers rather than on the products and services which they sell and offer, because customers are the true business in every bank [6].

Service quality has been found to be a significant input to customer satisfaction [7]. Cronin and Taylor [8] originally hypothesize that satisfaction is an antecedent of service quality and later, findings from their research with a multi-industry sample have proven this. Anderson *et al.* [9] Also point to this link by suggesting that improved service quality will provide significant impact on customer satisfaction. According to Levesque and McDougall [10], convenience and competitiveness of the bank are two important factors which are likely to influence the overall satisfaction level of a customer. Angur *et al.* [11] suggest that the SERVQUAL scale is multidimensional and is able to provide more diagnostic information due to its greater variability across banks than the SERVPERF scale. However, from a theoretical perspective, the researchers and academics have established the conceptual definition of customer satisfaction. Therefore, we have developed a set of hypotheses to suggest that service quality is positively related to customer satisfaction.

Customer Awareness: Customer awareness has been tested as one of the key factors in numerous studies, specifically in the field of on-line banking [12, 13]. Some studies have found that in the light of a lot of Muslim clients, although they are aware of fundamental terms in Islam, they are also almost exclusively unaware of the meaning of specific Islamic financial terminology like *mudharabah, musharakah, murabaha* and *ijarah* [14, 15]. A study is conducted by Awan and Bukhari [16]

attempted to determine the conditions under which Islamic banks can successfully compete with conventional banks by understanding customer attitudes towards Islamic banking products. Their findings suggest that there is a lack of awareness about basic conventions of Islamic financing options among respondents. They also found that the customers of both Islamic banks and conventional banks with Islamic bank branches (IBBs) do believe that the bank staff themselves lack the ability to provide credible information about religious compliance of Islamic banking financial services. Nevertheless, in this part of the study, the intention is not only to know the extent to which customers are aware of products and services offered by the Islamic windows in banks but also to what extent these products and services are actually used by the customers.

MATERIALS AND METHODS

Theoretical Framework: The following theoretical framework has been developed on the basis of evidences available in the abovementioned literature. The dependent variable is customer satisfaction and five constructs of independent variable i.e. Service quality, Tangibility, Reliability, Responsiveness, Assurance and Empathy are tested, as mentioned in Figure 1. To test the relationship between customer satisfaction and service quality variables, the following hypotheses have been developed:

H1: There is a positive effect of Tangibility on customers' satisfaction.

H2: There is a positive effect of Reliability on customers' satisfaction.

H3: There is a positive effect of Responsiveness on customers' satisfaction.

H4: There is a positive effect of Assurance on customers' satisfaction.

H5: There is a positive effect of Empathy on customers' satisfaction.

Questionnaire: This study aims to measure customer satisfaction based on perceived service quality as well as to examine the level of customer awareness about Islamic products available by windows Islamic banking in commercial banking in Libya. The questionnaire constitutes the main channel of collecting the data.
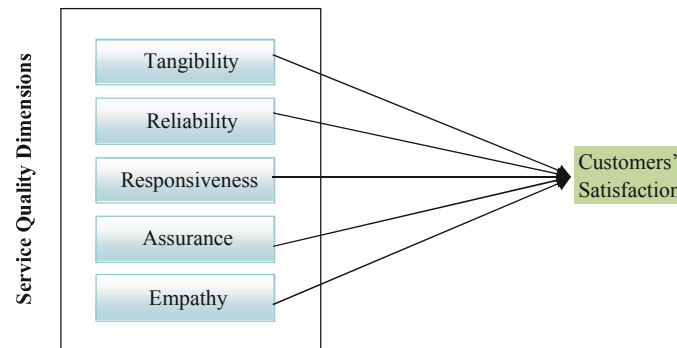
Fig. 1: The Research Framework

The questionnaire in this study consists of four major sections. The first section contains questions on the general information of the respondents including gender, age, qualifications, occupations, monthly income, marital status and the name of the bank. The second section consists of the dimensions of the perceived quality as proposed by Parasuraman *et al.* [3]. The third section contains five items which are used to measure customer satisfaction. Section four collects information on customer awareness about the different products of the Islamic banking system. Six items have been devised, to obtain information about the customer's awareness regarding the products and the expected answers are limited to "Aware and using" or "Aware but not using" or "Not Aware and Not used" and 22 items for perceived quality have been studied on the five- point Likert scale of the range of attitude, from 1- strongly disagree to 5- strongly agree.

Sampling: A total of 600 questionnaires were distributed. The study sample is decided to be any customer who has bank dealings in the form of owning a bank account, obtaining a financing, or conducting money transfers between banks. Only 366 questionnaires are useable for analysis. The questionnaires were distributed in two ways. Firstly, the questionnaires were given to bank employees and they were requested to distribute the questionnaires to their customer. Secondly, the interviewers had met with the potential respondents personally and distributed the questionnaires to the customers outside the banks. The questionnaire was translated into Arabic language to ensure clarity, owing to the fact that all respondents in this research are Libyans where their national language is Arabic.

Data Analysis: The data was analyzed using statistical (SPSS) version 18. The statistical techniques employed in this study are as follows: a) Descriptive and frequency analyses were conducted to represent the respondents' demographic variables and identify the extend of customers' awareness of the and services offered by the Islamic windows in the bank, b) Reliability Test to check for the "internal consistency" for the questionnaire by applying Cronbach's Alpha test and c) Multiple Regression Analysis to determine the relationship between dependent variable (customers' satisfaction) and independent dimensions (Tangibility, Reliability, Responsiveness, Assurance and Empathy).

RESULTS AND DISCUSSION

Respondents' Demographic Profile: Table 1 shows that the majority of respondents' characteristics are Males (61.2%), Aged between 26 to 40 years old (44.8%), have High Diploma or Bachelor (45.6%) academic qualifications, also it is found that the majority of the respondents are Government employees (60.4%) and (63.7%) from respondents have income more than 801 L.D and (58.7%) married. Finally, another finding is that the distribution of respondents across the banks is similar to one another.

Validity and Reliability: After an initial evaluation done by three experts from various academic fields, they had suggested that another item for customer satisfaction was added to become five items. The questionnaire was piloted through a convenient distribution to 30 respondents from different cities in Libya who have been using commercial bank services throughout five working days. From the pilot study, the initial questionnaire contained 33 items, including five items of customer satisfaction, six items of customer awareness and four items of Tangibility, five items of Reliability, four items of Responsiveness, four items of Assurance and five items of Empathy. The reliability test was done as shown in Table 2.

Table 1: Respondents' Demographics Profile

No	Respondent Characteristics		Frequency	Percentage
1	Gender	Male	224	61.2
		Female	142	38.8
2	Age	Below 25 years	61	16.7
		26 to 40 years	164	44.8
		41 to 55 years	95	26.0
		Above 56 years	46	12.6
3	qualifications	No academic qualification	41	11.2
		Secondary school	84	23.0
		High Diploma or Bachelor	167	45.6
		Master	60	16.4
		PhD	14	3.8
4	Occupations	Government employees	221	60.4
		Private sector employees	85	23.2
		Working independently	49	13.4
		Student	4	1.1
		Not working	7	1.9
5	Monthly income	Less than 350 L.D	5	1.4
		351 to 500 L.D	29	7.9
		501 to 800 L.D	99	27.0
		Above 801 L.D	233	63.7
6	Marital status	Single	125	34.2
		Married	215	58.7
		Widowed / divorced	26	7.1
7	Name of the bank	Gumhouria Bank	137	37.4
		Wahda Bank	119	32.5
		Sahara Bank	110	30.1

Table 2: Cronbach's Alpha test on all independents and dependent variables

No	Variables	Items	Cronbach's Alpha
1	Tangibility	4	0.856
2	Reliability	5	0.825
3	Responsiveness	4	0.843
4	Assurance	4	0.701
5	Empathy	5	0.844
6	Customer satisfaction	5	0.875
7	Customer awareness	6	0.886
	Total	33	0.895

Table 3: Descriptive statistics on Awareness of Customers on Islamic Banking Products

Variables	Not aware		Aware but not using		Aware and using		Mean	St. Dev
Services without interest	92	25.1%	46	12.6%	228	62.3%	2.37	0.859
Islamic windows	136	37.2%	77	21%	153	41%	2.05	0.889
Mudharabah	205	56%	161	44%	-	0%	1.44	0.497
Musharakah	202	55.2%	164	44.8%	-	0%	1.45	0.504
Murabahah	129	35.2%	82	22.4%	155	42.3%	2.07	0.879
Ijarah financing	294	80.3%	72	19.7%	-	0%	1.20	0.398

Table 2 shows the information about the reliability of data. The internal consistency of the whole scale is the most widely accepted measure of reliability. It is obtained by coefficient alpha which is also regarded as Cronbach's alpha. All in all, some readings have been able to be gathered with the overall reliability of the scale 0.895, customer satisfaction with reliability 0.875, customer awareness with reliability of 0.886, it is stated that

Table 4: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	0.314	1.317		0.238	0.812
	PeTan	0.197	0.076	0.137	2.600	0.010
	PeRel	0.065	0.079	0.055	0.830	0.407
	PeRes	0.201	0.083	0.154	2.426	0.016
	PeAss	0.475	0.108	0.240	4.398	0.000
	PeEmp	0.213	0.067	0.166	3.199	0.002

Dependent Variable: Customer satisfaction

R^2=0.293

Adjusted R^2 Square=0.283

F Value=29.843

p=0.05

Note: PeTan= Tangibility perceived. PeRel= Reliability Perceived. PeRes= Responsiveness Perceived. PeAss= Assurance Perceived. PeEmp= Empathy Perceived

Tangible dimension has 0.856, the Cronbach alpha for Reliability is 0.825. The Responsiveness dimension has reliability of 0.843, the Assurance dimension has reliability of 0.701 whereas the Empathy dimension has reliability of 0.844.

Customer Awareness About Products and Services: Table 3 shows that the intention was not only to know as to what extent were customers aware of products and services offered by the Islamic windows in banks but also to what extent were these products and services actually used by the customers. For this, the respondents were invited to express the degree of awareness of different products offered by the Islamic windows in the bank and also the degree that the products were used.

Table 3 indicates that the customer's awareness level towards Islamic banking products is good in some of the general products in a way that they (or 62.3% of them) were about the existence of the interest- free banking service and products and had made use of them, while 42.3% claimed to have been aware and using the Murabahah service. Nevertheless, most of the customers had been unaware of the different Islamic financial products such as Ijarah financing, evident in 80.3% of the respondents. Furthermore, 56% and 55.2 of the respondents admitted that they were totally unaware of Mudharabah and Musharakah services, respectively. On the other hand, there were 44% and 44.8% of respondents who were aware but had not used Mudharabah and Musharakah, respectively. Additionally, only (41%) were aware and did use the services, while (21%) were aware but unfortunately did not use these products.

Regression Analysis and Hypotheses Testing: Adjusted R-Squared indicates that a relatively low percentage of the variation in satisfaction is indicated by the variables entered in the equation (Adjusted R-Squared=0.283). This result agrees with [17, 18], where 28% variation in the satisfaction is explained by the service quality which is measured via five dimensions and regression analysis shown in Table 4.

Table 4 explains the effect of each service dimension on customer satisfaction tested, except for the Reliability dimension (p-Value=0.407). These results are consistent with the findings of Munusamy and Mun [19]. All other dimensions of service quality have a significant impact on customer satisfaction. Thus, Hypotheses H1, H3, H4 and H5 are accepted and Hypothesis H2 rejected. Thus, the improvement of these dimensions would well lead to increased customer satisfaction.

CONCLUSION

The study has revealed that service quality factors will significantly leave an effect on customer satisfaction. A good move would be to place more focus on Tangibility, Responsiveness, Assurance and Empathy of the banks in order to enhance their services. The study also reveals that the customers' Aawareness factor indicates that the customer's awareness level towards Islamic banking products is good especially with regards to some of the general products. An instance would be seen in them being aware about the various services and products (including *murabahah*), also the interest- free banking facility and used all these facilities. In turn, most of the customers had been unaware of the different

Islamic financial products such as *ijarah* financing (80.3%). Furthermore 56% and 55.2% of the respondents were totally unaware of *mudharabah* and *musharakah*, respectively. Some suggestions may be considered to overcome this where the banks can organise workshops, also improve their marketing strategies by providing advertisements in flyers or leaflets to boost better customer awareness on the products offered through banks. Banks' can also find some ways to educate their customers about the Islamic terms and conditions of banking as to win more support from the customers.

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