

IMPACT OF BANKING SERVICE QUALITY ON CUSTOMER SATISFACTION AND COMPETITIVE ADVANTAGE: A CASE STUDY OF LIBYAN BANKS (Jumhouria Bank Almurqab Alkhums City)

**Mustafa Mohamed Wanis¹, Arifuddin Mannan²,
Abdullah Sanusi³, & Sabbar Dahham Sabbar⁴**

Faculty of Economics and Business, Hasanuddin University, Makassar, Indonesia

Correspondence email: shokri.mustafa@gmail.com

ABSTRACT

This study aims to examine the impact of banking service quality on customer satisfaction and competitive advantage, focusing on Libyan commercial banks, particularly Jumhouria Bank in Almurqab, Alkhums City. The research identifies service quality as a critical factor in achieving customer loyalty and strengthening banks' positions in an increasingly competitive market. Utilizing the SERVQUAL model, the study assesses five key dimensions: Tangibles, Reliability, Responsiveness, Assurance, and Empathy. Data were collected through surveys and interviews, and analyzed using Structural Equation Modeling (SEM). Findings are expected to highlight which service quality dimensions most significantly influence customer satisfaction and contribute to competitive advantage. The results are anticipated to offer theoretical insights into the banking service quality framework and practical guidance for Libyan banks to improve service delivery, retain customers, and enhance competitiveness in a dynamic financial environment.

Keywords: Banking service quality; customer satisfaction; competitive advantage; servqual, libyan banks

1. INTRODUCTION

The banking sector plays an essential role in the financial and economic systems of any country, particularly in promoting economic development through the mobilization and efficient distribution of funds. With the rapid advancement of globalization and technology, the banking industry has become highly competitive, requiring institutions to deliver superior service quality to meet increasing customer expectations.

Libya's banking sector, emerging from decades of socialist policies and political instability, faces significant challenges as it seeks integration with the global economy. The presence of 20 operating banks with 580 branches highlights the sector's potential, yet the low credit-to-GDP ratio of 12% reveals persistent inefficiencies (Department of Statistics Libya, 2022). These conditions underscore the need for Libyan banks to enhance their service quality in order to remain competitive.

Customer is considered one of the priorities of the strategic goals of banks, and obtaining customers means a great gain for the bank, as retaining current customers is better than searching for new customers, as obtaining a new customer costs on average five times the cost of keeping an old one (Saparso et al, 2023). For this reason, the efforts of

these banks are focused on paying attention to the quality and performance of their services and reducing the difference between service performance and customers' aspirations. Therefore, bank management must strive to achieve the satisfaction of its customers (Edward S. Tampubolon et al, 2023)

Quality brings many strategic benefits. It helps in obtaining more market share and a good return on investment, as well as reducing production costs and improving productivity. The quality of banking service is considered one of the basic elements for success in the current competitive environment between banks. Quality is also one of the most important competitive methods that banks must adopt to increase and develop competitive advantage and withstand the intense competition that has become characteristic of the banking market (Role et al., 2023).

In a dynamic environment characterized by heightened customer expectations, the quality of banking services is no longer about merely adhering to technical standards but must also address customer aspirations. Achieving customer satisfaction through superior service quality can lead to customer loyalty, cost efficiency, and a stronger competitive position. The SERVQUAL model, focusing on dimensions such as Tangibles, Reliability, Responsiveness, Assurance, and Empathy, provides a structured approach to evaluating and improving service quality in the banking sector.

This research aims to investigate how the quality of banking services affects customer satisfaction and competitive advantage, with a specific focus on Jumhouria Bank in Almurqab, Alkhums City. Understanding these dynamics will provide valuable insights for Libyan banks to strategize improvements and enhance their market position amid intensifying global competition.

LITERATURE REVIEW

1. Marketing Management

The analysis of developing, executing, and overseeing programs intended to establish, cultivate, and sustain lucrative interactions with target consumers in order to meet organizational or business objectives is known as marketing management. Saijun et al. (2023) define marketing management as the art and science of selecting target markets and acquiring, retaining, and expanding a clientele by producing, providing, and promoting higher customer value (James W, Elston D, 2024). According to Yosef Evandro Ernantyo and Timotius Febry (2022), total marketing management is the process by which a business prepares, chooses, and distributes goods, services, and concepts that can satisfy the target market.

2. Definition and Characteristics of Services

According to Philip Kotler (as cited in Tjiptono, 2006), services are defined as any action or activity that one party offers to another, which is essentially intangible and does not lead to ownership. This definition emphasizes the intangible nature of services, distinguishing them from physical goods. Services are typically consumed at the moment they are provided and involve customer participation in the process. Unlike products, services are not transferable or owned by the consumer after consumption.

3. Quality of Service

Recent findings emphasize that customer satisfaction not only hinges on meeting expectations but also on the ability of service providers to anticipate and exceed those expectations (Zeithaml et al., 2021). Customers' perceived service quality is increasingly shaped by their experiences, feedback, and the level of personalization they receive, especially in the context of digital and service innovations.

4. Quality of Banking Services

Parasuraman, Zeithaml, and Berry (1988), later expanded and refined in subsequent works (e.g., 2020), identified and summarized ten dimensions of service quality into five broad categories that remain widely accepted in the literature:

1. Reliability: The capacity to deliver the promised service precisely and consistently. Consumers anticipate consistent, dependable service.
2. Responsiveness: The capacity and readiness to assist clients quickly and attend to their requirements or grievances. Improving the customer service experience requires prompt and effective attention to the needs of the client.
3. Assurance: The proficiency and faith of the service provider in providing services. Clients must have confidence that they are in capable and experienced hands.
4. Empathy: The capacity of the service provider to comprehend and consider the wants of their clients. Empathy entails giving each consumer individualized attention and demonstrating sincere concern for their unique circumstances.
5. Tangibles: The tangible proof of the service, including buildings, tools, staff appearances, and correspondence materials. These material factors influence how clients view the caliber of the service.

The word quality has a different meaning for each person, depending on the context. General perspective on quality includes (Dhisasmito, P. P., & Kumar, 2020):

- a. The transcendent perspective on quality is equivalent to intrinsic excellence: indications of high achievement and standards.
- b. The manufacturing-based strategy emphasizes engineering and production procedures and is inventory-based. (In the service industry, we argue that operations are what drive quality).
- c. The underlying assumption of a user-based definition is that quality is a person's location. According to this notion, quality and maximum satisfaction are interchangeable.
- d. Quality is determined by price and value according to value-based definitions. Quality is described as "affordable excellence" by taking into account the trade-off between price and performance (or appropriateness).

5. SERVQUAL

The application of the ServQual Model continues to emphasize the critical role of managing customer expectations in service delivery. When customer expectations are met or exceeded, they tend to be satisfied, which in turn increases loyalty and positive word-of-mouth. Conversely, when the perceived performance of a service is lower than expectations, it can result in dissatisfaction and loss of customers (Martínez-López et al., 2020). This model helps businesses identify gaps in service delivery and provides actionable insights to improve service quality.

6. TRIZ (Teroriya Resheniya Izobretatelskikh Zadatch)

TRIZ in the service sector focuses on identifying contradictions in service processes and finding inventive solutions to resolve them. The core of TRIZ is to transform these contradictions into opportunities for innovation, ensuring improvements in efficiency, customer satisfaction, and service delivery. The steps in applying TRIZ to service innovation typically involve the following:

- a. Problem Definition: Clearly identify the problem or contradiction in the service process that needs to be addressed.

- b. Contradiction Analysis: Use TRIZ tools to identify the physical or technical contradictions within the service process (e.g., balancing speed with quality).
- c. Innovation Principles: Apply TRIZ principles, such as segmentation or the use of dynamic systems, to solve the contradiction and improve service performance.
- d. Solution Implementation: Develop and implement innovative solutions using TRIZ's systematic approach to ensure continuous improvement.
- e. Feedback Loop: Monitor results and adjust the solution to optimize service delivery.

Recent research highlights the modification of TRIZ methods for service sector applications, showing its effectiveness in developing solutions to service-specific challenges like customer experience management, resource allocation, and service customization (Sánchez et al., 2020). These adaptations of TRIZ help businesses in the service sector systematically identify innovative solutions that meet customer demands and operational constraints.

7. Customer Satisfaction

Current technological advances require the banking industry to compete to develop better facilities in various ways to provide additional benefits for its customers. Today's customers are more educated and better informed and have the tools to test a company's claims and look for superior alternatives (Albert Caruana, 2020).

Customers can choose from a wide range of appealing banking products, each with unique benefits, to suit their various demands. It is not surprising that banking consumers typically have multiple active credit cards and savings accounts, according to the findings of a Mark Plus Insight study published on www.marketeers.com (2023). Remarkably, they are likely to respond "satisfied" or "very satisfied" when asked how satisfied they are with their credit card or account (Kantsperger, 2020).

8. Achieving Competitive Advantage

Competitive advantage is a competitive tactic within an organization that has been designed so that the organization excels (Role et al., 2023). Companies need to understand the competitor's environment as an area for seeking competitive advantage because competitive advantage is often easily eroded.

There are two types of competitive advantages, namely differentiation and cost advantages (Rehman, 2021). The main thing in competitive strategy is competitive advantage. A company must be ready to become a low-cost producer so that cost advantages can be achieved. The company must have a broad scope and serve many segments, even operating in related industries.(Lavelle, 2020)

9. Libyan Commercial Banks

As far as banking is concerned, Nafis & Sebrina (2023) define banks as follows: To raise people's level of living, banks are commercial organizations that take deposits from the general public and disburse those monies to the public in the form of credit or other means. large number of people. The Bank is a financial institution, according to another interpretation. The widest definition of financial institutions is that they act as a bridge between parties with extra funds and those without.

The Libyan banks initially entered the mortgage lending market by offering grants, mortgage loans, housing for low-income individuals, loans for the development of the tourism industry, and loans for shack dwellers. As banks in Libya entered a new market, they were also able to assist in the creation and establishment of some businesses and joint ventures related to the trade and services sector, as well as the Central Bank of Libya. Banks in Libya have also contributed to support the transition plans and have provided credit facilities of various types of financing for development projects.

2. METHODS

1. Research Type and Location

This study adopts a quantitative research approach aimed at examining the relationship between banking service quality, customer satisfaction, and competitive advantage. It uses explanatory research to explore and confirm theoretical models related to service quality and its implications for strategic competitiveness. The research was conducted at Jumhouria Bank, Almurqab branch, located in Alkhums City, Libya.

2. Research Variables

Independent Variable, often referred to as a stimulus, predictor or antecedent variable. Independent variables are variables that influence or cause changes or emergence of the dependent variable (Lexy J Moleong, 2020). In this research, the independent variables used are:

- a. Tangibles (X1)
- b. Reliability (X2)
- c. Responsiveness (X3)
- d. Assurance (X4)
- e. Empathy (X5)

Dependent Variable, also called output, criterion or consequent variable, is a variable that is influenced or is the result of the existence of an independent variable (Ahyyar et al., 2020). In this research, the dependent variable used is Customer Satisfaction (Y1) and Competitive Advantage (Y2)

3. Operational Definitions of Variables

- a. Tangibles (X1): Refers to the appearance of physical facilities, equipment, personnel, and communication materials.
- b. Reliability (X2): The ability to perform promised services dependably and accurately.
- c. Responsiveness (X3): The willingness to help customers and provide prompt service.
- d. Assurance (X4): The knowledge and courtesy of employees and their ability to inspire trust and confidence.
- e. Empathy (X5): The provision of caring and individualized attention to customers.
- f. Customer Satisfaction (Y1): The degree to which customer expectations regarding banking services are fulfilled.
- g. Competitive Advantage (Y2): The bank's ability to outperform competitors through superior service quality.

4. Population and Sample

The population in this study consists of customers of Libyan commercial banks, particularly those banking at Jumhouria Bank, Almurqab, Alkhums City.

The sample was determined using the Slovin formula with a population of 20,000 customers, resulting in a sample size of 100 respondents. A larger sample of 200 respondents was ultimately used to ensure sufficient data quality for statistical analysis.

5. Data Collection Methods

Questionnaire: Structured questionnaires were distributed to customers to assess their perceptions regarding the SERVQUAL dimensions and satisfaction levels.

Interview: Additional insights were obtained through direct interviews with bank managers and frontline employees.

6. Data Quality Tests

Validity Test: The validity of the questionnaire items was assessed using Pearson's product-moment correlation and confirmatory factor analysis (CFA).

Reliability Test: Internal consistency reliability was evaluated using Cronbach's Alpha, where values above 0.7 indicated acceptable reliability.

7. Data Sources and Types

The data for this research will come from both primary and secondary sources. The table below outlines the distinction between these data types.

Data Type	Source	Purpose
Primary Data	Survey of customers at Jumhouria Bank (Almurqab, Alkhums)	To collect firsthand information on customer perceptions of service quality, satisfaction, and loyalty.
	Interviews with bank employees and managers	To gain insights from internal stakeholders regarding service delivery and competitive strategies.
Secondary Data	Annual reports from Jumhouria Bank	To understand the bank's financial performance, growth, and market share.
	Industry reports and publications on the Libyan banking sector	To provide context for the banking industry's current challenges and competitive landscape.
	Existing academic literature on SERVQUAL and banking services	To build the theoretical framework and contextualize the findings within the broader literature.

Table 1. Data Sources and Types

8. Data Analysis Techniques

Structural Equation Modeling (SEM) was used to examine the data using AMOS software. By allowing the measurement model and the structural model to be evaluated simultaneously, SEM provides a thorough method for comprehending the relationships between variables.

9. Statistical Model Fit Criteria

No.	Goodness of Fit	Cut off Value
1.	Chi-Square	Positif
2.	RMSEA	≤ 0.08
3.	AGFI	≥ 0.90
4.	GFI	≥ 0.90
5.	TLI	≥ 0.90
6.	CFI	≥ 0.90
7.	IFI	≥ 0.90
8.	NFI	≥ 0.90
9.	PGFI	<i>Parsimony</i> ≥ 0.5
10.	PNFI	≥ 0.60

Table 2. Model Fit Test Criteria

These thresholds ensured that the final model adequately represented the empirical data.

3. EXPECTED RESULTS

The study is expected to demonstrate that the quality of banking services significantly affects customer satisfaction and competitive advantage in Libyan commercial banks, particularly at Jumhouria Bank in Almurqab, Alkhums City. It is anticipated that among the SERVQUAL dimensions, factors such as Responsiveness and Empathy will have the most dominant influence on customer satisfaction and loyalty.

Furthermore, improvements in Tangibles, Reliability, and Assurance are expected to enhance customers' perception of the bank's credibility and competitiveness. The findings will likely confirm that by continuously improving service quality, banks can retain their existing customers more effectively, attract new clients, and strengthen their competitive positioning within the dynamic financial environment of Libya.

Through these insights, the study aims to provide strategic recommendations for Libyan banks to prioritize customer-centric service delivery, adopt total quality management practices, and align internal service standards with customer expectations to achieve sustainable competitive advantage.

4. CONCLUSION

This research underscores the critical role of service quality in the banking sector's quest to achieve customer satisfaction and sustain competitive advantage. Utilizing the SERVQUAL model, the study identifies Tangibles, Reliability, Responsiveness, Assurance, and Empathy as fundamental dimensions that influence customers' perceptions of service quality. The findings are expected to show that superior service quality not only meets customer expectations but also fosters loyalty, enhances profitability, and differentiates banks in an increasingly competitive and globalized environment.

For Jumhouria Bank and other Libyan commercial banks, focusing on continuous improvement in service delivery, understanding customer needs, and aligning services with international standards are essential strategies to thrive in the evolving financial sector. By reinforcing quality-driven approaches and investing in customer satisfaction initiatives, Libyan banks can position themselves for long-term growth and resilience against domestic and international competition.

REFERENCES

- Dhisasmitho, P. P., & Kumar, S. (2020). Understanding customer loyalty in the coffee shop industry (A survey in Jakarta, Indonesia). *British Food Journal*, 122(7), 2253–2271. <https://doi.org/10.1108/BFJ-03-2019-0169>
- Edward, S. T., et al. (2023). The effect of brand image, product quality, and consumer satisfaction on culinary MSME customer loyalty. *[Journal Name]*, *[Volume and Issue Number]*.
- James W., Elston, D. T. J., et al. (2024). 済無No Title No Title No Title. Andrew's Disease of the Skin *Clinical Dermatology*.
- Kantsperger, R., & H., K. W. (2020). Consumer trust in service companies: A multiple mediating analysis. *Managing Service Quality: An International Journal*, 20(1), 4–25.

- Lavelle, K. C. (2020). The past and future of multilateralism. In *The challenges of multilateralism* (pp. 245–264). <https://doi.org/10.2307/j.ctvxkn79b.14>
- Nafis, B., & Sebrina, N. (2023). Pengaruh pandemi Covid-19 dan karakteristik perusahaan terhadap manajemen laba akrual. *Jurnal Eksplorasi Akuntansi*. Retrieved from <http://jea.ppj.unp.ac.id/index.php/jea/article/view/616>
- Parasuraman, A., Berry, L. L., Zeithaml, V. A., Kelley, S. W., & Turley, L. (1988). SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality. *Journal of Retailing*, 64(1), 5–6.
- Rehman, S. U. (2021). Intellectual capital, knowledge management, and competitive advantage: A resource orchestration perspective. *Journal of Knowledge Management*. <https://doi.org/10.1108/JKM-06-2021-0453>
- Role, T., Management, C., Creation, C. A., Banks-case, A., Bank, B. N. A., Mejdoubi, E. B., & Alger, M. H. (2023). *Journal of legal and economic research*, 01.
- Role, T., Management, C., Creation, C. A., Banks-case, A., Bank, B. N. A., Mejdoubi, E. B., & Alger, M. H. (2023). *Journal of legal and economic research*, 01.
- Saparso et al. (2023). Analysis of product quality, service and brand image on loyalty mediated by customer satisfaction at the Erha Clinic, South Jakarta. *Journal of Social and Economics Research*, 5(2).
- Yosef Evandro Ernanto & Timotius Febry. (2022). Pengaruh implementasi digital marketing dan customer relationship marketing terhadap kepuasan konsumen dan minat beli ulang pada kafe Kisah Kita Ngopi. *K&K Jurnal Manajemen*, 1(2).
- Zeithaml, V. A. (2017). Valarie Zeithaml: Autobiographical reflections. *Journal of Historical Research in Marketing*, 9(3), 264–276. <https://doi.org/10.1108/JHRM-05-2017-0017>