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THE DIGITALIZATION OF BANKING IN ISRAEL AND ITS EFFECT ON CUSTOMER SATISFACTION. A QUALITATIVE STUDY FROM THE PERSPECTIVE OF MANAGERS AT TWO ISRAELI BANKS

Case
Study

Keywords

Digitalization;
Twenty-first century banking;
Customer satisfaction;
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JEL Classification

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Abstract

The evolution of digital technologies has made it necessary for Israel's banks to reexamine the way they operate. The purpose of the article is to investigate the effects of the Israeli banking industry's digitalization on customer satisfaction by examining current perceptions among managers employed by two of the country's leading banks. The article points out that although this topic has been studied before, no research has been conducted in Israel on the topic of customer satisfaction regarding banking digitalization, and no one has examined the manager's point of view on the subject. The data was collected by means of semi-structured interviews. The findings indicated that there is a significant relationship between the digitalization of banking and customer satisfaction.

INTRODUCTION

The banking industry in Israel has been affected by radical changes in technology, competition, and regulation. The evolution of digital technologies brought about changes in the way banks operate, and compelled them to re-examine their operations and business practices. Consequently, commercial banks in Israel have developed websites and smartphone applications in order to provide their customers with more accessible services, which have an important impact on customer satisfaction ratings. Because of this technological revolution, banking processes have been transformed from face to face transactions to digital operations (Bitner, Brown & Meuter, 2000).

Since customers can easily evaluate the advantages of competing banks, these institutions must take greater interest in the way their customers perceive the quality of their online banking services (Santos, 2003; Ganguli & Roy, 2010). Therefore, it is important to understand the factors that affect customer satisfaction with regard to banking services in general and online banking services in particular.

Studies sometimes overlook the need to understand customers' attitudes toward online banking services, as well as the perception of managers within the banking industry, or ignore the relationship between various dimensions of quality and customer satisfaction with respect to online banking (Beigi, Jorfi, Tajarrood, Salemi, & Beigi, 2016). Taking these factors into account can help banks retain their clients and also attract new customers. In addition, taking the perceptions of both managers and customers into consideration can help the banks improve their image, while ensuring their profitability and survival (Ladhari, 2009; Negi, 2009; Areeba, Mudassir, Talha, Shoaib, & Adnan, 2016; Busuioc & Luca, 2016).

REVIEW OF THE LITERATURE

Digitalization

Digitalization, which refers to the connectivity supported by digital technologies, is one of the most significant ongoing transformations to impact contemporary society, which encompasses many elements of business, as well as everyday life (Hagberg, Sundstrom, & Egels-Zanden, 2016). It is currently changing customer and business relationships, and demands new ways of organizing and innovating business models (Soderholm et al., 2018). According to Gartner (2018), the aim of digitalization is to improve existing business models, and create value-adding opportunities and new revenue. Yet, real digital transformation, which has encountered more difficulties than expected, will take a long time (Zinder &

Yunatova, 2016). An organization that wants its digitalization process to succeed has to develop a broad range of skills, whose importance will differ according to its business context and needs (Reis, Amorim, Melao, & Matos, 2018).

Besides increasing demand on the part of customers, organizations are encountering tough competition caused by globalization and the pressure to be the first to go digital, while trying to survive and gain an advantage over their competitors (Reis et al., 2018). Due to the distinctive features of digital products, as compared to physical ones, the way to achieve a competitive advantage in the market has completely changed. Factors such as quality of service and online reputation are much more important nowadays (Wittkoff, Zulauf, & Wagner, 2018). Thus, in order to survive, an organization must rethink and maybe even reinvent its business model, so that digital technology will be the nucleus of its operation (Reis et al., 2018).

The most apparent benefit of digitalization is a presence on the internet, which increases the organization's visibility and sales channels. A digital presence not only opens sales channels, but also new ways of communicating with customers. The multiple means available to customers for contacting an organization, such as mobile applications, email, etc., also increase sales and customer loyalty (Dominguez, 2018). Digitalization demands that customers become the center of an organization's universe, but it helps institutions learn about their clients' opinions and ways of thinking, while giving them the motivation for constant improvement (Dominguez, 2018; Villers, 2012). Although digital technology may require effort and economic investment on the part of the organization, it can advance the company and its services (Dominguez, 2018).

Digitalization in banking

Today, banks need to develop new strategies if they wish to retain their clientele (Lohana & Yadav, 2011). That is why banks around the world are now making digital services accessible and user-friendly, and are providing their customers with assistance aimed at encouraging them to shift to digital banking. They are also changing the organizational structure of their branches, and increasing their employees' skills, placing them in groups with specific expertise, and training them to sell digital services and products (Schofield, Glusac, & Stumbles, 2019). Consequently, at the end of the day, customers will be served by more highly skilled and knowledgeable employees capable of providing them with the best possible service (Maor, 1998). This strategy will help banks retain customers over a long period of time (Pakurar, Haddad, Nagy, Popp, & Olah, 2019).

Some see online banking as an extension of communication between the bank and the customer, while others view it as a tool in its own right, media that should be given full attention and investment, on an equal footing with the bank's physical branches (Nahir-Aizen, 2001). According to Lior (1995), banking services will be provided on two levels: simple, routine services that will be implemented through direct banking; and expanded and unique services that will be carried out in the physical branches. Customers will be able to use both systems, according to the type of financial service they need. Moreover, as Duggan (2018) asserts, banks should be searching for ways to integrate technological innovations such as voice-based assistants, chat bots, and artificial intelligence in their services. Such changes in the concept of service provision also require organizational changes, in keeping with the needs of direct banking (Lior, 1995).

Technological advancements enabled 24/7 availability, but also put pressure on the banks to improve their services, and make them more efficient and affordable (Akinci, Aksoy, & Atilgan, 2004; Tinnila, 2012). Subsequently, digital banking has become very popular, since it allows clients to carry out their banking transactions quickly and at their convenience, without having to go to the branch (Navaretnarajah, 2017).

Digital banking and customer satisfaction

Satisfaction is important to both banks and customers (Strategic Direction, 2007). When people are satisfied with their bank, they remain loyal to it, and recommend it to potential customers, making it more difficult for competitors to convince them to switch banks (He & Song, 2009; Lemon, White, & Winer, 2002; Donio, Massri, & Passiante, 2006; Ndubisi, 2007; Sit, Ooi, Lin, & Chong, 2009; Edvardsson, Gustavsson, Johnson, & Sanden, 2000; Olorunniwo, Hsu, & Udo, 2006; Chi & Gursay, 2009). According to Assael (1995), the economic viability of an organization is in the hands of its customers. In studies dealing with customer satisfaction, the prominent concepts are satisfaction, quality and value.

Schlich (2014) claims that customers are pleased with the convenience of traditional banking, however, as new technologies and consumer behaviors develop, their expectations change as well. According to Takeddine & Sun (2014), online banking gives them a more flexible option that saves them time and effort, and enables personal financial management (Asad, Mohajerani, & Noursersesh, 2016). In order to keep up with the competition, banking institutions need to continue to boost their ability to deliver straightforward, 24/7 access to banking. Banks are at a critical crossroads today vis-à-vis the current generation

and need to present themselves in a new light to a new target audience accustomed to a completely different way of interacting with various institutions and online purchasing. Knowing customer preferences and their way of thinking helps strengthen the customer-bank relationship (Muluka, Kidombo, Munyolo, & Oteki, 2015).

Highly satisfied online customers are more likely to buy extra products and services from their bank; therefore, it is very important to recognize and understand the factors that affect customer satisfaction (Yoon, 2010). For sensitive online transactions, such as money transfers, security should be the bank's paramount consideration (Liao & Cheung, 2002). Design is also an important factor, and the organization needs to design its online facilities in a way that offers both ease of use and functionality. Poor design might discourage a customer from using digital banking (Hernandez, Jimenez, & Martin, 2009). Yoon (2010) claims that the aesthetics of online banking – features such as size, color, animation, printing options, and more – can affect customer satisfaction (Zeithaml, Parasuraman, & Malhotra, 2002).

The elements of internet banking service quality have an indicative and positive correlation with customer satisfaction (Rod, Ashill, Shao, & Carruthers, 2009). Site organization, personal needs, and user friendliness have a compelling and positive impact on customer satisfaction levels (Herington & Weaven, 2009). Kadir, Rahmani, & Masinaei (2011) recommend that managers should be involved in the ongoing improvement of the reliability, accessibility, and clarity of the website in order to meet their customers' requirements (Jawaid, Raza, & Hassan 2015).

Providing quality service not only increases customer loyalty, but also draws the attention of new customers, enhances the corporate image, and ensures survival and profitability (Areeba et al., 2016; Ladhari, 2009). The most important factors affecting customer satisfaction with online banking are security and trust, reliable and efficient service, aesthetics, online responsiveness, ease of use and navigability (Asad et al., 2016).

Factors that influence customer satisfaction in digital banking

Some scholars (Polatoglu & Ekin, 2001; Kadir et al., 2011; Ahmad & Al-Zu'bi, 2011; Ankit, 2011) who studied the accessibility factor were able to show that it has a positive impact on customer satisfaction. Other investigators have pointed out additional dimensions that positively affect customer satisfaction, such as perceived risk, problem resolution, design, convenience, and content (Polatoglu and Ekin, 2001; Ahmad and Al-Zu'bi, 2011; Ankit, 2011). Recent research has returned to the dimensions of e-commerce service

quality: responsiveness, ease of use, personalization (or customization), assurance, and website design, which had previously been studied by scholars such as Ribbink, Van Riel, Liljander, & Streukens (2004). Personalization can be also considered a SERVQUAL empathy dimension (Zeithaml et al., 2002), since it defines the extent to which a service is suited to meet the needs of the customer (Lee, 2005), and includes information regarding changes of products, personal attention, preferences, and an understanding of customer needs (Kassim & Nor, 2010). Other researchers (Zeithaml et al., 2002; Wolfenbarger & Gilly, 2003; Van Riel, Lemmick, Streukens, & Liljander, 2004) suggest that the website design dimension is also important since it can develop trust, which relates to matters such as the security of online transactions, privacy, and having confidence in the online organization (Ribbink, Van Riel, Liljander, & Streukens, 2004). According to some researchers, if customers believe that a service provider is reliable and has high level of integrity, they trust that service provider (Moorman, Deshpande, & Zaltman, 1993; Morgan & Hunt, 1994). Ganguli & Roy (2010) described four dimensions for evaluating the quality of technology-based services: availability, reliability, the quality of security and information, and customer services, and confirmed their effect on customer satisfaction (Beigi et al., 2016). Sadeghi & Hanzaee (2010) found that reliability, website design, image, accuracy, and impressions of the bank management have the most significant impact on customer satisfaction levels. The variables of privacy and security also affect customer satisfaction, but their impact is very minor.

METHODOLOGY

Research Methods

The aim of the study is to examine the existing perceptions of bank managers regarding the digitalization of banking services in Israel. This will be accomplished by conducting semi-structured interviews with ten bankers. The data will be analyzed by means of content analysis. This study uses the qualitative method in an attempt to identify the managers' opinions about digital banking, and as a means of exploring, and gaining a more in-depth understanding of the complexity of the changes engendered by the digitalization of Israel's banking industry. The researchers fully acknowledge the assumptions of postpositivism.

Research Sample and Sampling Method

The sample for the qualitative phase of the research consists of bank managers from Bank A and Bank B. The fact that one researcher works for one of these banks, and that both of them are acquainted

with an employee from the second bank, made it easier to approach the participants and interview them on-site. First, the researchers interviewed the participants with whom they were familiar. Then, those interviewees recommended other managers who were available at that time and consented to participate. In total, the researchers interviewed ten managers, whose day-to-day work is related to digital services.

Research Instruments

This study employs semi-structured interviews to examine bank managers' perceptions about digitalization in Israel's banking industry. According to Burns (1997, p. 329), "an interview is a verbal interchange, often face to face, though the telephone may be used, in which an interviewer tries to elicit information, beliefs or opinions from another person." The semi-structured interview was chosen as the research instrument in this case study of managers from two of Israel's largest banks because it allowed the researchers to focus on the interviewees' responses, rather than on the phrasing or wording of the questions. In addition, the semi-structured interview enables good interpretative validity and moderately high measurement validity (Zohrabi, 2013).

According to Mugenda and Mugenda (2003), a sample size of 10% is a good representative sample for a pilot study; therefore, our sample included ten interviewees. One additional participant was interviewed for a trial, designed to standardize the research instrument. For this pilot interview, which preceded the first phase, a bank employee who is designated for promotion to management, was interviewed. The pilot interview took place in Bank B, the participant's work setting, after the branch was closed, so the respondent's attention was focused entirely on the interview. Based on this trial interview, the researchers made adjustments to the final interview questions and added some new ones, which they considered relevant and appropriate. The responses of this interviewee were not included in the final research data.

DATA COLLECTION AND ANALYSIS

The participants came from various managerial levels, starting with a team leader in the digital division of Bank A and a department vice manager in Bank B, and ending with a regional manager in Bank A and a department manager in Bank B. The study was planned and conducted according to Shkedi's (2007) seven stages of qualitative research: (1) designing – the researcher prepared an interview schedule; (2) interviewing – semi-structured interviews were conducted, the research and the interviewer were presented to the participants, and active listening took place; and (3)

transcribing – the researcher recorded and transcribed the interviews.

At the same time that the researchers were still engaged in interviewing participants from Bank B, they began to analyze the interviews they had conducted with participants from Bank A. In addition, the researchers wished to supply as much information as possible about the two banks and the interviewees who worked there. During the data collection phase of the study, the researchers were designing, interviewing, and transcribing, whereas during the data analysis stage, the researchers followed the remaining steps: (4) thematizing – dividing the participants' responses into themes to enable their analysis; (5) analyzing – after delineating the themes, the data was analyzed according to a systematic content analysis procedure. The researchers organized the responses by themes and inserted all the information into a table. Then, they counted how many times each theme was repeated in the interviewees' responses. They also highlighted words and phrases that repeated themselves, and included them in the analysis; (6) verifying – content analysis validation was carried out, and the results indicated compatibility with the themes delineated by the researchers.

RESULTS

All of the participants in this study use the bank's digital services, mainly its mobile application and mainly out of convenience; most of them are pleased with these services. They believe that availability and accessibility are also the main reasons customers use them. On the other hand, clients who do not use the bank's digital services find it convenient not to do so. They are not motivated to learn how to use them; moreover, they are not in the habit of utilizing digital or technological applications or devices in general. In addition, most of the interviewees consider digital services to be less suited to older populations. They do note, however, that the bank is taking steps to adjust these services for their elderly clients and make them more accessible, particularly by offering assistance at the branch or in the customer's home.

Most of the participants claim that there are few complaints about the transition to digital services, and that objections to the changeover are mainly voiced by elderly customers who complain about the lack of human touch or response in the digital sphere, whether in regard to the mobile application or the website. The interviewees pointed out that the bank deals with these complaints primarily by providing representatives at the branch who specialize in digital services, and attempting to make the website and application more user-

friendly. Most of them believe that the services provided at the branches can be replaced by digital services, while at the same time, maintaining, to a large extent, the standards and experiences customers have come to expect. According to the study's participants, going to the branch and waiting in line is outdated; moreover, digital services are accessible, convenient, and time-saving. They also feel that customers do more transactions digitally, and that any service can be made available online, even personal service. Furthermore, they asserted, even though digital services can replace standard, routine, and relatively simple transactions, they cannot replace non-standard transactions.

The interviewees mentioned a few changes they would make in the bank's digital services with the aim of increasing customer use and satisfaction. The most often repeated suggestion was also the most significant: to provide services suited to the customer's needs. When relating to their views about the development of twenty-first century banking in the next two decades, the participants responded that the bank's website should include a chat bot, more digitally executed transactions, and digital services adapted to customer needs. Moreover, the majority of them believe that the branches will still play a part in service provision, offering non-standard transactions such as mortgages, non-standard loans, consultations, etc. All of them think that more services will be added to the digital arsenal in the future. With respect to competition, most of the interviewees felt that their bank surpassed competitors in regard to many aspects of digital services, and that increasing their use contributes to customer retention.

DISSCUSION AND CONCLUSIONS

The results of the present study contribute to the discussion about the connection between service quality and customer satisfaction, by focusing on the five dimensions of service quality delineated by Zeithaml et al. (2002) in their SERVQUAL model. In addition, they can be linked empirically to other studies (Polatoglu & Ekin, 2001; Kadir et al., 2011; Ahmad & Al-Zu'bi, 2011; Ankit, 2011), which indicate a positive correlation between customer satisfaction and reliability, through accessibility. In addition, two of them (Polatoglu & Ekin, 2001; Ankit, 2011) also demonstrate a positive link between customer satisfaction and assurance, through parameters such as perceived risk and problem resolution. Other researchers (Rod et al., 2009; Santouridis, Trivellas, & Reklitis, 2009; Nupur, 2010) found that responsiveness affects customer satisfaction, in addition to other factors (Narteh & Kuada, 2014). Regarding empathy, both

Rod et al. (2009) and Nupur (2010) show that it influences customer satisfaction as well.

This study supports the view that a complex relationship exists between service quality and customer satisfaction, while its major contribution is to draw attention to popular constructs in this relationship, which have already been the subject of research, in order to demonstrate their interrelationship in a different fashion. None of the previous studies mentioned here dealt with the banking industry in Israel – an OECD country which is considered western, although quite diverse in terms of its population and demographics. Thus, aside from enhancing generalizations derived from the findings of previous research, and supporting earlier studies conducted in other countries, this study presents the bankers' point of view and attempts to adapt these findings to the Israeli banking industry.

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APPENDIX

Interview findings

Written Question	Theme	Frequency f	Total F
1. A. Do you use the digital services that the bank offers to its customers?	Yes	10	10
1. B. If yes, why?	Convenient	15	46
	Efficient, saves time and resources	9	
	Available, at any time, accessible	8	
	Easy, simple, understandable	7	
	Saves going to the branch, improves life quality, “a freak of digital”	7	
2. A. What services do you use and why?	The bank’s mobile application	9	28
	Money payment applications PEPPER Paybox / BIT	5	
	ATM, self-service machines	7	
	The website	4	
	Credit cards	3	
2. B. What do you not use and why?	ATM / self-service machines	6	7
	Credit cards	1	
3. A. How satisfied are you as a bank employee with the services and why?	High satisfaction	6	8
	Moderate satisfaction	1	
	Isnotsatisfied	1	
3. B. How satisfied are you as a customer with the services and why?	High satisfaction	6	10
	Medium satisfaction	2	
	Unsatisfied	2	
4. A. Why do you think some of the bank’s customers choose to use the bank's digital services? (For reasons of accessibility, safety, ease of use and price).	Available anytime, accessible	13	47
	Fast, efficient, save time and resources	8	
	Saves going to the branch	7	
	Price (cheaper)	7	
	Convenient	6	
	Easy	4	
	Security&Privacy	2	
4. B. Why do you think some of the bank's customers do not choose to use the bank's digital services? (For example: lack	The current situation is convenient for them: lazy to learn, not used to digital, less technological	15	22
	More conservative, data security concern	5	
	You cannot negotiate with the branch	1	
	Accessibility	1	

Written Question	Theme	Frequency f	Total F
of technological orientation, lack of accessibility, difficulty in changing habits).			
5. A. To what extent do you think the use of digital services is suitable to all customers?	Suited to all customers	3	21
	More suited to the young population	5	
	Less suited to the older population	7	
	Less suited to disabled people	1	
	Not suitable to all customers	5	
5. B. how?	Broad	4	6
	Simpleandbasic	2	
5. C. If not, what actions are being taken by the bank to adapt them and make them accessible?	Guidance at the branch or <i>at the customer's</i>	5	8
	Encouraging the customer's feeling that he is not alone	2	
	Making interfaces simpler	1	
6. A. Are there many customer complaints following the transition to digital services?	Few complaints follow the transition to the digital services	7	9
	Many complaints follow the transition to the digital services	2	
6. B. If yes, from who mainly?	Older customers	6	11
	Customers who are having difficulties understanding the system / did not receive guidance	4	
	Customers who tend to compare service standards with other service providers	1	
6. C. On what service?	Lack of response or human touch in digital services	2	4
	Website / mobile application	2	
6. D. How do you, the bank's employees, deal with them?	Guidance by representatives who specialize in the digital services in the branches	3	9
	Changing the interface of the website / application	3	
	Changinginternalprocessesaccordingtocustomerfeedback	2	
	Set up a guidance meeting with a digital representative	1	
7. A. To what extent do you think that the digital services can replace the services provided by the bank?	Can replace to a high extent	7	8
	Can replace to some extent	1	
7. B. To what extent do you think they can replace the service experience that customers receive at the branches?	Can replace to a high extent	9	10
	Can replace to some extent	1	

Written Question	Theme	Frequency f	Total F
7. C. Why?	Coming to the branch and waiting is outdated, time saving, availability, convenience	7	15
	People do more transactions in the digital services, even in digital you can get personal service, any service can be digital	7	
	Cheaper	1	
7. D. In what way they can?	Doing standard, routine and relatively simple transactions	7	10
	Everything	3	
7. E. In what way they cannot?	Doing non-standard transactions	7	10
8. What changes would you make to the digital services to increase the level of use and satisfaction of customers?	To provide service that is suited to the customer's needs	3	
	Consulting services	2	
	Make it easier for the customers on the login to the website	2	
	Expanding the BIT application	1	
	Improving processes in the bank's mobile application	1	
	Improving the capital market website	1	
	New technologies of face recognition	1	
Accessibility of services	1		
9. A. How do you think the service to the bank's customer should be like in the 21 st century?	More transactions will be performed digitally, chat bot in the website, customer-suited digital services	8	16
	Low branch layout	4	
	The establishment of service centers, there will be almost no officials	4	
9. B. Do you think the staffed branches of the banks will have a role in the provision of service to the customers in the future?	Yes, there will be a role to the staffed branches in the provision of service	9	13
	There will be a role to the staffed branches, but not in the provision of service	1	
	There will be no role to the staffed branches, service will be provided in a different format	3	
9. C. What services will these branches offer?	Non-standard transactions (mortgages, non-standard loans, consultation)	7	9
	All services like today	2	
9. D. Do you think that services will be added to the digital services in the future?	Yes, additional services will be added to the digital	10	10
9. E. Why?	Efficiency	2	5
	Saving of manpower	2	
	Improving Satisfaction	1	
10. In what way do you think the level of the digital services at the bank	We are first in the digital in many aspects	7	18
	Many resources are invested for that, investment in the availability of the digital services	6	
	Same as the main competitor	1	

Written Question	Theme	Frequency f	Total F
and their quality today exceed the level of the digital services of the competing banks?	There are aspects in which the competitors have an advantage over us	1	
	Investment in the speed of the digital services	1	
	Investment in the security of the digital services	1	
	The quality of the employees	1	
11. As a result of the bank's transition to increased use of digital services, there is a contribution to: retention of existing customers, customers' attrition to banks with better digital services, customers' attrition to banks that do not use digital services, or no change?	Retention of existing customers	5	6
	Customers' attrition to banks with better digital services	0	
	Customers' attrition to banks that do not use digital services	0	
	No change	1	