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The effect of loyalty programmes on customer loyalty in the retail banking sector in South Africa

By

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Management (Strategic Marketing).

Supervisor:

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ABSTRACT

It is estimated that there are more than 100 loyalty programmes in operation in South Africa, with retail programmes dominating the loyalty landscape. However the banking sector has seen many of its banks embark on this journey and introduce loyalty programmes as part of their service offering. While there has been a great amount of research on loyalty programmes, little has been done to see if indeed a loyalty programme, in the traditional sense, has resulted in customer retention and loyalty in the banking sector. This study therefore examines the effect of loyalty programmes on the South African retail banking sector by assessing whether the usage of these programmes has had a direct influence on customer satisfaction, perceived service quality, brand reputation, and ultimately loyalty towards the bank.

The methodology used a self-administered questionnaire and data was collected from 220 participants who have an active bank account in South Africa and are currently making use of their bank loyalty programme. The study tested eight hypotheses using the Structural Equation Modelling (SEM).The software used was the SPSS version 21 and Amos version 21 for analysis.

The findings of the study reveal that loyalty programmes have a positive influence on service quality and customer satisfaction.

This study contributes to the literature on loyalty programmes in the banking sector. It can assist marketers in developing sound loyalty programmes aimed at the banking sector. A discussion on the limitations and directions on future research is provided.

Key words: loyalty programme, customer loyalty, customer satisfaction, service quality, brand reputation.

DECLARATION

I, Daniella Olifant, declare that this research report is my own work except as indicated in the references and acknowledgements. It is submitted in partial fulfilment of the requirements for the degree of Master of Management in Strategic Marketing in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other University.

Daniella Olifant

Signed at……..

On the……day of……20…….

DEDICATION

I would like to dedicate this work and the completion of this study to my son, Nkanyiso Luniko Reign Nhlabathi, who was born on the 21st of November 2019. I was pregnant while doing my course work for this degree and that alone came with many challenges. Trying to multitask between work, school and mom duties proved to be quite challenging.

However, we did this one together from the beginning until then end.

I love you with all my heart.

May the completion of this degree be an illustration to you that anything is possible and that you can achieve whatever you put your mind and heart to.

ACKNOWLEDGEMENTS

My mother, Cecilia Olifant, grandmother, Yolanda Ndlovu, and my partner Njabulo Nhlabathi.

Without their continuous support this would have not been possible.

My supervisor, Dr Siphiwe Dlamini, you have been so patient and understanding with me. Thank you for your advice and support.

And lastly to all my friends and family, thank you for your love and encouragement.

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CHAPTER 1. OVERVIEW OF STUDY

1.1 Introduction

This chapter provides an overview and the main purpose and context of this study. It presents the problem statement, research objectives, and the justifications of the research. Additionally, the significance of the study is discussed along with the definition of terms, and delimitations, and the structure of the study is outlined.

1.2 Purpose of the Study

The purpose of this study is to understand the effect of loyalty programmes on customer loyalty in the retail banking sector in South Africa, whilst measuring the influence that customer satisfaction, brand reputation and service quality may have on customer loyalty.

1.3 Context of the Study

Oliver's (1999) definition of customer loyalty is one of the most popular definitions, and he defines loyalty as a deeply held commitment to repurchase a preferred product or service consistently, thereby causing repetitive same brand set purchasing despite situational influences and marketing efforts to cause switching behaviour (Muflih , 2021). Loyalty can stem from various things, but in general a loyal customer will associate favourable experiences with a brand, company or product, therefore increasing their likelihood to make repeat purchases with that business.

Many companies use loyalty programmes as a fundamental sales strategy and a defensive marketing strategy to retain customers (Meyer-Waarden & Benavent, 2006). The double conviction is that retaining customers is less expensive than acquiring new ones. That's why existing customers make the best customers because they tend to be the most profitable, given this belief. Customer loyalty is the driving force in many businesses because achieving customer loyalty leads to companies sustaining themselves while also maintaining a competitive edge (Amine, 1998).

With the many functions that are attached to the marketing role, building and maintaining customer loyalty is vital because of its ability to create existing and new revenue streams for the business. In the quest to increase customer loyalty, marketers have used loyalty programmes to support many of their marketing strategies (Evanschitzky, et al., 2011). A well-designed customer loyalty programme can

contribute to repeat purchases by existing customers, aid in attracting new customers, and influence the perceived need for and value of product (Evanschitzky, et al., 2011). This in return increases the profitability and the market share of a company (Meyer-Waarden & Benavent, 2006).

The banking sector in South Africa is a highly competitive terrain and customer loyalty will prove to be an important metric to keep banks sustainable. In the banking industry the biggest threat to sustainability is customer switching. Banks are constantly under pressure to not only acquire new customers, but to retain their existing customers as well. The South African banking sector compares favourably with those of developed countries due to its sound regulatory environment, and sophistication (Mishi & Khumalo , 2019). Despite the seemingly large number of banks, only four dominate the market. Known as “the big four”, Standard Bank, ABSA, FirstRand, and Nedbank account for over 84 percent of total banking assets (Mishi & Khumalo , 2019).

In a significantly homogenous industry where services are very similar, a differentiation strategy is key, as this allows banks to offer their customers a unique client value proposition and a distinct service offering. Loyalty programmes have become the response and solution to competition as they increase behavioural loyalty among customers (Evanschitzky, Iyer, Plassmann, Niessing, & Meffert, 2006). These programmes capitalise on customers, as they allow for organisations to provide rewards to customers who exhibit loyalty, which in turn impacts their purchasing tendencies (Omar & Musa, 2009). They capitalise on customers. As a result, the customer builds a psychological and emotional bond with the provider.

Customer loyalty is regarded as a competitive asset for any organisation as it has a direct effect on an increase in sales and profits (Chen & Quester, 2015). Loyal customers are crucial to any company despite its scale and scope of business. According to Kotler (1994) what leads to customer retention is customer satisfaction (Kotler & Keller , 2014). By providing an incredible customer experience, companies can achieve customer retention, providing the necessary conditions for business growth. Additionally, loyalty assists companies in retaining customers that are considered valuable (Magatef & Tomalieh, 2015).

Singh and Imran (2012) estimate that even a slight increase in customer retention has the ability to increase profits by up to 25% or more through decreased marketing costs,

higher volume of sales, and lower operational costs (Singh & Khan, 2012). According to Reichheld and Sasser (1990), “Loyal customers are less likely to switch because of price and they make more purchases than non-loyal customers”. Additionally, Raman (1999) states that loyal customers provide a significant marketing force by making recommendations and spreading beneficial word-of-mouth; the best advertising a company, product or brand can get (Raman, 1999).

In the South African context, a retail bank is a financial institution that offers banking services to individuals and small businesses by accepting deposits and creating credit for the public. Its customers are the general public taking care of their personal financial needs. The retail banks in South Africa include more than ten locally controlled banks, including: ABSA Group Limited, African Bank, Bidvest Bank, Capitec Bank Holdings, Discovery Bank Limited, FirstRand Limited, Grindrod Bank, Investec Bank Limited, Nedbank Group, Sasfin Bank Limited, the Standard Bank of South Africa Limited, Tyme Bank, and UBANK Limited.

The four major banks in South Africa in terms of total assets held are Standard Bank Group Limited, FirstRand Limited, ABSA Group Limited, and Nedbank Group Limited. Banks that currently have a loyalty programme attached to their banking services include Absa Group (Absa Rewards), Discovery Bank (Vitality Money Rewards), First National Bank (eBucks), Investec (Rewards Programme), Nedbank Group (Greenbacks) and Standard Bank (uCount).

The aim of this study is to assess the philosophy that loyalty programmes contribute to customer loyalty. In the banking sector, do these programmes influence the purchasing behaviour of a customer and retain an existing customer, or does the client get more value from other moving parts such as service quality, brand reputation or satisfaction? Regardless of the way service quality has been measured, its impact on numerous aspects of consumer behaviour is evident (Kranias & Bourlessa, 2013). Service quality influences strongly customers’ perceived value, satisfaction, re-visit (Cronin, Brady, & Hult, 2000) as well as word-of-mouth intentions (Yavas, Benkenstein, & Stuhldreier, 2004; Harrison-Walker, 2001).

1.4 Problem Statement

Despite a number of loyalty programmes having been introduced in the last couple of decades, evidence regarding their effectiveness in cementing customer loyalty

remains varied and often inconsistent. The current lack of understanding as to what factors drive a successful loyalty programme represents an important knowledge gap (McCall & Voorhees, 2009).

The study will also assess some of the mediating factors, such as customer satisfaction, service quality, and brand reputation, and the effect they have on customer loyalty in the banking sector. Service quality and brand reputation have not been explored holistically when assessing the concept of loyalty programmes on customer loyalty. While customer satisfaction is not only the leading indicator to measure customer loyalty, it also helps identify unhappy customers, reduce churn, and increase revenue, therefore proving to be of utmost importance to identify the determinants of customer satisfaction relating to these programmes.

It's undeniable that service quality is a huge differentiator in a highly competitive market. It's therefore essential for all businesses to make service quality an essential factor when looking to improve customer satisfaction, trust and loyalty (Ou, Shih, Chen, & Wang, Relationships among customer, loyalty programs, service quality,relationship quality and loyalty, 2011). Businesses compete for brand reputation knowing that those with a strong reputation can assume highest sales prices, thereby being more powerful than another competitor (Loureiro & Kaufmann, 2016). Customer loyalty is perceived to be attitude-based and can be determined by initiatives that can mediate client relationships including loyalty or affinity programmes (Dowling & Uncles , 1997). Loyalty programmes were formed with the intention to create and enhance customer loyalty. With the aid of these programmes, customer loyalty can lead to increases in sales revenue as a result of an increase in purchasing or usage levels. Additionally, by increasing the relationship the customer has with the brand, retaining customers long term is possible. According to Uncles, Dowling, & Hammond (2002) the popularity of loyalty programmes suggests that profits can be increased, new customers obtained, and existing customers retained (Sharp & Sharp, 1997).

1.4.1 Main Problem

Banks are compelled to strive for creative and innovative strategies to retain customers and driven by the need to keep existing customers rather than having to acquire new ones (Syed, 2019). Loyalty programmes have become one of the most

significant means by which companies manage their customer relationships. Loyal customers are means of consistent source of revenue to organizations. As a result, this study discusses the effect of loyalty programmes on customer loyalty in the retail banking sector in South Africa. Loyalty programmes have been known to be successful in the retail industry where they do drive repurchase behaviour; however, there has been very little research conducted to see if these programmes drive the same outcomes in the banking industry. While there is plenty of research on loyalty programmes in retail, there are limitations and gaps in the context of measuring the effect of loyalty programmes on customer loyalty in the banking sector.

1.4.2 Sub-Problem

The sub-problem identified is as stated:

The conciliatory influence of customer satisfaction, service quality and brand reputation in the relationship between the consumer's loyalty to the bank and loyalty programmes.

1.5 Research Objectives.

This study set out to achieve the following theoretical and empirical research:

1.5.1. Theoretical objectives

- To review the literature on loyalty programmes
- To review the literature on customer loyalty
- To review the literature on customer satisfaction
- To review the literature on service quality
- To review the literature on brand reputation

1.5.2 Empirical Objectives

- To assess the influence of loyalty programmes on service quality.
- To assess the influence of loyalty programmes on customer satisfaction.
- To assess the influence of loyalty programmes on brand reputation.
- To assess the influence of service quality on customer satisfaction.
- To assess the influence of service quality on brand reputation.
- To assess the mediating influence of customer satisfaction to customer loyalty
- To assess the mediating influence of brand reputation to customer loyalty

- To assess the mediating influence of loyalty programmes to customer loyalty

1.6 Research Questions

These research questions are answered in this study:

1. What is the influence of loyalty programmes on customer loyalty?
2. What is the mediating influence of customer satisfaction, service quality and brand reputation to customer loyalty?

To unpack these research questions, the literature on loyalty programmes, customer satisfaction, service quality, brand reputation, and customer loyalty are reviewed.

1.7 Significance of Study

1.7.1 Theoretical Contributions

This study contributes theoretically to the literature on customer loyalty in the banking sector. Loyalty programmes have proved to drive more usage or spend and enhance deep, long-lasting relationships that go beyond the discounts a brand offers to its customers. These programmes drive valuable user behaviours and attitudes and generate favourable perception (Syed, 2019). There has been great research conducted on loyalty programmes and their effect on repeat purchases and customer loyalty however there is limited research on loyalty programmes in this sector (Meyer-Waarden, 2015). To improve on market share, building loyalty in consumers is viewed as the main driver, particularly in progressively competitive markets (Jarvis & Mayo, 1986), along with creating a competitive advantage that is sustainable (Kotler & Singh, 1981).

South Africans are significantly invested in loyalty programmes. Despite the popularity of loyalty programmes and the belief that such initiatives help to enhance customer loyalty, there are arguments that these are ineffective (Wait & Lekhuleni, 2020). Meyer-Waarden (2015) reported that less than half of loyalty programme members find the scheme to be value-adding, and that the impact on customer patronage is often lower than most companies' expectations (Meyer-Waarden, 2015).

This study will help evaluate and validate the idea that loyalty programmes are a good tool to use to build customer loyalty, or establish whether there better or existing ways to build it. Should banks look at alternative strategies to drive customer loyalty?

1.7.2 Contextual Contributions

Contextually, this study contributes to the limited literature in South Africa assessing the effect of loyalty programmes on customer loyalty in the banking sector. It also looks at the role that customer satisfaction, brand reputation and service quality play in customer loyalty.

1.7.3 Practical Contributions

Marketing practitioners, as a result of this study, will further understand the practical steps of what drives customer loyalty in the banking sector. It will help management to plan out suitable strategies to maintain customer loyalty, noting its impact on retaining customers' profitability (Crosby, Evans , & Cowles , 1990).

1.8 Limitations of study

In spite of the several sectors that have instituted loyalty programmes, this study is limited to examining loyalty programmes in the retail banking sector. The major banks with loyalty programmes used to conduct this study are Absa, FNB, Nedbank and Standard Bank. In some instances, these programmes come at an additional cost or are attached to the elite banking class.

Additionally, this study has been limited to three mediating factors: customer satisfaction, service quality, and brand reputation.

1.9 Definition of Terms

The following section provides definitions for the terms inherent in this study.

1.9.1 Loyalty programme

Loyalty programmes are defined as programmes that increase repeat buying, thereby advancing retention rates by providing incentives for customers to buy more frequently and in larger volumes (Wang, Lewis, Cryder, & Sprigg, 2016). Highly effective programmes are customer centric as they focus primarily on customer experience, brand development and customer satisfaction before expecting customer loyalty (Zavalishchin, 2021).

1.9.2 Customer satisfaction

Customer satisfaction indicates how well the product use experience compares to the buyer's value expectations (Razak & Shamsudin, 2019). It is the expectation perceived by both customer and consumer before purchasing and experiencing the product or services (Shamsudin, Nurana, Aesya, & Nabi, 2018).

1.9.3 Service quality

As stated by Holdford and Reinders (2001), "Service quality is defined as a post-consumption assessment of services by customers or consumers". The purpose of providing quality service is to satisfy customers considering service has become an integral part of modern business.

1.9.4 Brand reputation

Brand reputation is the "aggregate perception of outsiders on the salient characteristics of companies" (Fombrun & Rindova, 2000). A company earns its brand reputation over time.

1.9.5 Customer loyalty

One of the definitions of customer loyalty refers to the repurchase behaviour developed by both the customer and consumer, thereby accounting for all the experiences that they may have encountered thought the usage or consumption process (Fida, Ahmed, Al-Balushi, & Singh, 2010).

1.9 Assumptions

The following assumptions are made in this study.

- The population size consists of 220 participants.
- The participants are 18 years or older and are currently residing in South Africa.
- The participants would need to bank with one of the primary banks used in this study, ABSA, FNB, Nedbank and Standard Bank
- The participants who do not engage with their primary banks' loyalty programme(non-loyalty members) were excluded from the survey to allow for more accurate outcomes

1.10. Structure of the Study

To ensure a coherent flow of information, the structure of the research paper is outlined below.

Table 1: Structure of Study

Chapter 1	Overview of Study	Introduction, purpose, research context, problem statement, research objectives, research questions, justification of study, definition of terms, research methodology and outline of thesis.
Chapter 2	Literature Review	Introduction, customer loyalty, customer satisfaction, service quality, brand reputation and loyalty programmes and banking in South Africa.
Chapter 3	Research Theory	Introduction, theoretical grounding, relationship marketing theory, repeat purchase behaviour, attitudinal loyalty, and behavioural loyalty.
Chapter 4	Data analysis and presentation of results	Introduction, SPSS Amos version 21 presentation of results and summary.
Chapter 5	Research Methodology	Introduction, research paradigm, research strategy, sampling method, measurement scale and data collection, pilot study, reliability and validity, limitations of the

		study, and ethical considerations.
Chapter 6	Data Analysis	Introduction, data screening, sample characteristics, validity and reliability, descriptive statistics and correlation analysis, hypothesis testing using SEM and conclusion.
Chapter 7	Research Discussion and Conclusion	Introduction, implications, recommendations, conclusion, and future research.

Source: Own development (2020)

1.12. Summary

This chapter discussed the context of the study and outlined the research questions and empirical and theoretical objectives. It looked at the loyalty programme landscape in South Africa and provided a summary of the retail banking sector. With this in mind, it was made clear that this study contributes to the existing literature on loyalty programmes by highlighting the relationship between these programmes and customer retention and loyalty in the South African banking retail sector. This relationship is what forms the foundation of the literature review presented in Chapter 2.

CHAPTER 2. LITERATURE REVIEW

2.1 Introduction

This chapter presents the theoretical grounding for this study as well as a literature review which contains a discussion of the main research variables in the study. These discussions include service quality, customer satisfaction, customer loyalty, and brand reputation. Additionally, loyalty programmes and their broad typology are discussed with a specific focus on the South African banking industry. The chapter is completed by a presentation of the conceptual model and the development of the hypothesis.

2.2 Theoretical Grounding

Loyalty programmes have undergone significant changes aimed at retaining their customers and attracting new ones. Retention of the most valuable customers is a priority in most companies' loyalty programmes. Very few of them use this indicator to measure success. Successful customer loyalty programmes include sophisticated personalization methods and advanced segmentation, using new and diverse data sources. There is a close relationship between the effectiveness of the loyalty programme and the use of analytic data to develop and measure management strategies.

Shoemaker and Lewis (1999) suggested that a satisfactory customer loyalty programme reduces customer dissatisfaction and reinforces satisfaction (Shoemaker & Lewis, 1999). However, a poorly designed customer loyalty programme may produce adverse effects.

The following theories that form the basis of this study are discussed below: expectancy/disconfirmation paradigm in process theory, relationship marketing theory, repeat purchase behaviour, attitudinal loyalty, and behavioural loyalty.

2.2.1 The Expectancy–Disconfirmation Theory ('EDT')

The disconfirmation of expectations theory was conceptualized by Richard Oliver, (Oliver, 1980). The theory implies that customers purchase products or services with pre-purchase expectations about their anticipated performance (Zehrer, Crotts, & Magnini, 2011). As time goes on, whether during or after experiencing the product, they form a perception as they evaluate the experience with their existing standard or expected outcome. As soon as customers finally compare the service experience with

their existing standard or expectations, the process is complete. The results of the process are satisfaction, dissatisfaction or confirmation.

According to this model, satisfaction indicates an affective state representing an emotional reaction to a product or service (Qazi, Tamjidyamcholo, Raj, Hardaker, & Standing, 2017). Ultimately, customers weigh new service experiences against the standard they have already created and their ideas around the service stems from how much it measures up to the perceived standard. Three intimate relationships exist in this model, namely the direct effect of perceived performance on customer satisfaction and how the influence of expectations on perceived performance will finally lead to disconfirmations and satisfaction (Gillison & Reynolds, 2018). Expectations are used to measure satisfaction that can be fulfilled or unfulfilled (Qazi, Tamjidyamcholo, Raj, Hardaker, & Standing, 2017).

Besides previous experiences, consumer expectations may be built by the opinions of others (Gillison & Reynolds, 2018). Higher expectations tend to produce higher performance and lower expectations tend to produce lower performance (Qazi, Tamjidyamcholo, Raj, Hardaker, & Standing, 2017) and the greater likelihood of negative disconfirmation (Grimmelikhuijsen & Porumbescu, 2017). This is because high expectations will be very difficult to fulfil even though the effort given is also high so that the possibility of negative discounting becomes greater (Qazi, Tamjidyamcholo, Raj, Hardaker, & Standing, 2017).

However, when expectations are lower, it is likely that positive disconfirmation will be felt by consumers (Grimmelikhuijsen & Porumbescu, 2017).

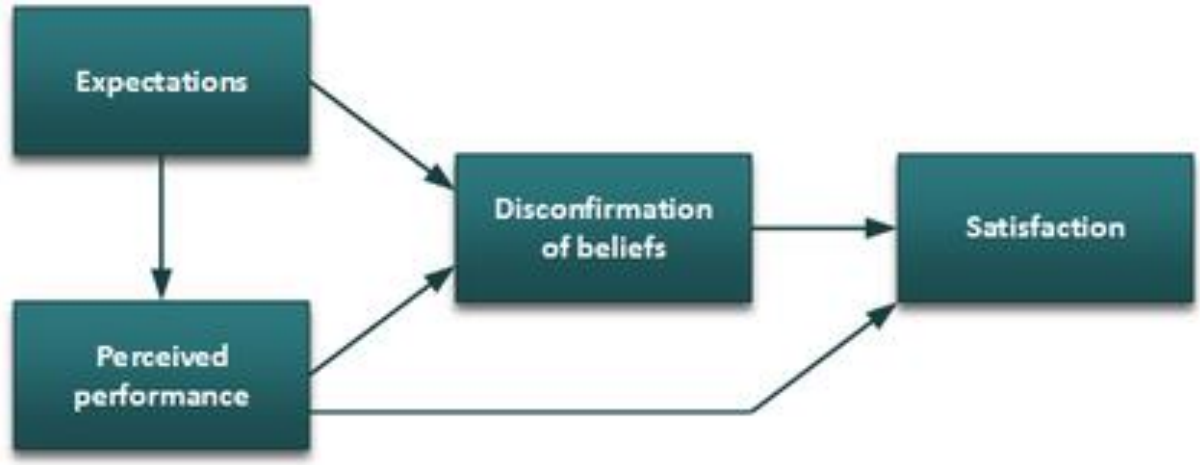

Figure 1: A model of expectancy-disconfirmation paradigm

Source: DanSoper (own work)

Four components make up this paradigm: disconfirmation of beliefs, expectations, satisfaction, and perceived performance. The level of expectations reflect expectation before consumption; customers' estimation of the service highlights performance; and disconfirmation occurs if expectations and performance are not aligned. Lastly, satisfaction is measured by integrating the satisfaction results for the varied aspects provided by the service. While some of the components have an effect on satisfaction, it has not been determined whether they lead to either satisfaction or dissatisfaction (Margaret , Liechty, & Churchill, 1979). Additionally, there is no consensus in relation to the nature of how interrelated the variables are.

Studies on disconfirmation expectations have compared the standards consumers use to such things as:

1. Equitable performance is shaped by the customer, based on the individual's costs or investment and expected rewards (Margaret , Liechty, & Churchill, 1979).
2. The ideal product or service performance is the consumer's best level or service performance (Margaret , Liechty, & Churchill, 1979).
3. Experience-based norms are the customer's preferred level of performance based on experience with competitors (Cadotte , Woodruff , & Jenkins, 1987).
4. Relationship quality is the value and worth of the relationship between the salesperson and customer that leads to satisfaction and significantly affects sales (Crosby, Evans, & Cowles, 1990). This also includes the influence of word of mouth and the media on the relationship. Price is often viewed as a

measurement of quality with many customers associating higher priced items with higher quality. Price tends to play a significant role especially when the customer is not informed on service.

The operational assumptions highlighted below, according to Oliver (1980), form part of the expectation-disconfirmation theory:

1. Once expectations are high, and performance is low, reasonably low disconfirmation will result because expectations are not met, whereas a high performance will result in a reasonably high level of expectations being met.
2. As soon as expectations are low, low performance will result in very low Expectation-Maximization (EM) ratings, while a high performance will result in very high EM ratings due to a surprise effect.
3. If expectations match performance at any level, the end result will be confirmation and EM will represent the value of the expectations or performance level.

2.2.2 The Expectancy-Confirmation Theory

The expectancy-value theory suggests that a level of discernment is made by customers concerning a product, its benefits, and the likely results that come from using the product. People learn to perform behaviour that they expect will lead to positive outcomes, for that reason their overall attitude is a function of these beliefs (Mill, 2002).

Expectation or confirmation theory (ECT) is used widely in research that sets out to understand customer loyalty and satisfaction, and what influences them (Bhattacherjee, 2001). On its own, ECT may be applied to forecast customer loyalty by understanding how satisfaction directly influences it, but this direct influence on loyalty is challenged several in previous studies (Andereassen & Lindestad, 1998), suggesting an apparent gap between satisfaction and loyalty that is ready for exploration. The observation may be further enhanced by implanting the self-determination theory in the analysis of this gap between satisfaction and loyalty.

Expectation may be described as the level at which customers predict the occurrence of a service and what customers envision the expertise of the service provider is, (Coye, 2004). A customer's level of satisfaction with a service, according to the

expectation–confirmation theory, is based on the consumer's first expectation of the service, along with the disparity between the performance of the service and that expectation (Thong, Tam, & Hong, 2006). Scholars have stated that a main predictor of consumer satisfaction is the expectations consumers have, based on their direct experiences (Thong, Tam, & Hong, 2006).

Application to this study

There is widely held belief that when customers are satisfied, they are likely to increase their loyalty, which leads to a higher probability of repurchasing a service or product, whereas dissatisfied customers either discontinue its use or find a substitute product or service. A critical issue that remains within management is comprehending how and why loyalty evolves in customers.

2.2.3 Relationship Marketing Theory

Loyalty programmes are programmes that boost repeat buying, thereby improving retention rates by providing incentives for customers to buy more frequently and in larger volumes (Wang, Lewis, Cryder, & Sprigg, 2016). By the very nature of this definition, loyalty programmes have to embrace the concept of relationship marketing, which can take many forms. Relationship marketing can be defined as an approach to establish, maintain, and enhance long-term associations with customers and other stakeholders (Parasuraman & Zinkhan, 2002). Relationship marketing is an attractive concept because it links many components of marketing thoughts together, such as customer relationship management, sales management, strategic thinking and promotional strategy (e.g. customer rewards). The approach is fundamentally concerned with attracting, developing and retaining customer relationship.

Relationship marketing is certainly a promising way to create a competitive advantage by forging long term relationships with customers. For this reason, relationship marketing must be central to any business strategy, moreover, it is the best contemporary marketing strategy for a company to satisfy its customers' needs and wants. Along with this, it has evolved from early direct response marketing, and now it focuses more on customer retention and satisfaction. Instead of focusing on delivering and selling the products only, many companies are targeting and developing long-term relationships with their customers.

Relationship marketing:

- Is customer centric and makes the customer the centre of business
- It drives customer retention strategies, moving away from the traditional marketing which has a single sales strategy.
- Creates a continuous relationship with the customer over the long term, and provides an aftersales service that creates an opportunity to sell add on features or buy into additional products or services.
- Delivers value to the customer, rather than highlighting the salient features of a product or service.
- Looks to deliver a robust customer service which includes pre-sales, sales and after sales activities.
- Places an emphasis on understanding customer expectation and delivering on that expectation
- Considers pricing of product should not be determined by the competitive forces but through negotiation and consensus.
- Lastly, it encourages marketing campaigns to focus on the target customer market, tailoring to the specific needs of the individual.

  .

Consumers desire relationship partners that they can trust, since trust is associated with reliability, integrity, and competence. Scholars like Morgan & Hunt (1994) emphasise the importance of commitment and trust when assessing relationship marketing theory. Central factors state that trust and commitment must exist for a relationship to be successful.

Applying relationship marketing theory (Bojel, Julian, Che Wel, & Ahmed, 2013) analysed the extensive tools used in relationship marketing and discovered that in the retail sector, loyalty programmes have a substantial influence in retaining customers, particularly in developing countries. Therefore, loyalty programmes are recommended in long term exchanges between a company and its customers.

Application to this study

Relationship marketing theory highlights the importance of companies and brands developing a lifelong relationship with their customers. This in return increases customer satisfaction, trust, and commitment, which are essential in driving retention

outcomes and customer loyalty. Loyalty programmes are believed to be a strategic tool for relationship marketing and therefore cultivate and retain loyal customers.

Competition between banks in South Africa has become aggressive and customer retention drives many of their marketing strategies. Retail banks in South Africa have increased their relationship marketing strategies, with many employing relationship managers as part of their service offering. The relationship manager, among other things, is hired with the intention to strengthen the customer relationship.

2.3 Loyalty Programme

Companies that offer loyalty reward programmes believe that their programmes have a positive effect on customer evaluations and behaviour in the long run (Bolton, Kannan, & Bramlett, 2000). Generally, the objective of these programmes is to establish a higher level of customer retention in profitable segments by providing increased satisfaction and value to certain customers. The justification is that increased customer satisfaction and loyalty have a positive influence on a company's long-term financial performance (Anderson, Fornell, & Lehmann, 1994). Managers are recognizing the importance of cultivating loyal customers to increase sales and customer share (Zeithaml, V A; Bitner, M J, 2000) and typically believe that it is desirable and expected for a properly executed loyalty rewards programme to increase usage of the company's product or service offerings (O'Brien & Jones, 1995).

2.3.1 Typology of loyalty programmes

Points-based programme

The points-based programme is the most common and simplest programme to implement. The simple principle it follows is 'spend more to get more'. With every purchase the customer makes in-store or online, points are allocated according to how much they spend, with a direct link between their spend and the reward they earn. These points are then converted into some type of reward. Whether it is a discount or special customer treatment, customers work towards collecting a certain number of points to redeem their reward.

Tiered programme

A tiered system creates the right balance between attainable and desirable rewards. The tiered programme is based on levels of loyalty; the more points a customer receives, the higher they climb on loyalty levels, and the greater the rewards they will get.

VIP member club (paid programme)

In this programme, customers pay a monthly or annual fee to join a VIP member club with access to special services, discounts or unique opportunities. The programme will include benefits that are exclusive to its members only.

Partnered programme

Many programmes partner with other business or service providers to provide a strategic partnership to benefit the consumer. Customers are provided with value beyond the company that they are engaging with.

Hybrid loyalty programmes

This is a combination of more than one type of loyalty system, where different systems are merged. The most common hybrid is that of combining a points-based system with a tier programme, as it makes the calculation of points easy for customers, and it encourages them to pursue the next loyalty level tier through more purchases or engagement.

2.3.2 Benefits of Loyalty Programmes

The literature on retail marketing demonstrates numerous benefits of loyalty programmes for both businesses and customers (Magatef & Tomalieh, 2015).

Below are some of the benefits of loyalty programmes:

- The costs of serving loyal customers are less than attempting to obtain new ones.
- Loyal customers experience less price sensitivity.
- Loyal customers are most likely to spend more (repeat purchases).

- Loyal customers spread positive recommendations about their favourite brands to people they know.
- Loyalty programmes can provide the company with additional data sets, such as purchasing behaviour and additional information about the customer.

2.4 Customer Loyalty

Customer loyalty has become the key foundation pillar for all marketing initiatives. Most banks are using loyalty programmes as a competitive differentiator for retaining their long-term relationship with existing clients, increasing market share and customer satisfaction (Syed, 2019). For the purposes of this study, customer loyalty is defined as “a consumer’s loyal attitude and behaviour toward a specific service provider or product, despite competitors providing alternative or similar services in the market” (Chen & Quester, 2015).

Yi and Jeon (2003) conceptualize customer loyalty as being divided into programme loyalty, and loyalty to the company. Programme loyalty is having a positive attitude toward the benefits of the loyalty programme. Company loyalty is more dependent on a customer’s emotional state, as it combines the underlying psychological state that reflects the affective nature of the relationship between the individual customer and the provider, leading to favourable attitudes (Gundlach et al.1995; Kumar et al.1995). There are two types of loyalty, behavioural and attitudinal loyalty. These are further discussed below.

2.4.1 Behavioural Loyalty

Previously conducted research on loyalty programmes has foregrounded attitudinal and behavioural loyalty of those who subscribe and those who are not members (Gomez, Arranz, & Cillan, 2006); the value of service experience in retaining customers (Bolton, Kannan, & Bramlett, 2000); loyalty patterns based on repeat purchases (Sharp & Sharp, 1997); and perceptions on value, brand loyalty, and programme loyalty (Yi & Jeon, 2003).

There are two main ways of measuring behavioural loyalty: repeated customer purchases in terms of how much they buy, or frequency, which is how often they buy. Behavioural loyalty is directly related to the performance of a company, considering it

has an impact on profit-making when it comes to market share and long-term sales (Mascarenhas, Kesavan, & Bernacchi, 2006).

It is important to note how biased a response brand loyalty is. This implies that there has to be a pattern in purchasing a specific brand, therefore simply stating a preference for a brand is not enough to signal brand loyalty. To have insight into behavioural loyalty, two things can be looked at, according to (Mellens, Dekimpe, & Steenkamp, 1996) consistency and time span. This means that the number of times a particular brand is purchased during a determined period should be considered. In this way, behaviour that is partially loyal can be distinguished from completely loyal behaviour.

It is important to note that some researchers hold the belief that commitment to a brand and buying behaviour is determined by conditioning (Foxall, 2001). They claim that behaviour alone can explain brand loyalty, with customers holding the view that the purchase will either lead to a "reward", which points to the brand being adequate, or a "punishment" which points to the brand being inadequate (Mellens, Dekimpe, & Steenkamp, 1996).The first leads to repurchasing of the brand and the second leads to brand switching. Brand loyalty is therefore regarded as a result of behaviour, and not an explanation for it.

Therefore, according to (Demoulin & Zidda, 2008), being a loyalty programme member is not an adequate condition for behavioural loyalty. If the rewards from the loyalty programme are considered adequate by the consumer, then repeat purchase behaviour is sure to continue (Meyer-Waarden & Benavent, 2006).The impact of loyalty programme membership on the measure of behavioural loyalty and purchase frequency is further highlighted in the literature.

2.4.2 Attitudinal Loyalty

Attitudinal loyalty refers to a strong personal attachment to a brand, which is more than a positive attitude (Keller , 2009). Attitudinal loyalty is developed from two ideas: attitudes that are created by consumers' conscious evaluation and feelings; and attachment, all highlighting how significant the brand is to consumers. Together, these two concepts present a strong emotional connection with the brand, resulting in the brand being unique and irreplaceable.

(Mascarenhas, Kesavan, & Bernacchi, 2006) show how a consumer's socio-cultural background has an impact on their bond with a brand. Therefore, influencing attitudinal attachment means that marketers need to sufficiently evaluate and create a strategy that achieves this bond with consumers. High and consistent levels of attitudinal loyalty essentially benefit the company particularly in increasing repurchase intention and behaviour.

Keeping the right customer is of economic importance for any business, mainly because it is considerably more costly to attract new customers (Gallo, 2014). The financial services sector relies on the preservation of long-term relationships with its customers, due to the nature of the products and services it provides, and the loss of a client is viewed with concern (Meidan, 1996). The importance of customer satisfaction in financial services and the marketing activity of achieving customer loyalty has been studied extensively in existing literature. The studies that recognise the significance of customer loss and its impact on the profitability of an industry are abundant. With the rapid growth experienced by banks today, the industry is becoming increasingly competitive and banks' marketing strategies to retain their most valuable customers is becoming more diversified; and one of these strategies is through a loyalty programme strategy.

Keeping a loyal customer cost less than creating a new one (Reichheld, 2001) and therefore switching behaviour in the banking industry should be avoided. Switching behaviour is the customer abandoning one service provider for another, similar to the term customer defection (Gerrard & Cunningham, 2004) also identified seven reasons why customers would consider switching between banks (Gerrard & Cunningham, 2004). These reasons include service failure, pricing, inconvenience, reputation, promotions, involuntary, and recommendations of others. Additionally, Gerrard and Cunningham note that bank switching is usually the result of multiple reasons, unlike other industries where one reason suffices (Gerrard & Cunningham, 2004).

2.4.3 Customer loyalty measurements

Customer loyalty is measured in three distinctive approaches:

1. Behavioural;
2. Attitudinal; and

3. Composite

A disadvantage to the behavioural approach is that repeat purchases do not always stem from a consumer's psychological bond with the brand (Tepeci , 1999). On the other hand, measuring attitudinal attachment reflects the emotional and psychological attachment found within loyalty. These measurements focus on commitment, loyalty, and engagement. According to several researchers, "The third approach, composite measurements of loyalty, combines the first two dimensions and measures loyalty by customers' product preferences, propensity of brand-switching, frequency of purchase, recency of purchase and total amount of purchase" (Pritchard & Howard , 1997)

2.5 Customer Satisfaction

Customer satisfaction is a measurement that determines how well the product use or experience compares to the buyer's or consumer's expectations (Razak & Shamsudin, 2019). It is the expectation perceived by both customer and consumer before purchasing and experiencing the product or services (Shamsudin M. F., Nurana, Aesya, & Nabi, 2018). (Bellingkrodt & Wallenburg, 2015) define customer satisfaction as the extent to which an organization's customers repeatedly identify with its products and services. They argue that if customers continually perceive a product or service positively, this mental state can nurture customer loyalty (Bellingkrodt & Wallenburg, The role of customer relations for innovativeness and customer satisfaction: a comparison of service industries, 2015). It's apparent that customer satisfaction is one of the keystone concepts in strategic marketing. It indicates how well the product use experience compares to the buyer's value expectations (Razak & Shamsudin, 2019). It is the expectation perceived by both customer and consumer before purchasing and experiencing the product or services (Shamsudin, Nurana, Aesya, & Nabi, 2018).

Customer satisfaction plays an important role in the development of a business and because of this, many businesses pay great attention to its measurement and management (Eklof, Podkorytova, & Malova, 2020). Given that customers are the key assets of businesses, customer satisfaction can be considered as a primary goal for any company (Dossi & Patelli, 2010). The insight behind its importance is candid: satisfied customers tend to demonstrate loyal behaviour (Wangnheim & Bayon, 2004). Satisfied customers are less price sensitive, they attract new customers through word

of mouth, and they prefer the chosen business, brand or product over its competitors (Eklof, Podkorytova, & Malova, 2020). Ultimately customer satisfaction through loyalty leads to higher revenues for a company, which leads to a better financial performance, and possibly its prediction as well. Using customer satisfaction as a predictor for a company's performance is a valuable tool both for the company and its investors. Banking and insurance industries in emerging countries are examples of industries for which customer satisfaction can be a useful indicator of future financial performance.

Top-managers usually tend to set up the key performance indicators (KPIs) for employees based on loyalty-related indices such as, for example, the Net Promoter Score (NPS) (Reichheld, 2006).

The construct of customer satisfaction has been studied extensively over many years and is often considered as the single most important construct that determines consumers' subsequent behaviour.

Marketing literature suggests that there is a strong theoretical foundation for an empirical exploration of the linkages between customer satisfaction and customer loyalty (Shanka, 2012). Customer loyalty increases because of higher customer satisfaction. A satisfied customer will repeat purchase, and share positive experiences with other potential customers about the service provider, while unsatisfied customers will create a negative impression of the brand and drive to a switching action (Rama, 2020).

What contributes to customer satisfaction will vary depending on the type of business, product, or service. Consumer banking forms part of the financial services industry, and influences mediating factors such as service quality, quality of advice, banking products available, banking fees, interest rates, reputation, responsiveness which may contribute to the overall experience of the customer. Furthermore, the digital revolution has evolved and made customer satisfaction experiences even closer and more relevant to the customer or consumer. With social media playing such an important role in making decisions, it's crucial to keep an eye on the quality of customer service to ensure that customers are satisfied and give out great reviews and feedback. Dissatisfied customers lead to negative advertising (Nasserzadeh, Jafarzadeh, Mansouri, & Sohrabi, 2008) .The significance of satisfying and keeping a customer

in establishing strategies for a market and customer oriented organization cannot be ignored (Kohli & Jaworski, 1990).

2.6 Service Quality

Service quality is defined as a post-consumption evaluation of services by customers or consumers (Holdford & Reinders, 2001). Service quality is an important tool to measure customer satisfaction (Subramaniam & Ramachandran, 2012) and empirical studies show that the quality of service offered is related to overall satisfaction of the customer. From time to time, the terms quality and satisfaction are used interchangeably as if the two are basically one evaluative construct. Some service quality researchers describe satisfaction as a more specific, short term evaluation, and quality as a more general long term evaluation (Bitner & Hubbert, 1994). Earlier studies (Clemes, Gan, & Zhang, 2010) found that customer service had a positive relationship with customer behaviours (Subramaniam & Ramachandran, 2012). Therefore, better service quality will certainly attract new customers and retain existing customers. A customer-centric business provides a positive customer experience before and after the sale in order to drive repeat business, customer loyalty and profits.

In the mid 1980's the SERVQUAL model was developed by Zeithaml, Parasuraman and Berry (Parasuraman, Zeithaml, & Berry, 1985). The SERVQUAL model is commonly adopted to understand customer satisfaction. It is especially adopted to measure gaps in service orientation (Mosimanegape, Jaiyeoba, Iwu, & Chekula-Mahama, 2020). When the model was originally developed and researched, it consisted of 22 questions and was originally designed for use by service firms and retailers (Parasuraman, Zeithaml, & Berry, 1985). In reality, most organizations will provide some form of customer service, therefore, SERVQUAL takes a broader perspective of service that is far beyond simple customer service. The development of this model provided service firms and retailers with a structured approach to assess the set of factors that influence consumers' perception of the firm's overall service quality.

Nowadays with social media playing such an important role in making decisions, it's important that companies consider their social value by ensuring great service quality (Connolly, Scott, & DeLone, 2016).

2.2.1 Service Management

Studies on service management show that customer satisfaction is determined by a customer's awareness of the value gained in a transaction or engagement; where value matches estimated service quality relative to price and the costs of acquisition by the customer (Blanchard & Galloway, 1994). Customer loyalty is a long-term relationship with the service provider, with an increased scale of relationship, and a recommendation to other customers. Loyalty creates higher levels of profit due to increased revenues, decreased costs needed to acquire new customers, reduced customer price sensitivity, and les costs involved in serving customers that are accustomed to a company's service delivery system (Reichheld & Sasser, 1990). According to Jacoby & Kyner (1973) customer loyalty is defined as an attitude: divergent emotions make up a consumer's general attachment to a service, product, or company. These emotions determine the consumer's levels of loyalty.

Also important in this study is the impact of customer satisfaction on customer loyalty. Many studies found that customer satisfaction influences purchase intentions as well as post-purchase attitude (Hallowell, 2015). Both service management and marketing literature propose the existence of a solid foundation, theoretically to empirically explore the kinship between customer satisfaction, loyalty, and profitability (Hallowell, 1995).

The gap identified in existing literature engaged in this study is the inability to prove that loyalty programmes are indeed a driver or a deciding factor for a customer when opting to choose or remain with a bank. If anything, the assumption is that they are perceived as value and almost compensate or rather justify the bank fees charged by the retail banks. Additionally, only factors such as quick and effective services, confidentiality and reputation of the bank, speed of transactions, lower interest rates on loans, and friendliness of bank personnel are the main factors that have been studied as influencing bank choice.

In the context of this study service quality and customer satisfaction are parts of factors that influence customer loyalty to bank services. Both are necessary to be fulfilled in order to gain customer loyalty (Supriyanto, Wiyono, & Burhanuddin, 2021).

2.6 Brand Reputation

The literature also identifies brand reputation as one of the most influential resources of a firm with respect to value creation. Brand reputation is the aggregate perception of outsiders on the noticeable characteristics of companies (Fombrun & Rindova, The road to transparency: Reputation management at Royal Dutch/Shell, 2000). Companies earn their brand reputation over time. Collectively, a major issue for stakeholders is whether a certain brand will meet the desired expectations or not. Feedback from particular market and industry is vital information for the key stakeholders to determine the core reputation of a brand. Social media has helped in providing information to the 21st century's consumers, thus allowing the customer to find out more about a product or service (Edosomwan, Prakasan, Kouame, Watson, & Seymour, 2011).

Another organizational asset known as brand equity is increasingly becoming associated with the reputation of a company. Brand reputation is a significant predictor of brand equity (Mahmood & Bashir, 2020). Companies and brands with a good reputation are likely to attract more customers. According to Clemes, Gan, and Zhang (2010), brand reputation depends on three aspects in relation to banks: reliability, trustworthiness, and financial stability. There is a clear link between a bank gaining a poor reputation, and customers switching away from it (Clemes, Gan, & Zhang, 2010), while several researchers (Almossawi, 2001; Gerrard & Cunningham, 2004) discovered that reputation was the most significant variable in their process of selection. Additionally branding, contributions to charity, and sponsorship of specific were likely to lead to an improvement in reputation.

2.7 Loyalty Programme Landscape in South Africa

There are over 100 loyalty programmes in the South African market and 75% of South African consumers are engaged in loyalty programmes. The loyalty programme market is active in retail banking, medical aid and insurance, health and beauty, grocery, fashion retailers, travel and lifestyle, and entertainment sectors. Consumers in South Africa save billions of Rands annually with loyalty rewards. Given the tough economic times in the country, consumers are taking advantage of their rewards. Currently, the leading loyalty programme in the country is the Clicks ClubCard, with

over 7, 5 million active members. In 2017 alone, the Clicks Clubcard paid over R320 million to its members in cashback rewards.

Loyalty consultancy Truth and BrandMapp released the 2019/2020 loyalty landscape whitepaper. The report highlights the most popular loyalty programmes in South Africa and assesses customer engagements and experiences. The population used in this research consists of 26,100 adults, who earn R10 000 or more as their gross monthly household income.

As seen over the past five years, retail programmes still dominate the loyalty landscape, followed by those in the travel, restaurant sectors and financial services sectors.

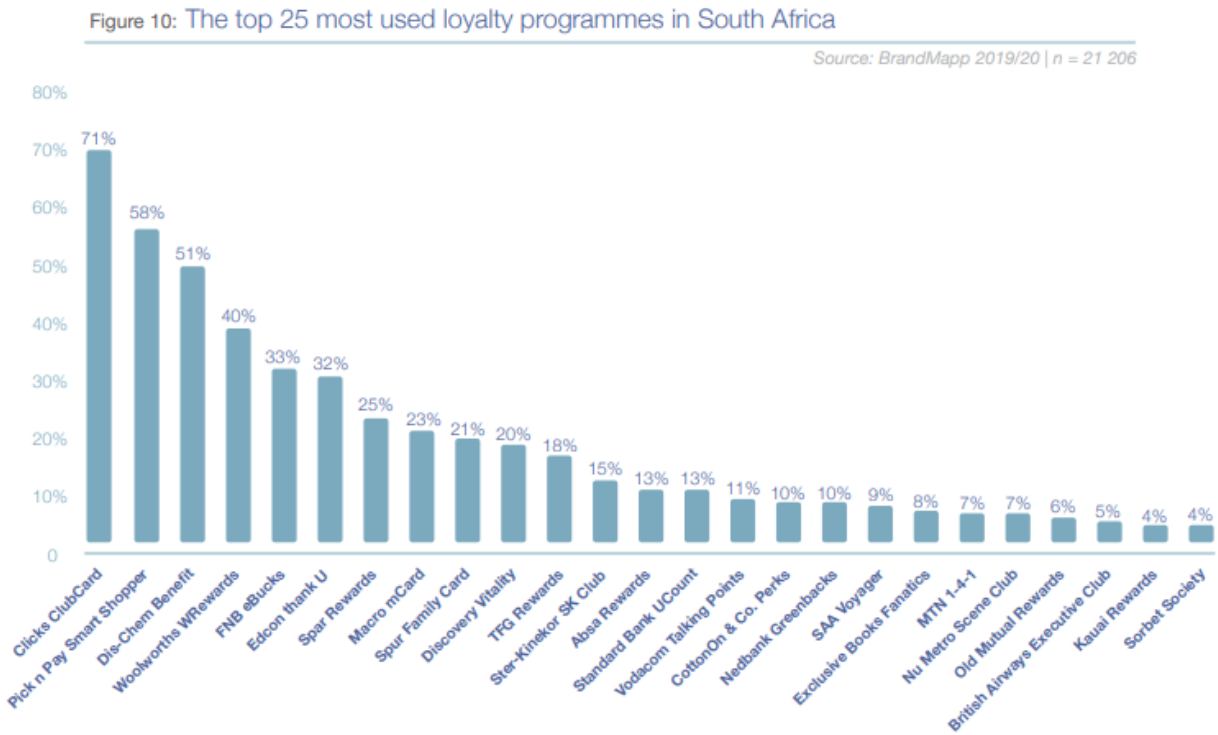

Figure 2: The top 25 most used loyalty programmes in South Africa

Source:BrandMapp2019/20

The most popular programme is the Clicks ClubCard, with 71% of respondents stating this is the card they use the most.

Pick n Pay Smart Shopper and Dis-Chem Benefit were recorded in second and third place respectively, and for the first time, a retail bank (FNB eBucks) was recognised

in the top five. Discovery Vitality, the largest financial services wellness programme, remains within the top ten most used.

When looking at the results by gender, we naturally see women skew in usage towards grocery and clothing loyalty programmes compared to men who state they are most likely to use such programmes for travel and in the financial services sector.



Figure 3: The Top 6 most used loyalty programmes in South Africa over the last 5 years

Source:BrandMapp2019/20

Truth in collaboration with BrandMapp (2019) state that 72% of South Africans who are active economically are subscribed to some form of loyalty programme. This a slight decline from the previous year (2018) where it was 75% and even higher in 2017 (79%). Truth attributes the decline in active users to the decline in GDP growth in South Africa combined with high unemployment rates.

2.9 Loyalty programmes in South African retail banks

Since the 2008 global economic crisis, there is an increase in fastidiousness and shrewdness when it comes to customers choosing a bank they consider trustworthy. It is important for retail banks to be aware of these hard realities and develop relevant

marketing strategies to once again own consumer trust and provide services to meet and exceed value expectations. This means that bank marketers need to understand the behaviour of today's consumers (Khaitbaeva, Al-Subaiey, & Enyinda, 2015).

Traditionally, South Africans have been inclined to stick with the brand they know, citing how moving to a different bank was a difficult, administrative nightmare (Wasserman, 2010). However, now banks are making it simpler for potential clients to switch. For example, FNB and Nedbank have employed "switching experts" in service to new clients. Additionally, FNB has implemented a system where clients can switch without needing to visit their branch (FNB, 2019).

2.9.1 First National Bank (FNB) and Rand Merchant Bank (RMB) Private Bank– eBucks Rewards (2000)

To create value for its customer base, FNB and RMB Private Banks introduced their eBucks rewards programme to its private bank account holders. It's free to this client base as well as limited account types. Customers can earn eBucks or points for performing everyday tasks such as shopping, and buying fuel or airtime. A customer is also able to customise the redemption of eBucks. These can be spent at various partner stores, such as Engen for fuel, travel partners, online shopping and many more. With eBucks rewards customers, save money every time they spend. An additional benefit is that the eBucks rewards do not expire (FNB, 2019).

2.9.2 Absa Group Limited – Absa Rewards

Absa Rewards are open to holders of an Absa transactional account or credit card. It costs R23.20 per month, but is free for Private Clients. Points are earned when customers swipe their payment cards in store or online, and they can increase their points and move up a tier by adding products. Cash rewards are earned based on rewards tier, and are calculated monthly depending on the products the customer holds, and their banking decisions (Absa Group Limited, 2019).

2.9.3 Standard Bank of South Africa – UCount Rewards

UCount rewards cost customers R25 per month to access rewards and savings. This rewards programme, similar to the others, allows customers to collect rewards points when they make purchases with their qualifying Standard Bank personal credit, cheque or debit card. Points are earned from qualifying grocery purchases, fuel and many other purchases (Standard Bank, 2019). Points can be redeemed online for a

range of items at the UCount Rewards Online Mall, as well as local and international travel packages, flights, car hire, accommodation and more at the UCount Rewards Travel Mall (Standard Bank, 2019).

2.9.4 Nedbank – Greenbacks

A Nedbank Greenbacks Rewards Programme monthly fee of R22.00 is charged. As a member, one can earn Nedbank Greenbacks on all eligible card spend, which can then be redeemed for a variety of rewards. Additional points are earned if customers use their American Express credit or cheque card. Points can be redeemed on travel partners, electronic gadgets, shopping vouchers, donations to charity and even investments in Nedgroup Investments unit trusts. If customers do not spend on their Nedbank card for five months account will be closed leading to a loss of all their Nedbank Greenbacks. They may apply to reopen this account for a period of three months and their Greenback will be reinstated in full (Nedbank, 2019).

2.9.5 Discovery Bank – Vitality Money

Discovery Bank is a behavioural bank. Customers are rewarded for improving their money habits and for being financially healthy. Vitality Money status is based on performance in five financial practices: savings, short-term debt, insurance, retirement planning, and management of investments in property. Vitality Money has a monthly fee attached to it, R30 for Platinum and R45 for the Black card.

Discovery Bank has been excluded in this study because at the time of embarking on this study and research, the bank had not yet fully launched to the greater market, and was operating on an invitation only basis.

2.9.6 Investec - Investec Rewards

There is no cost attached to the rewards. A client is automatically registered for the rewards programme if they are an Investec client. Various activities and purchases rewards clients with points. These points are redeemable for cash.

To bank with Investec a client must earn over R800 000 per annum, due to this criteria Investec was excluded from this study.

2.10 Conceptual Model and Hypothesis Development

The conceptual model underpinned in this study was guided by literature review conducted above. This section discusses loyalty programmes and relevant mediating concepts such as customer satisfaction, service quality, brand reputation and customer loyalty.

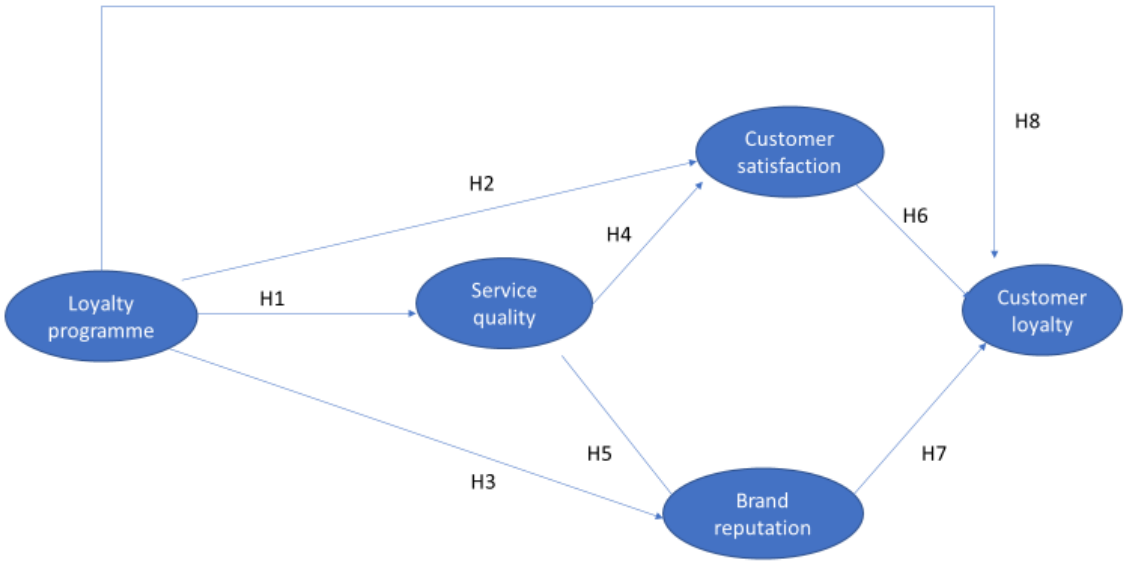

Figure 3: Conceptual framework

This study will look to add to existing theoretical and empirical knowledge on the linkages between loyalty programmes and customer loyalty.

2.10.1 Loyalty programmes and service quality

Shoemaker and Lewis (1999) believe that customer loyalty programmes enhance customer satisfaction, so that when a problem occurs between the relationship of the customer and service provider, a good loyalty programme reduces customer dissatisfaction. In a loyalty programme situation, service quality refers to the overall experience of customers in applying, renewing, updating, accumulating, redeeming and engaging with the programme (Omar & Musa, 2009). On the other hand the effectiveness of loyalty programmes hinges on factors that are important to customers, such as the ability of the customer to learn the complex rules of the programme (Frisou & Yildiz, 2011) the structure of the programme (Liu, 2007), the individual fit of the

programme (Kivetz & Simonson , 2003) and information and communication availability (Nobel & Phillips, 2004). If these factors are not well executed they have the ability to reduce the service quality. This confirms the importance of the good customer loyalty programme on customer relations and service quality. As argued above, it is hypothesised that:

H1: Loyalty programmes have a positive influence on service quality.

2.10.2 Loyalty programmes and customer satisfaction

Companies institute loyalty programmes to enhance customer satisfaction. Demoulin and Zidda (2008) discovered how customers who are content with their loyalty programme drive company loyalty and brand loyalty have a reduced likelihood of being influenced by other loyalty programmes provided by competitors (Demoulin & Zidda, 2008). Successful customer loyalty programmes not only improve consumer acceptance that is reflected in increased sales, they also encourage participation through increased engagement.

Increased engagement can lead to invaluable information and insights gained from consumers, by feeling actively engaged, heard and involved in a company's product or service evolution. Magatef & Tomaleh (2015) conducted a study prove in a retail store to prove that a loyalty programme executed in a good way will be able to build and manage or maintain the customers (Magatef & Tomalieh, 2015).

As argued above, it is hypothesised that:

H2: Loyalty programmes have a positive influence on customer satisfaction.

2.10.3 Loyalty programme and brand reputation

Although there are gaps in literature supporting this hypothesis, using Discovery Vitality as an example, one can deduce that a successful loyalty programme may potentially have the ability to influence a company's brand reputation in a positive manner. Discovery is constantly praised for its leading global wellness programme, Vitality. Discovery Vitality has had a positive outcome for Discovery's reputation. The network reach of the Vitality Group extends to countries outside of South Africa engaging millions of people across the world, therefore adding value to Discovery's reputation.

As with the Vitality a strong loyalty programme has the potential to develop into its own unique brand under the larger umbrella brand house. The standing, perception and performance of the loyalty programme can have a material influence on the overall perception of a brand. As argued above, it is hypothesised that:

H3: Loyalty programmes have a positive influence on brand reputation.

2.10.4 Service quality and customer satisfaction

De Ruyter et al (1997) suggested that service quality should be regarded as a prerequisite to customer satisfaction. Expanding customer satisfaction in any organisation begins with the appraisal of the service quality, assessing the degree of customer satisfaction in accordance with the criteria selected to evaluate future performance (Aydin, Celik, & Gumus, 2015). Satisfaction and the profit chain agenda suggests that profits are a result of retaining customers through an elevated degree of customer satisfaction, achieved on the basis of delivering a product or service that is high quality (Mathe-Soulek, Slevitch, & Dallinger, 2015). Most of the researchers agree that service quality impacts ultimately loyalty through satisfaction (Beerli, Martin, & Quintana, 2004; Lewis & Soureli, 2006; Caruana, 2002; Jamal & Anastasiadou, 2009). More studies conducted by Carrillat, Jaramillo, & Mulki (2009) imply that service quality impacts purchase intentions and thus customers' loyalty in a direct as well as in an indirect way through satisfaction. As argued above, it is hypothesised that:

H4: Service quality has a positive influence on customer satisfaction.

2.10.5 Service quality and brand reputation

Brand reputation describes how customers perceive quality of services related to the brand name (Veloutsou & Moutinho, 2009) The development of brand reputation means more than keeping consumers satisfied, it is something a company earns over time and refers to how various audiences evaluate the brand (Veloutsou & Moutinho, 2009).

How consumers perceive and experience a product or brand, no longer ends after the purchase or after its use, but extends to post purchase and post service support. The quality of the service received after consumption can also directly contribute to what

consumers think of a company (Rita, Oliveira, & Farisa, 2019). As argued above, it is hypothesised that:

H5: Service quality has a positive influence on brand reputation.

2.10.6 Customer satisfaction and customer loyalty

Scholars have always identified a strong relation between customer loyalty and customer satisfaction. This is because customer loyalty will not appear without having customer satisfaction (Ali, et al., 2021).Customer satisfaction in marketing is very important because it predicts purchase behaviour (McQuitty et al., 2000). It also has the ability to increase or decrease the profit of an organisation, because of this it is therefore considered a key indicator for business performance (Ali & Anwar, 2021). In business, satisfied customers become loyal customers (Fornell, 1992). Customer satisfaction has been understood to develop long-term profitability, return on investment (ROI), and increase market value. Oliva et al. (1992) states that when assessing the relationship between customer loyalty and customer satisfaction, the customer loyalty increases significantly when satisfaction at a certain level is achieved.

However, customer loyalty will drop dramatically if the satisfaction level drops to a certain point. Extremely satisfied customers tend to be more loyal customers than the customers who were merely satisfied (Tepeci , 1999). According to the findings of a study conducted by Magatef & Tomalieh (2015) all the loyalty programmes are useful and important for building and maintaining customer retention. That means customer loyalty is benefited form the basis of all loyalty programme initiatives. As argued above, It is hypothesised that:

H6: Customer satisfaction has a positive influence on customer loyalty.

2.10.7 Brand reputation and customer loyalty

Brand reputation is the stakeholders' influences, assessments, and perceptions of the business based on its past performance (Barnett, Jermier , & Lafferty , 2006 ; Tucker & Melewar, 2005). It is the judgment about a company from the customer's perspective (Manzanares & Souto, 2016; Fombrun & Van Riel, 1997), so the estimation of a firm's reputation is based on customers' own direct perception related to past actions of the

firm (Park, Lee, & Kim, 2014). Therefore, corporate reputation is an intangible asset that firms build up over time and represents what is actually known by both internal and external stakeholders (Wang, Yu, & Chiang, 2015).

The positive affirmations brought about by positive brand reputation can not only keep existing consumers, but increase the loyalty to the brand. A level of satisfaction will be experienced from the association with a reputable brand and being a loyalist to it. As argued above, it is hypothesised that:

H7: Brand reputation has a positive influence on customer loyalty.

2.10.8 Loyalty programmes and customer loyalty

Yi and Jeon (2003) highlight how customer loyalty programmes are useful tools within marketing that elevate loyalty by presenting consumers with incentives through benefits. The use of loyalty programs as a powerful tool of relationship marketing is becoming popular to encourage customer loyalty (Magatef & Tomalieh, 2015). A successful customer loyalty programme solidifies the relationship between the company and existing customers, increasing the customer spending and life cycle. In fact customer loyalty programmes have a partially supported positive impact on relationship quality; service quality has a positive impact on relationship quality; customers with a positive relationship quality impact their relationship commitment; the higher the relationship commitment, the higher the loyalty; and a customer loyalty program partially supports a positive impact on loyalty (Ou, Shih, Chen, & Wang, 2011). The objectives of these programmes are to increase repeat purchase behaviour and increase the costs of customer conversion when switching companies through promotion of the usage of products or services (Magi, 2003).

Despite their popularity, many researchers question whether loyalty programmes actually create customer loyalty or whether loyalty arises from some other factors (Capizzi, Ferguson, & Cuthbertson, 2005; Hoffman & Lowitt , 2008). In most loyalty programmes, benefits serve as the most compelling reason for customers to participate; however, the most important parts of a loyalty programme are programme design (Demoulin & Zidda, 2008 ; Lacey & Sneath, 2006) and customer service. An effective loyalty programme gives effect on the customer satisfaction and loyalty (Singh & Khan, 2012). As argued above, it is hypothesised that:

H8: Loyalty programmes have a positive influence on customer loyalty.

2.11 Summary

The Expectancy–Disconfirmation and Expectancy-Confirmation theories, suggest that behaviour is motivated by whether an expectation is met or not. Therefore, a customer's needs being met by a company or service provider will be greatly influenced by what the customer expectations were. It is therefore very important for companies and service providers to upfront understand their customer needs and how they are motivation, because that will influence how to achieve satisfactory outcomes. Relationship marketing theory suggests the importance of staying close to the customer and understanding their need as this helps retain customers over the long term, which results in customer loyalty.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the research paradigm, strategy, design, and procedures chosen for this study. A sampling method is described in addition to a description of the data collection procedures. The methodology of choice depends on what the researcher is attempting to do, rather than out of an allegiance to a specific paradigm (Cavaye, 1996). Therefore, the methodology used is required to align with the particular circumstances of interest. The research method applied in this study is the quantitative method due to the nature of the research problem.

3.2 Research Paradigm

A paradigm is the "basic belief system or world view that guides the investigation" (Guba & Lincoln, 1994). Quantitative research is empirical and referred to as the scientific research paradigm. It verifies viability through diligent elucidation, definition or implementing pilot experiments. This usually involves checking the relevance of instruments in advance and measuring their reliability by using statistical examinations.

Table 5 below shows the different components of a research paradigm.

Components of research paradigm	Description
Epistemology	General parameters and assumptions associated with an excellent way to explore the real world nature.
Ontology	General assumptions created to perceive the real nature of society (in order to understand the real nature of society).
Methodology	Combination of different techniques used by the scientists to explore different situations.

Table 5: Three components of scientific research paradigm.

Source: Easterby-Smith et al. (2015)

Three types of research paradigms are generally used: constructivist, pragmatic and post-positivist.

This study is concerned with testing the information related to the effect of loyalty programmes on mediating factors such as brand reputation, customer satisfaction and service quality. Creswell (2003) points out that the building of knowledge utilises a post-positivist paradigm through a quantitative approach. In addition, Creswell (2003) states that post positivist researchers start with a theory and collect data to acknowledge, disprove, or invalidate the initial theory.

The positivist paradigm states that all reality is welcome to be studied and understood (Guba & Lincoln, 1994), while the post-positivist paradigm believes that reality cannot be understood fully.

Creswell (2003) provides a list of the key assumptions of post-positivism as follows:

1. The full truth can never be uncovered due to the ways in which knowledge can be abstract. Consequently, empirical findings are always limited.
2. Evidence, data, and rationale are what create the knowledge. In traditional research, researchers collect data with research instruments derived from measurements completed by research respondents.
3. Research is about creating claims and then expanding on or removing some of them to reinstate other claims more acceptable.
4. Objectivity is central to knowledgeable inquiry and there is a need for researchers to study methods and perform inquiries to uncover bias.
5. Researchers aim to advance specific factual statements to provide explanation to a set of conditions that outline the causal relationships between constructs. Those constructs, in quantitative studies, are what researchers constitute as hypotheses.

3.3 Research Strategy

Quantitative, qualitative and mixed methods are the three major forms of research strategies. Quantitative research is a process that is systematic and objective in its ways of using numerical data from only a selected subgroup or population to generalise the findings that are being studied (Creswell, et al., 2019). It involves collecting numerical data to uncover a particular phenomenon, measure social reality, and answer questions suited to being analysed, using quantitative methods. Researchers using quantitative methods see the world as a place that can be

determined objectively, consequently, strict guides in the data collection process and analysis are incredibly important.

The research method employed in this study is the quantitative method due to the nature of the research problem. The intention of the study was to understand the effect of loyalty programmes on customer loyalty in the retail banking sector in South Africa. Mediating factors such as brand reputation, customer satisfaction and service quality are also measured. The aim was to test or rebut the interrelationship between these concepts.

3.5 Research Design

A major contributor to the body of knowledge for research design is John Creswell. According to Creswell (2008), research designs are plans and the procedures for research that span the decisions from broad assumptions to detailed methods of data collection and analysis. Bryman (2012) on the other hand proposes five types of research design techniques namely: cross-sectional, longitudinal, case study, comparative, and experimental (Bryman, 2012).

Surveys are the strategies associated with quantitative research (Creswell, 2003). Surveys encompass longitudinal and cross-sectional studies that use questionnaires as the research instrument for data collection with the purpose of generalising from a small sample to a larger population (Creswell, 2003). This research study uses cross sectional research design.

3.6 Research procedures and methods

3.6.1 Population

The population is made up of the entire group being studied. It does not matter if the population is broad or narrow, only that it includes every individual that fits the description of the group being studied (Lowhorn, 2007). In selecting a target population, there should be clear indication indicate of the characteristics of said population directly applicable to the study (Malhotra & Birks, 2007). Since it is not possible to reach all members of the targeted population, a researcher needs to identify the section of the population that is accessible. Accessibility is dependent on the time and resources of the researcher therefore it is advisable that the researcher

selects the most suitable population to gather the best data (Etikan, Musa, & Alkassim , 2016).

The population in this study consisted of persons aged 18 and above with an active South African transactional bank account. The participants should be actively making use of their bank's loyalty programme, or have sizeable knowledge about the programme.

To test the hypotheses raised, data was collected from participants aged 18 and above with an active transactional bank account at any of the retail bank with a loyalty programme in South Africa (e.g. *Absa account holder, using Absa Rewards)*.

Since the survey questionnaire was distributed electronically using various channels, geographically the participants could be based anywhere in South Africa.

3.6.2 Sampling and sampling method

To draw valid conclusions from your results, you have to carefully decide how you will select a sample that is representative of the group as a whole. A sample is a subset of a population and we survey the units from the sample with the aim to learn about the entire population (Etikan, Musa, & Alkassim , 2016).

There are two types of sampling methods (Etikan, Musa, & Alkassim , 2016):

- Probability sampling, which involves a random selection, allowing you to make strong statistical inferences about the whole group.
- Non-probability sampling involves a non-random selection based on convenience or other criteria, allowing data to be easily collected.

A sampling design requires simplicity in implementation, efficiency, and must cover the varied approaches required in measuring the sample for it to be generally applicable (Grafstrom, 2010). Although non-probability sampling was found to be the most appropriate and convenient method as it does not provide an equal opportunity for every unit within the population to be sampled (Gaplin, 2011; Daniel, 2011).

Five non-probability sampling methods used for quantitative research are simple random sampling, systematic sampling, stratified sampling, cluster sampling and multi-stage sampling. Convenient sampling is a sample that is chosen due to its

availability and accessibility to the researcher (Bryman, 2012). The most practical method for this study was convenient sampling.

3.6.3 Sample frame

Bryman (2012) suggests that a sampling frame is a list of people selected from a sample (Bryman, 2012). Kerlinger (1986), furthermore says sampling is a portion of the population with the hopes that it is representative of the population being studied (Kerlinger, 1986). The targeted sample size for this study is 220 respondents.

220 respondents were selected from the population. The sample size was substantial enough to provide significant data and conclusive findings.

3.7 Data collection sources

Accessibility and convenience are important factors when considering the data collection method. There are several ways to collect data and this is dependent on your research method. The most commonly used methods include published literature, surveys, interviews and experiments. With this in mind, the primary data (raw data) will in this study be collected by means of an electronic questionnaire survey. Although the electronic method will allow participants to undertake the survey at their own convenience, disadvantages of the electronic method include possible low response rates or the inability to seek clarification from the interviewer (Ackermann & van Ravesteyn, 2006).

Secondary data (previously collected and tested), on the other hand, included statistics not gathered for the immediate study at hand but for some other purpose (Churchill & Lacobucci, 2002).

Table 2: Primary and secondary data

Primary data	**Secondary data**
220 questionnaires	ABSA website
	Discovery website

	Capitec website
	FNB website
	Nedbank website
	Standard Bank website
	Consulta website
	Academic journals

3.8 Research instruments and measurement items

The measurement items of each constructs in to measure the frequency are presented in this section.

There are four measurement scales: nominal, ordinal, interval and ratio. The measurement scale used in this research is ordinal and items were tested using a seven-point Likert scale. Developed in 1932 by Rensis Likert to measure attitudes, the typical Likert scale is a five or seven point ordinal scale used by respondents to rate the degree to which they agree or disagree with a statement, with one being that they strongly disagree, five being neutral and seven being that they strongly agree (Sullivan & Artino Jnr, 2013). Psychometric literature suggests that having more scale points is better (Nunnally 1978). In an ordinal scale, responses can be rated or ranked, and the distance between responses is not measurable, therefore one cannot assume that the difference between responses is equidistant even though the numbers assigned to those responses are. This is in contrast to interval data, in which the difference between responses can be calculated, and the numbers do refer to a measurable item (Sullivan & Artino Jnr, 2013).

The results from this study apply to loyalty programmes, customer loyalty customer satisfaction, service quality and brand reputation.

The questionnaire consists of two sections, Section A and B. Section A seeks to understand the demographic profiling of the respondents and Section B tests the specific measurement items of each construct under the specific themes of loyalty programme, customer satisfaction, service quality, and brand reputation.

Appendix A shows the research instrument that was used in this study.

3.8.1 Questionnaire pilot test

A carefully conducted and managed pilot study has the potential to increase the quality of the research. Results from such studies can inform subsequent parts of the research process as well as identify any weakness from the study (Malmqvist, Hellberg, Mollas, Rose, & Shevlin, 2019). One of the aims of conducting a pilot study is to improve research quality, especially in enhancing the reliability and validity in research (Gudmundsdottir & Brock-Utne, 2010). Therefore, a pilot study should be viewed as a crucial part of a research design (Kim, 2010). In contrast to these judgments, “pilot studies have attracted limited attention in research literature” (Kim, 2010).

For the pre-test, ten respondents were selected. The respondents were tasked to give feedback on the questionnaire and their general experience of it. The completion of each questionnaire was observed by the researcher. It took respondents 5-7 minutes to complete the questionnaire. It was indicated by all respondents indicated that they indeed understood all the questions provided. One respondent proposed an alteration under gender, and the necessary change was implemented.

3.9 Data Analysis

Quantitative data can be analysed by using two different statistics, namely descriptive and inferential statistics (Wagner, et al., 2012). Descriptive statistics collect, summarise and describe data by means of frequency distributions, averages and percentage distribution (Zikmund, 2003) whereas inferential statistics draw conclusions concerning a population based only on sample data. Descriptive analyses were produced by using SPSS version 21 and inferential analysis tested completed by using IBM Amos.

3.9.1 Descriptive statistics using SPSS

The descriptive analysis was carried out using SPSS version 21. The statistics in this study explored the demographic profiling of the respondents through a representation of bar charts and tables found in the following chapter.

3.9.2 Inferential statistics using IBM Amos version 21 for SEM

A structured equation model (SEM) is a collection of statistical techniques that allow a set of relationships between one or more independent variables, either continuous or discrete, and one or more dependent variables, either continuous or discrete, to be examined. We can think of SEM as a hybrid of factor analysis and path analysis. SEM's goal is similar to that of factor analysis: to provide a parsimonious summary of the interrelationships among variables (Khan, 2006). SEM is also similar to path analysis in that researchers can test hypothesized relationships between constructs. SEM was selected because of its numerous strengths, such as suitability for theory testing and theory development (Anderson & Gerbing, 1988). SEM takes into account errors and models them in, it allows for room to test hypothesis, and guides exploratory and confirmatory research in a way that it merges self-insight and modelling skills with theory (Bagozzi & Yi, 2011) .

IBM SPSS Amos version 21 is commonly used to analyse data recognised as SEM, by extending standard multivariate analysis methods, including regression, factor analysis, correlation and analysis of variance.

3.10 Validity, reliability, and model fit

Validity is defined as the extent to which a concept is correctly measured in a quantitative study (Heale & Twycross, 2015). Validity ensures that the constructs measured are in line with the theoretical concepts, whereas reliability is measured by examining consistency, quantitatively defined, among independent observations or sets of observations that are intended as interchangeable. The quality of research may traditionally be understood in terms of such notions as the extent to which an instrument measures what it claims to measure, rather than something else (validity) and the extent to which an instrument can be expected to give the same measured outcome when measurements are repeated (reliability) (Taber, 2018). Convergent and discriminant validities are two fundamental aspects of construct validity.

3.10.1 Convergent validity

Convergent validity demonstrates that a measurement instrument is extremely correlated with instruments measuring similar variables (Heale & Twycross, 2015). Confirmatory factor analysis was used to test validity. It measures how closely the new scale is related to other variables and other measures of the same construct. Not only should the construct correlate with related variables but it should not correlate with dissimilar, unrelated ones. In the case should the latter be determined that is known as divergent validity (Krabbe, 2017).

3.10.2 Divergent validity

Therefore, divergent validity demonstrates that an instrument is poorly correlated to instruments that measure different variables (Heale & Twycross, 2015).

3.10.3 Reliability

Heale and Twycross (2015) define reliability as the accurate measure of an instrument and relates to the consistency of a measure (Heale & Twycross, 2015). Therefore, to ensure reliability, the study uses research instrument scale items from previous studies. Cronbach's alpha is a statistic commonly used to demonstrate that tests and scales that have been constructed or adopted for research projects are fit for purpose (Taber, 2018). Cortina (1993) describes Cronbach's alpha as one of the most significant and prevalent statistics in research involving test construction (Cortina, 1993).

3.10.4 Model fit

Nusair & Hua (2010) emphasise that model fit is the degree to which the projected theoretical model was authenticated by the collected data. The evaluation considers how well the sample data fits previous models (Hooper, Coughlan, & Mullen, 2007).

The model fit was examined using the following indicators.

Chi-square value< 0.05

Root mean square error of approximation (RMSEA) <0.08

Goodness-of-fit index (GFI) >0.90

Incremental fit index (IFI) >0.90

Tucker Lewis index (TLI) <0.90

Normed-fit index (NFI) > 0.90

Comparative fit index (CFI) >0.90

3.11 Limitations of the study

The study used a self-administered questionnaire, which essentially limits the respondents to a set of prescribed statements that they needed to agree or disagree with. This does not take into account the respondents' insights and views on loyalty programmes, which qualitative research may have been able to unpack.

The study looked to assess the effect of loyalty programmes in the banking sector and did not observe the overall loyalty programme landscape. This poses as a limitation as research shows that the most used and popular loyalty programmes are in the retail industry.

3.12 Ethical considerations

The cover page of the research questionnaire outlined the purpose of the study and the role of the respondent. The questionnaire was voluntary, and the respondents had informed consent to participate in the study. There was no deception or coercion to participate in the study.

Respondents who no longer wished to participate on the study were eliminated from the study.

The questionnaire was completed under strict anonymity and the study did not require any personal information from the respondents. No respondent was harmed or threatened during this study.

CHAPTER 4. DATA ANALYSIS AND PRESENTATION OF RESULTS

4.1 Introduction

This chapter presents the results from the data analysis. The data in this chapter is statistically analysed and collected through a research questionnaire. Statistical Package for Social Sciences (SPSS) was the programme used to analyse the data and Amos was used for the analysis. The findings from the empirical investigation are presented in this chapter. It furthermore assesses the validity of the scales items to total values where the required threshold is 0.5. The shared variance (SV) and the average variance extracted (AVE) were compared in order to observe if the AVE was greater than the SV to confirm discriminant validity.

Confirmatory factor analysis (CFA) and path modelling (PM) were conducted to check for model fit, and to test the hypothesis of the study.

4.2 Data screening

A total of 440 responses was received. Of the 440 responses, 220 were complete and were aware of their bank's loyalty programme and were active users of the programme. These made up the final analysable sample.

4.3. Sample Characteristics / Demographic

4.3.1 Gender

The gender distribution of the respondents is presented in Figure 5. Most of the respondents were female (65.9%), followed by 33.6% male while another 0.5% preferred not to indicate their gender.

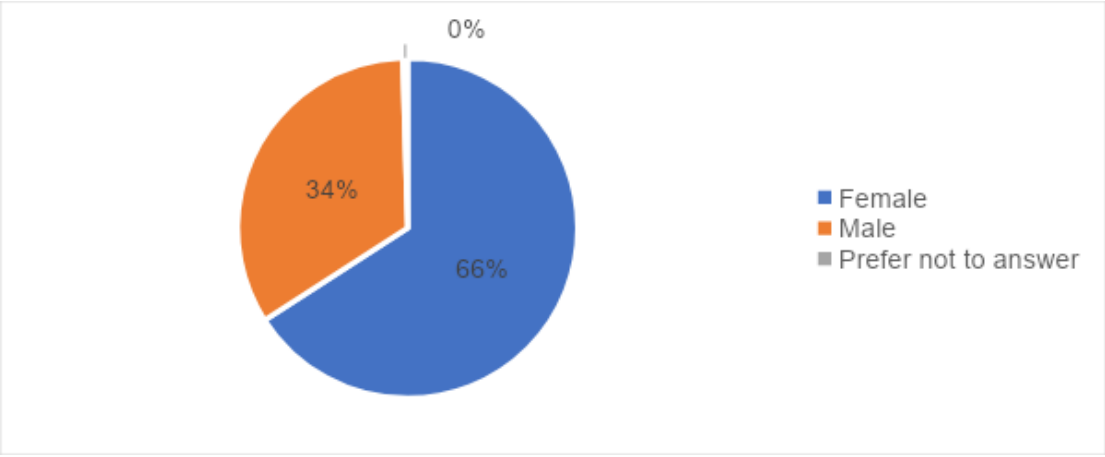

Figure 4: Respondent gender

4.3.2 Age

Figure 3 illustrates the age distribution of the sample. It can be noted that 19% of the respondents were 18 – 29 years, while the majority of the respondents were 30 – 39 years old (64%) and the rest were 40 years or older.

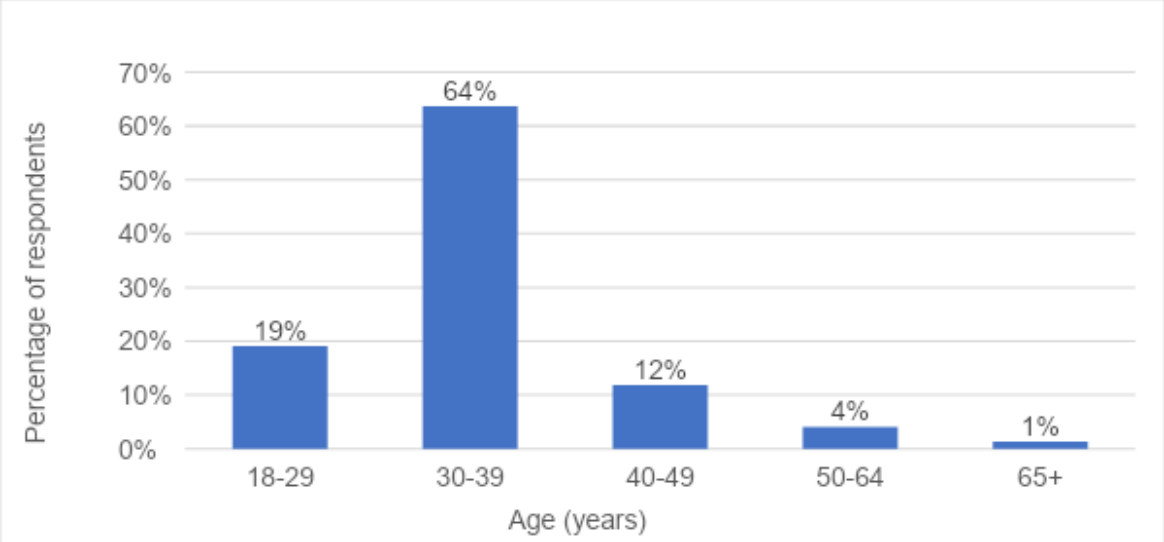

Figure 4: Respondent age

4.3.3 Primary Bank

More than half of the respondents mentioned that FNB was their primary bank (51%). This was followed by Standard Bank (23%), ABSA (9%) and then Nedbank (9%). There was another 9% that indicated that they use a bank other than these four banks. The results are presented in Figure 6.

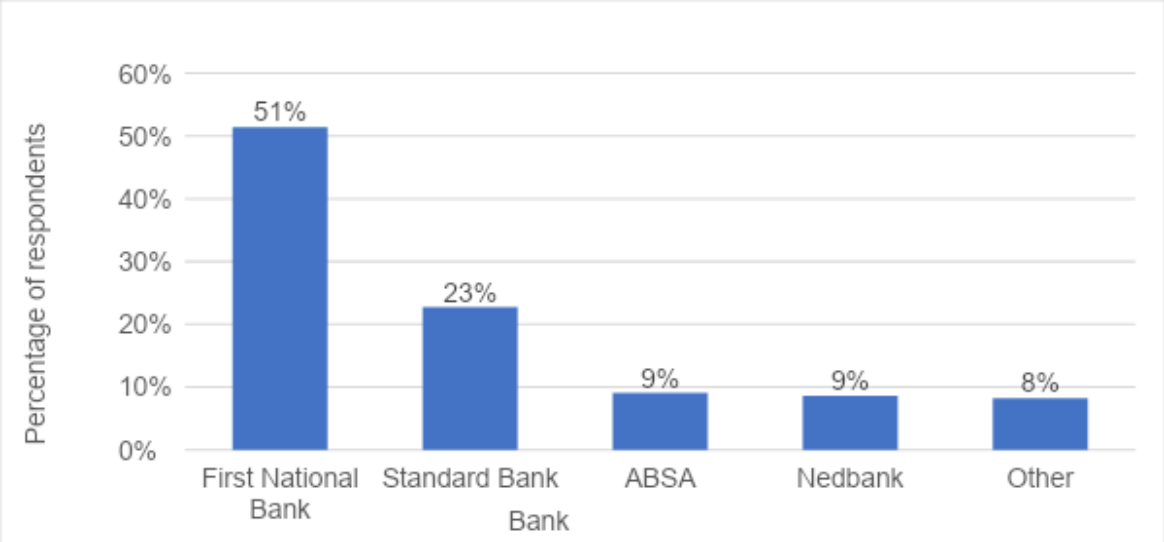

Figure 5: Primary bank

4.3.4 How long have you been a client of your Primary Bank?

More than three quarters of the respondents (79%) indicated they had been clients of their main bank for more than five years. Only 1% had been with their main bank for less than a year, as indicated in Figure 7.

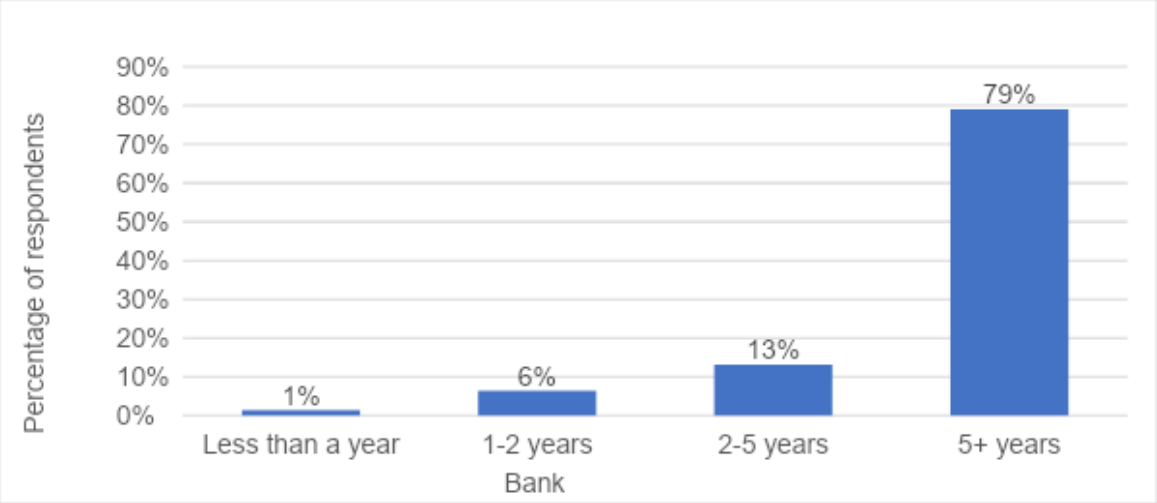

Figure 6: How long have you been a client of your primary bank?

4.3.5 Aware of your bank's loyalty programme

The sample was made up of the respondents who were aware of their bank's loyalty programmes, with 77% indicating that they were definitely aware of their bank's loyalty programmes and the other 23% were probably aware of the programme. All those that were not aware were excluded from the sample.

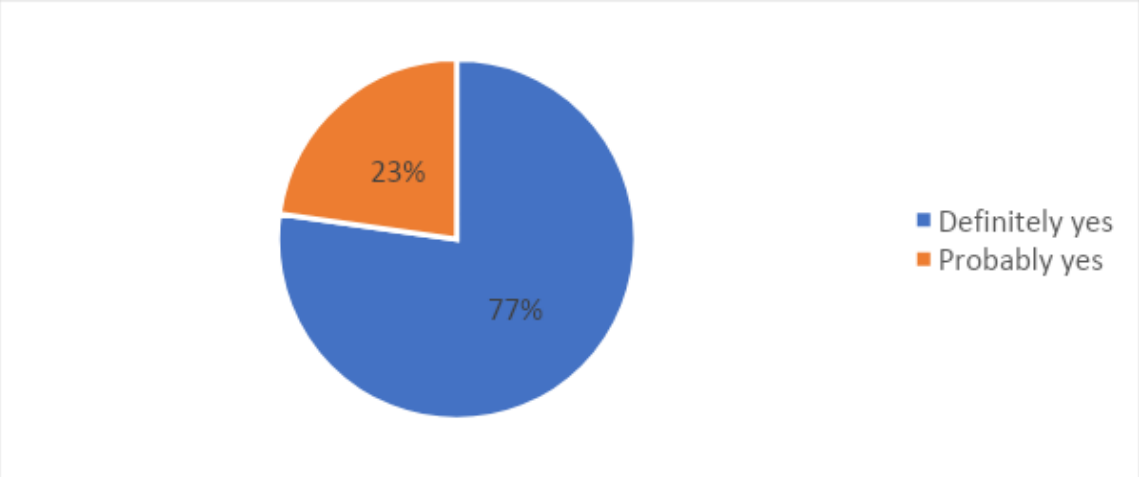

Figure 7: Aware of your bank's loyalty programme

4.3.6 Actively using your bank's loyalty programme.

Most of the respondents were actively using their bank's loyalty programme with 69% indicating that they definitely use the programme and the other 31% indicating that they probably were using their bank's loyalty programme. The results are shown in Figure 9.

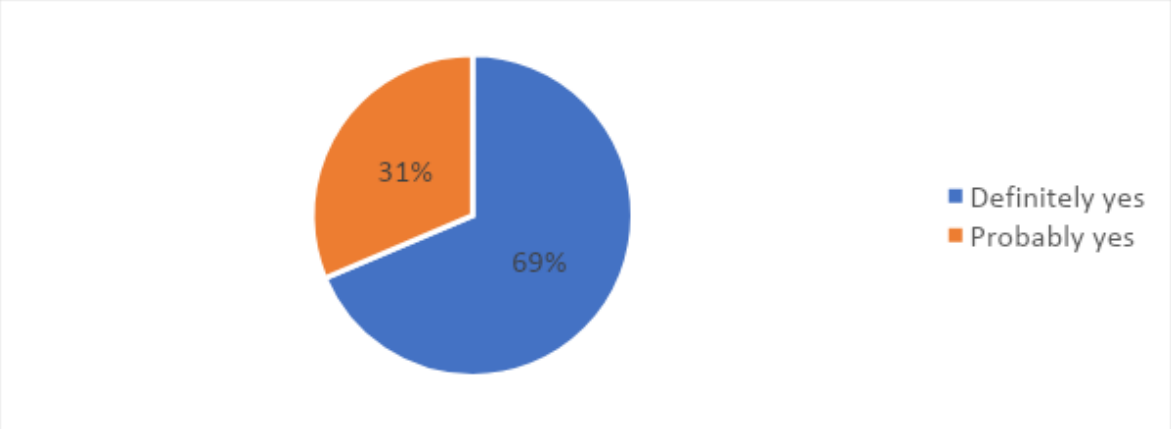

Figure 8: Actively using your bank's loyalty programme

4.3.7 Length of time being an active member.

A proportion of 20% of the respondents had been with their bank's loyalty programme for less than a year, 15% for 1 – 2 years, 35% for 2 – 5 years and 29% for more than five years. The results are shown in Figure 10.

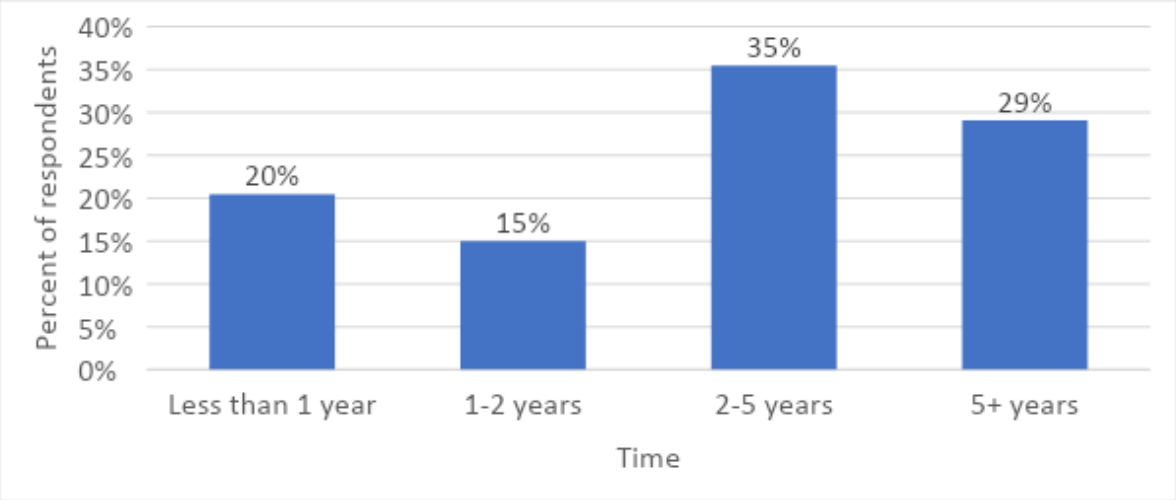

Figure 9: Length of time being an active member.

4.3.8 Number of loyalty programme memberships you engage with

A proportion of 37% had only one loyalty programme with the rest having more than one loyalty programme as indicated in Figure 11.

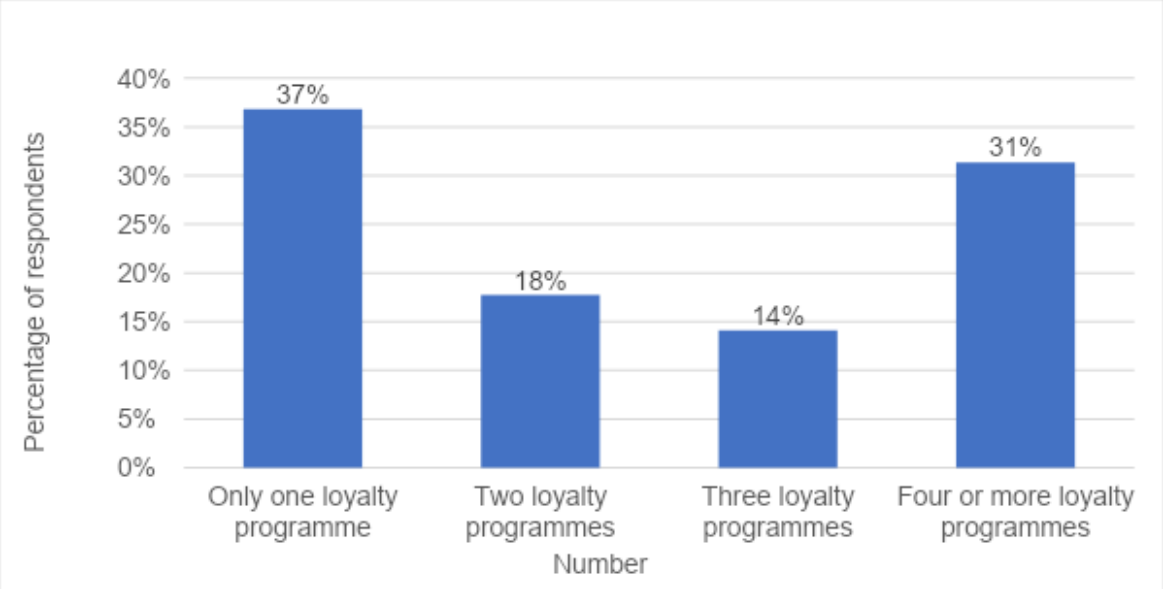

Figure 10: Number of loyalty programme memberships you engage with

4.4 Validity and Reliability

The Cronbach's Alpha values have been presented per construct as per summary table below:

Brand Loyalty Programme (BLP)

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.913	.914	7

Service Quality (SQ)

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items

.878	.879	6

Brand Reputation (BR)

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.837	.841	3

Customer Satisfaction (CS)

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.851	.854	5

Customer Loyalty (CL)

Reliability Statistics		
Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.866	.868	3

Summarised Version

Construct	N of Items	Cronbach's Alpha	Reliability level
Brand Loyalty Programme (BLP)	7	.913	Excellent

Service Quality (SQ)	6	.878	Good
Brand Reputation (BR)	3	.837	Good
Customer Satisfaction (CS)	5	.851	Good
Customer Loyalty (CL)	3	.866	Good

Confirmatory factor analysis (CFA) was conducted to assess the validity and reliability of the constructs. The CFA was applied in IBM Amos version 21.

Figure 12 shows the hypothesised model.

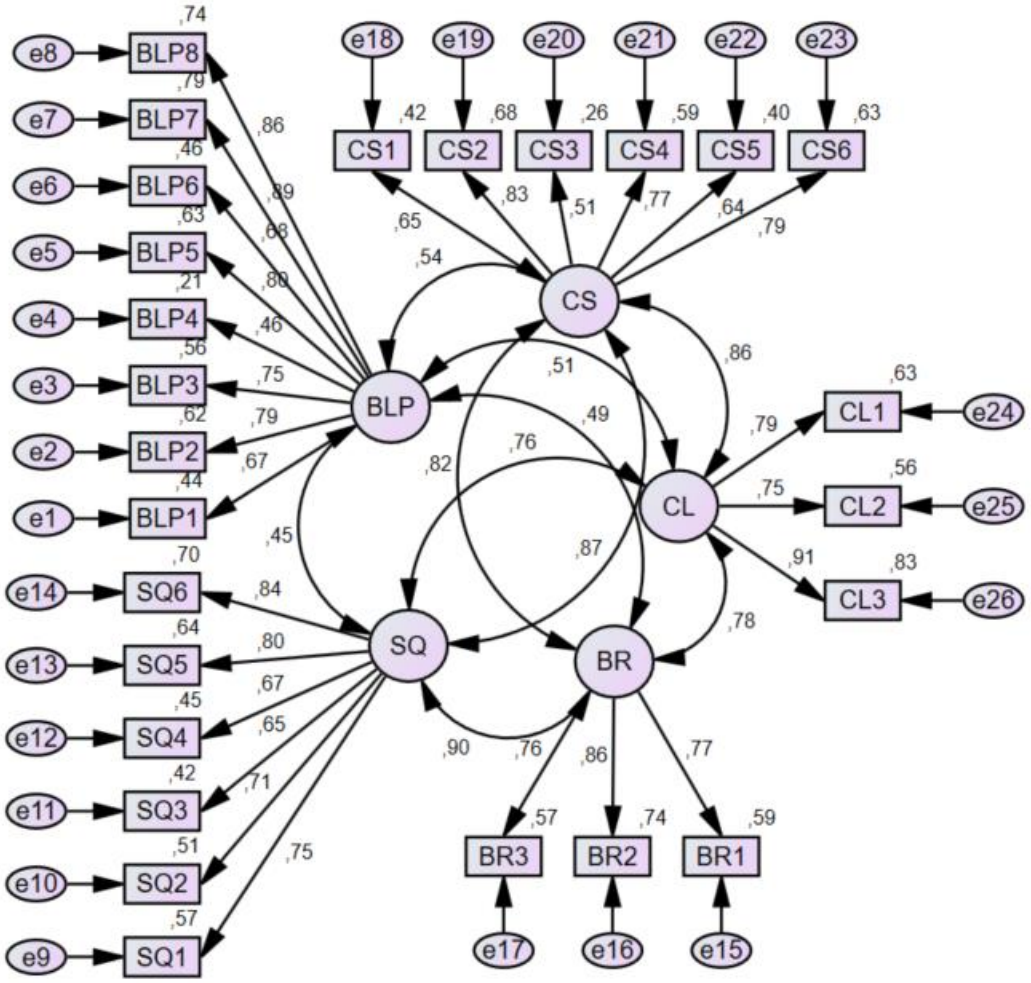

Figure 11: Hypothesised model

The factor loadings are shown on the model as standardised regression weights. It can be noted that there were two items that had factor loadings less than 0.6. These were pruned to refine the model. The pruned items are presented in Table 3.

Table 3: Pruned items

Code	Statement	Factor Loading
BLP4	I will not switch my bank because of the loyalty programme	,463

CS3	I am satisfied with my bank fees	,505

The pruned model is presented in Figure 10. There was no causal relationship being established between customisation and customer satisfaction and thus a covariance was used to establish a relationship between the two constructs. The items with double sided arrows had highly correlation hence a covariance was added.

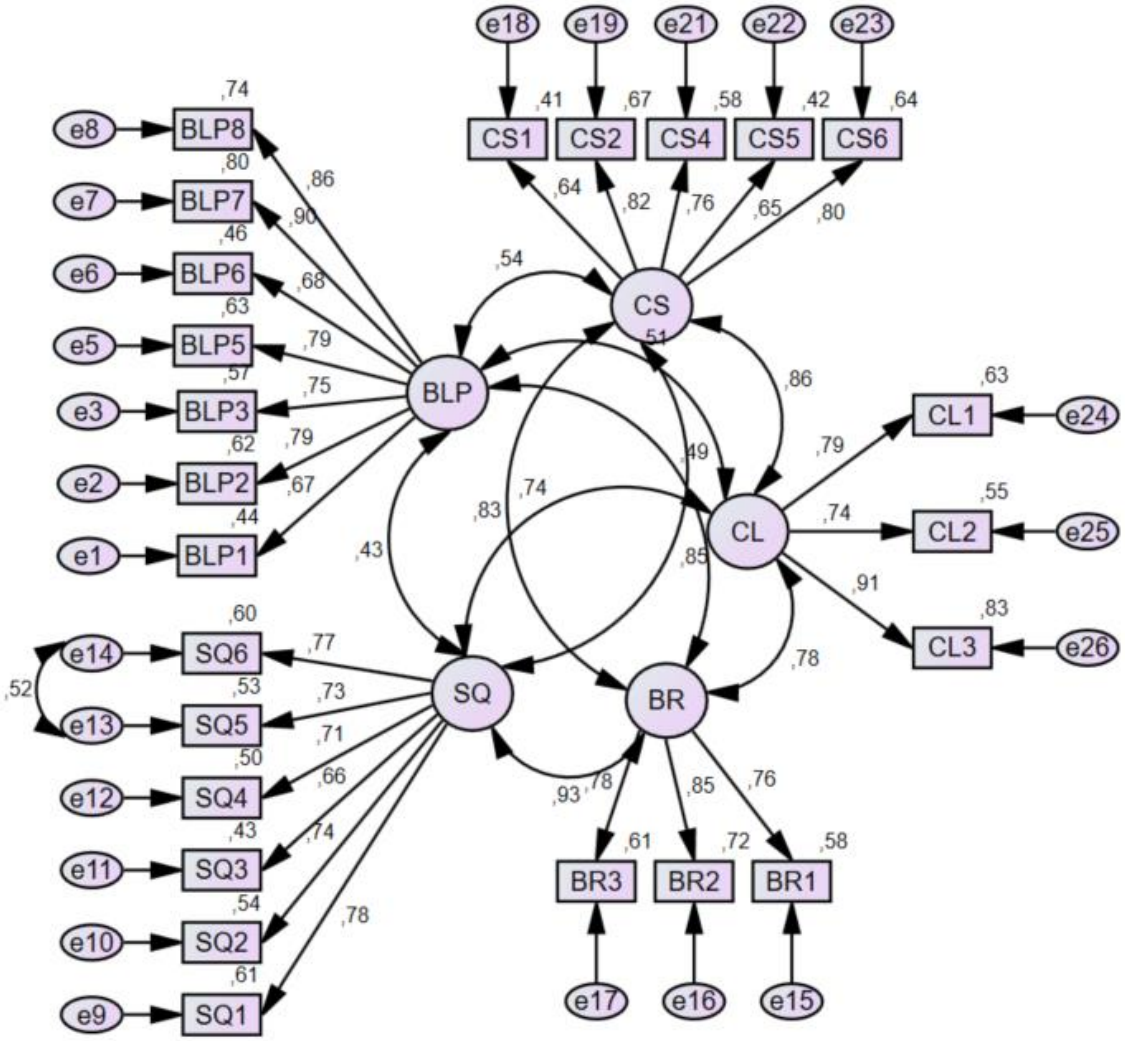

Figure 12: Final CFA model after pruning

Table 4 shows the final construct composition with factor loadings, composite reliability (CR), and Average variance Extracted (AVE). All the retained items had a factor loading greater than 0.6. This indicates that there were valid constructs.

CR values were used to assess the reliability while AVE was used to assess convergent validity. All the constructs had a high and acceptable reliability as all CR values were greater than 0.7. According to Hair, Hult, Ringle, and Sarstedt (2014) the minimum composite reliability value in the SEM analysis should exceed 0.7 (Hair, Hult, Ringle, & Sarstedt, 2014).There was also convergent validity as the AVE values were all above the required level of at least 0.5. should be at least 0.5.

Table 4: Final construct composition

Items		**Factor Loading**	**CR**	**AVE**
Brand Loyalty Programme (BLP)			,915	,609
BLP1	The loyalty programme is easy to use	,666		
BLP2	The proposed rewards are what I want	,786		
BLP3	The proposed rewards have a high cash value	,753		
BLP5	I am satisfied with the service received from the loyalty programme	,793		
BLP6	I like the loyalty programme more than other programmes	,680		
BLP7	The loyalty programme meets my expectations	,895		
BLP8	I would recommend the loyalty programme to others	,862		
Service Quality (SQ)			,874	,537
SQ1	My bank is reliable	,782		
SQ2	My bank is responsive	,736		
SQ3	I am confident in the employees' product knowledge and their financial astuteness	,658		
SQ4	I am satisfied with the image of my bank	,709		
SQ5	My bank understands me	,731		
SQ6	All my expectations are met	,775		
Brand Reputation (BR)			,839	,634
BR1	I trust my bank	,763		
BR2	I feel good about being a client of the bank	,846		

BR3	My bank is credible	,778		
Customer Satisfaction (CS)			,855	,544
CS1	I am happy with the relationship I have with my bank	,640		
CS2	Joining this bank has been one of my best decisions	,818		
CS4	Products and services offered by my bank meet or exceed my expectations	,764		
CS5	My bank offers convenience	,648		
CS6	My customer expectations are met	,799		
Customer Loyalty (CL)			,859	,672
CL1	I am most likely to increase my banking portfolio with the same bank (repeat purchases)	,793		
CL2	I will not switch banks because all my needs are currently met	,743		
CL3	I am most likely to recommend this bank to my family and friends	,914		

4.4.1 Confirmatory factor analysis

The confirmatory factory analysis theory is most commonly used in social research (Schmitt, 2011). It is universally used to understand the nature of a construct and test whether measures of a construct are consistent with a researcher's understanding of that construct. The confirmatory factor indexes used this study are Goodness of Fit (GFI), Random Mean Square Error Approximation (RMSEA), Tucker Lewis Index(TLI), Normed Fit Index(NFI), Chi-square value, Goodness-of-fit index (GFI), and Adjusted Goodness of Fit (AGFI).

The global model Fit indices are presented in Table 5.

Table 5: Model Fit indices

Absolute Fit Indexes	**Acceptable Value**	**Value**	**Outcome**
Comparative Fit Index(CFI)	>0.9	0.910	Acceptable
Root Mean Square Error Approximation (RSMEA)	RSMEA<0.08	0.078	Acceptable
Tucker Lewis Index (TLI)	>0.9	0.897	Slightly below acceptable range

Normed Fit Index(NFI)	>0.9	0.854	Slightly below acceptable range
Chi-square, p-value	< 0.05	0.000	Below acceptable range
Goodness of Fit (GFI)	>0.9	0.826	Slightly below acceptable range
Adjusted Goodness of Fit (AGFI)	>0.9	0.783	Below acceptable range

The RSMEA and the CFI indices were within acceptable ranges of the model fit while the NNFI (TLI) was slightly below the acceptable range. The Chi-square, the GFI and the AGFI are known to be affected by the sample size, and therefore can be acceptable to be outside the required range. Since some of the indices were within acceptable ranges, it can be noted the model was a good fit for the data. Further pruning of the model could not improve the model fit.

Comparative fit index (CFI)

The comparative fit index measures goodness of fit of the hypothesized model compared to a baseline model (Bentler & Huang, 2014) . The acceptable threshold of a good fit is 0.9 and above. The CFI of this is study is 0.910, indicating a good fit.

Root Mean Square Error of Approximation (RMSEA)

RMSEA is used to measure how well a model fits into the population (Brown, 2006).A good fit is 0.08 or below. The RMSEA value in this study meets the fit by indicating an acceptable range of 0.078.

Tucker Lewis Index (TLI)

The Tucker Lewis Index is reliant on the sample size and uses simpler models to address the challenges encountered by a normed fit index. The index should be above 0.90 to demonstrate a model fit, and this study does not meet the acceptable range by indicating a value of 0.897.

Normed-Fit Index (NFI)

The hypotheses value is compared to that of a null value. The acceptable normed- fit index should be greater than 0.90. For this study, the NFI was slightly below the acceptable range with an index of 0.854

Chi-square value

Chi-square value is a measure of the difference between the observed and expected frequencies of the outcomes of a set of events or variables with expected frequencies (Sarantakos, 2012). The acceptable value is 0.05 and below and the Chi-square value of this study is 0.000. This is below the acceptable range, suggesting there is an acceptable model fit.

Goodness-of-Fit Index (GFI)

Assesses the share of variance that is accounted for by the approximated population covariance (Tabachnick & Fidell, 2007). The acceptable threshold is 0.90 and above. The study recorded an index of 0.826, meaning it is not an acceptable model fit as it's slightly below the acceptable range.

Adjusted Goodness of Fit (AGFI)

Adjusted goodness fit index should be above 0.90 to demonstrate a model fit. The AGFI is below the acceptable range with an index of 0.783.

4.5 Descriptive Statistics and Correlation analysis

It can be noted from Table 4 that brand reputation (mean = 5.62 ± 1.01) was the highest rated construct followed by service quality (mean = 5.41 ± 0.93), customer satisfaction (mean = 5.35 ± 1.02), and customer loyalty (mean = 5.15 ± 1.31). brand loyalty programme (mean = 4.46± 1.25) was the lowest rated.

For there to be good discriminant validity, the square root of AVE of a factor should be higher than the correlation of that factor and other factors. This was met for Brand Loyalty Programme (0.780) only, which shows that the other factors were somehow correlated, which is a common in related constructs (Kim, Ku, Kim, Park, & Park, 2016).

This can be noted as a weakness of the study and future research can work on improving discriminant validity for this model.

Table 6: Descriptive statistics and correlation matrix.

Construct	Mean	Std. Deviation	1.	2.	3.	4.	5.
1. Service Quality	5.41	0.93	.733				
2. Brand Reputation	5.62	1.01	.935	.796			
3. Customer Loyalty	5.15	1.31	.736	.782	.820		
4. Customer Satisfaction	5.35	1.02	.855	.832	.859	.738	
5. Brand Loyalty Programme	4.76	1.25	.431	.490	.507	.536	.780

Note: n = 220; values off the diagonal are square root of average variance extracted

4.6 Hypothesis testing using SEM

The hypotheses were tested using Structural Equation model (SEM). Covariances indicated by double headed arrows were introduced where error terms were highly correlated. This means that the sites were viewed in the same light by the respondents and the deletion of the items did not improve the model fit.SEM was also fitted in the IMB Amos version 21 with the items that were retained after conducting the CFA.

The SEM model is presented in Figure 12.

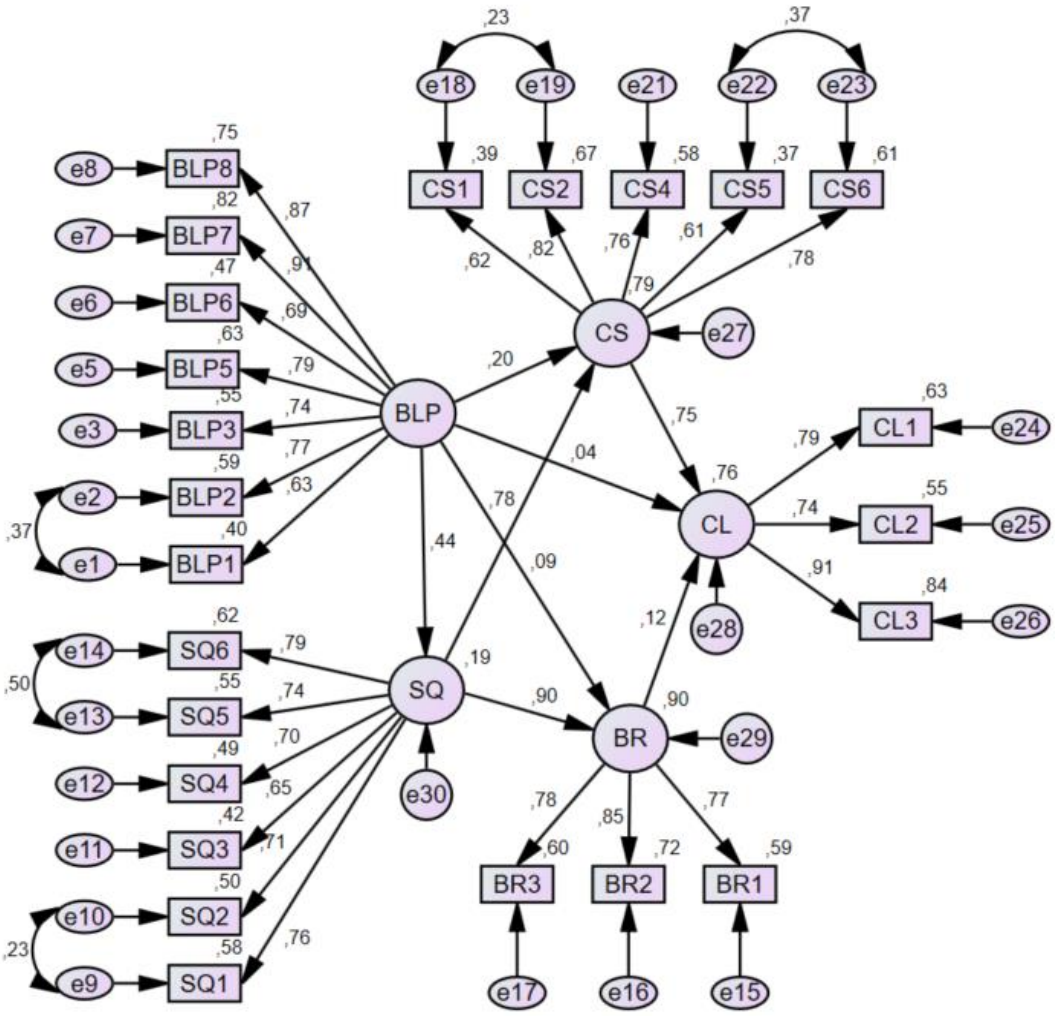

Figure 12: SEM Model

Table 7 presents the model fit indices, which are not very different from the CFA indices. This was expected as the only differences in the models were the arrows showing causal relationships.

Table 7: Weighted Regression Analysis

Absolute Fit Indexes	**Acceptable Value**	**Value**	**Outcome**
Comparative Fit index	>0.9	0.929	Acceptable
Tucker Lewis Index	>0.9	0.918	Acceptable
Root Mean Square Error Approximation	RSMEA<0.08	0.070	Acceptable

Normed Fit Index	>0.9	0.872	Slightly below acceptable range
Chi-square, p-value	< 0.05	0.000	Below acceptable range
Goodness of Fit	>0.9	0.846	Slightly below acceptable range
Adjusted Goodness of Fit	>0.9	0.807	Slightly below acceptable range

The regression weights are presented in Table 7. The r-square values indicate that brand loyalty programmes explained 19.3% of variation in service quality (r-square = 0.193), while brand loyalty programmes and service quality explained 79.2% of the variation in customer satisfaction (r-square = 0.792). It can also be noted that service quality and brand loyalty programmes explained 89.6% of variation in brand reputation (r-square = 0.896) whereas customer satisfaction, brand loyalty programmes, and brand reputation in turn explained the 76.4% variation in customer loyalty (r-square = 0.764).

Table 8: SEM Model – regression weights

Hypotheses / Path Analysis		**Estimates**	**Standardized Estimates**	**T-value**	**P-value**	**R-Square**
Brand Loyalty Programme	Service Quality	,345	,439	5,307	***	0,193
Brand Loyalty Programme	Customer Satisfaction	,171	,199	3,214	,001	0,792
Service Quality	Customer Satisfaction	,857	,784	7,960	***	
Service Quality	Brand Reputation	1,083	,902	10,275	***	0,896
Brand Loyalty Programme	Brand Reputation	,087	,093	1,723	,085	
Customer Satisfaction	Customer Loyalty	,955	,745	4,844	***	0,764

Brand Loyalty Programme	Customer Loyalty	,048	,044	,731	,465	
Brand Reputation	Customer Loyalty	,142	,122	,981	,327	

***, p-value < 0.001

4.7 Summary of hypotheses

Hypothesis		**Supported/ Not**	**Significant/ Not**
H1	Loyalty programmes influence service quality	Supported	Significant
H2	Loyalty programmes influence customer satisfaction	Supported	Significant
H3	Loyalty programmes influence brand reputation	Not Supported	Not significant
H4	Service quality is related to customer satisfaction	Supported	Significant
H5	Service quality influences brand reputation	Supported	Significant
H6	Customer satisfaction has an influence on customer loyalty	Supported	Significant
H7	Brand reputation has an influence on customer loyalty	Not Supported	Not significant
H8	Loyalty programme has an influence on customer loyalty	Not Supported	Not significant

4.8 Summary

These findings demonstrated that not all eight hypotheses were supported - only five hypotheses were supported. H3, H7 and H8 were rejected because they have a T value lower than 1.94. As a result, the assumption from the findings is that loyalty programmes have an influence on service quality and customer satisfaction, while customer satisfaction has an influence on customer loyalty, and service quality on brand reputation.

CHAPTER 5: DISCUSSION OF RESULTS

5.1 Introduction

This chapter is a discussion on the demographic results of the respondents and the eight hypotheses tested across the loyalty programme, customer satisfaction, service quality, brand reputation and customer loyalty.

5.2 Hypothesis discussion

Below is the summary of the eight hypotheses' tests, following which is a discussion on each hypothesis in relation to the empirical findings. A hypothesis is a formal proposition that is constructed and can be tested through research or experiments to be true or false (Veazie, 2015).

5.2.1 Hypothesis one (H1): Loyalty programmes have a positive influence on service quality.

Results presented in Table 7 indicate that brand loyalty programmes (β = 0.439, t-value = 5.307, p-value < 0.001) had a significant and positive impact on service quality. The influence was positive because the standardised coefficient of brand loyalty programme (β = 0.439) was greater than zero. It was also significant because the p-value was less than 0.001. This result shows that one unit change in brand loyalty programme will result in 0.499 units change in service quality while other variables are held constant. This indicates that it was concluded that loyalty programmes have a positive significant influence on service quality.

The findings are supported by various literature findings.Holdford & Reinders(2001) state that the service quality, or post-use valuation on a product or service as can be seen as being influenced by the presence of a loyalty programme (Holdford & Reinders, 2001).The customer experience can be enhanced drastically through loyalty programme initiatives such as offering incentives, rewards and are customer centric (Wang, Lewis, Cryder, & Sprigg, 2016; Zavalishchin, 2021). A loyalty programme increases engagement between the company and client, because of that it has the ability to improve the service quality or perception. Customers with loyalty programmes feel appreciated and valued by the company, therefore developing an emotional

connection which in many cases increases customer patience in case of service failure (Shoemaker & Lewis, 1999).

5.2.2 Hypothesis two (H2): Loyalty programmes have a positive influence customer satisfaction

Results presented in Table 7 indicate that brand loyalty programmes (β = 0.199, t-value = 3.214, p-value = 0.001) had a significant and positive impact on customer satisfaction. The influence was positive because the standardised coefficient of brand loyalty programmes (β = 0.199) was greater than zero. It was also significant because the p-value was less than 0.001. This result shows that one unit change in brand loyalty programme will result in a 0.199 units change in customer satisfaction, while other variables are held constant. This indicates that it was concluded that loyalty programmes have a positive significant influence on customer satisfaction.

This is consistent with the notion by Shoemaker and Lewis (1999) that well implemented loyalty programmes improve customer satisfaction, and that the experience gained from such programmes compare well to the initial value prospects and anticipated performance (Razak & Shamsudin, 2019; Zehrer, Crotts, & Magnini, 2011).

5.2.3 Hypothesis three (H3): Loyalty programmes do not have a positive influence on brand reputation

Results presented in Table 7 indicate that although brand loyalty programmes (β = 0.093, t-value = 1.723, p-value = 0.085) had a positive but yet not significant influence on brand reputation. The influence was positive because the standardised coefficient of brand loyalty programme (β = 0.093) was greater than zero. It was however not significant because the p-value was greater than 0.05. It is thus concluded that there is no sufficient evidence at a 5% significance level to suggest that loyalty programmes influence brand reputation.

Reputation being built over time where a great measure is whether or not a brand has met the expectations in the long term, as well as the discernments of outsiders (Fombrun & Rindova, 2000), is not significantly influenced by loyalty programmes. The notion by Bolton, Kannan, & Bramlett (2000) states that loyalty programmes have a positive effect on consumer assessments, behaviours and perceptions in the long run does not hold due to the insignificant impact it has on brand reputation. These findings

therefore do not support the hypotheses developed that loyalty programmes have a positive influence on brand reputation.

5.2.4 Hypothesis four (H4): Service quality has a positive influence on customer satisfaction

Results presented in Table 7 indicate that service quality (β = 0.784, t-value = 7.960, p-value < 0.001) had a significant and positive impact on customer satisfaction. The influence was positive because the standardised coefficient of service quality (β = 0.784) was greater than zero. It was also significant because the p-value was less than 0.001. This result shows that one unit change in service quality will result in 0.784 units change in customer satisfaction while other variables are held constant. This indicates that it was concluded that service quality has a significant impact on customer satisfaction.

The suggestion posited by De Ruyter et al (1997) that service quality can be taken as a condition that must be in place for customer satisfaction to be achieved is consistent with the results. Furthermore, the results support the idea that service quality must be one of the antecedents of evaluation when assessing customer satisfaction (Aydin, Celik, & Gumus, 2015).

5.2.5 Hypothesis five (H5): Service quality has a positive influence brand reputation

Results presented in Table 7 indicate that service quality (β = 0.902, t-value = 10.275, p-value < 0.001) had a significant and positive impact on brand reputation. The influence was positive because the standardised coefficient of service quality (β = 0.902) was greater than zero. It was also significant because the p-value was less than 0.001. This result shows that one unit change in service quality will result in 0.902 units change in brand reputation while other variables are held constant. It was thus concluded that service quality have a positive significant influence on brand reputation.

This is consistent with the view of (Rita, Oliveira, & Farisa, 2019) that consumers' experiences and perceptions no longer end after the purchase, but extend to post purchase and post service support. The quality of the service received after consumption can also directly contribute to what consumers think of a company (Rita, Oliveira, & Farisa, 2019).

5.2.6 Hypothesis six (H6): Customer satisfaction has a positive influence customer loyalty

Results presented in Table 7 indicate that customer satisfaction (β = 0.745, t-value = 4.844, p-value < 0.001) had a significant and positive impact on customer loyalty. The influence was positive because the standardised coefficient of customer satisfaction (β = 0.745) was greater than zero. It was also significant because the p-value was less than 0.001. This result shows that one unit change in customer satisfaction will result in 0.745 units change in customer loyalty while other variables are held constant. It was thus concluded that customer satisfaction has a positive significant influence on customer loyalty. This consistent with many of the findings and literature available. It has been proven that satisfied customers become loyal customers (Fornell, 1992). However, customer loyalty will drop dramatically if the satisfaction level drops to a certain point. Extremely satisfied customers tend to be more loyal customers than the customers who were merely satisfied (Tepeci, 1999).

5.2.7 Hypothesis seven (H7): Brand reputation does not have a positive influence on customer loyalty

Results presented in Table 7 indicate that although brand reputation (β = 0.122, t-value = 0.981, p-value = 0.327) had a positive influence on customer loyalty, the influence was not significant. The influence was positive because the standardised coefficient of brand reputation (β = 0.122) was greater than zero. It was however not significant because the p-value was greater than 0.05. It is thus concluded that there is no sufficient evidence at a 5% significance level to suggest that brand reputation does influence customer loyalty.

Although the findings are not consistent with many scholars, who have stated that superior customer value and high customer satisfaction have an impact on the firm's reputation, ultimately leading to customer retention (Hu, Kandampully, & Devi, 2009; Jani & Han, 2014).

5.2.8 Hypothesis eight (H8): Loyalty programmes do not have an influence on customer loyalty

Results presented in Table 6 indicate that although brand loyalty programmes (β = 0.044, t-value = 0.731, p-value = 0.465) had a positive influence on customer loyalty, the influence was not significant. The influence was positive because the standardised coefficient of brand loyalty programme (β = 0.044) was greater than zero. It was however not significant because the p-value was greater than 0.05.It is thus concluded that there is no sufficient evidence at a 5% significance level to suggest that loyalty programmes have an influence on customer loyalty.

This is not consistent with the findings from a study conducted by Magatef & Tomalieh (2015). According to their findings, loyalty programmes are useful and important for building and maintaining customer loyalty.

5.3 Summary

The drivers showed that Customer Satisfaction (β = 0.745) had the highest impact of Customer Loyalty. This means that for every 1% change in the Customer Satisfaction, Customer Loyalty changes by 0.745% while holding other variables constant. This is followed by Brand Reputation (β = 0.122) and lastly Loyalty Programme (β = 0.044).

Service Quality (β = 0.784), mainly affects customer satisfaction, followed by Loyalty Programmes (β = 0.199). Whereas Brand Reputation is mainly influenced by Service Quality (β = 0.902), followed by Loyalty Programme (β = 0.093).

CHAPTER 6: CONCLUSION, RECOMMENDATIONS, LIMITATIONS AND FUTURE RESEARCH

6.1 Introduction

This chapter presents a discussion of the conclusion and recommendations taking into account the results and hypotheses discussed in chapters 3 and 4. Furthermore, the implications on marketing and theory, and limitations and possibilities of future research are presented.

6.2 Conclusion of Study

Customer loyalty is a valuable tool for banks that want to stay at the forefront of their industry. Loyal customers will be more devoted to their bank, more trusting and more willing to try out new products and services. The study looked to examine the effect of loyalty programmes on customer loyalty in the retail banking sector in South Africa. The study also wanted to evaluate the possible mediating factors that may influence customer loyalty, looking at customer satisfaction, brand reputation, and service quality.

It is noted that loyalty programmes, customer satisfaction, brand reputation and service quality all play different roles in driving customer loyalty in the banking sector. The main problem the study was looking to solve for was the effect of loyalty programmes on customer loyalty, and the second sub-problem was to assess the customer satisfaction, brand reputation, and service qualify as possible contributors to customer loyalty.

This study has demonstrated that five of the tested hypotheses are supported. There is a positive influence between loyalty programmes and service quality, and customer satisfaction. Nevertheless, the relationship between loyalty programmes on customer loyalty and brand reputation was not significant (p-value>0.05) in the population studied. This was the same for the influence of brand reputation on customer loyalty, and loyalty programmes on customer loyalty.

Therefore, the findings show that loyalty programmes in the banking sector do not greatly influence customer loyalty, whereas customer satisfaction significantly influenced customer loyalty.

6.3 Recommendations

This study contributes to the existing literature on loyalty programmes and customer loyalty by analysing the mediating influences of customer satisfaction, brand reputation and service quality. It's also significant to the field of marketing because loyalty programmes have presented themselves as a successful marketing strategy that can be used to increase sales revenues, obtain new customers, and retain existing customers. Organisations and customers throughout the country are now using loyalty programmes more than ever before. The findings do indicate that customer loyalty is powered by elevated degrees of customer satisfaction, therefore providing insights for managers who develop and implement loyalty programmes in the banking sector.

Managers should tailor their marketing strategies to include efforts to drive customer satisfaction and looking to see if the loyalty programme in place increases customer satisfaction, which in would then lead to customer loyalty. However, a loyalty programme alone without a dedicated focus and clear direction to increase customer satisfaction would just lead to customer loyalty. The findings can additionally assist marketers in developing sound loyalty programmes in the banking sector.

Loyalty programmes are significant to South Africans, with over 73% of households using one or more loyalty programme. The retailers dominate in this area and there is room for great improvement for banks to increase their value proposition to their customers. From 440 respondents, only 220 respondents knew and made use of their bank loyalty programme. This means that 50% of the observed population does not know or make use of their bank loyalty programme, which highlights the gaps in the penetration of loyalty programmes in the banking sector.

While loyalty programmes are viewed as significant tools that marketers can utilise to engage with customers, an essential amount of creativity and innovative thinking is needed to maintain relevance and meet the customers desired needs. South African banks should focus more on customer satisfaction and shift their offering to a more individualised service, which means providing the client with options to allow them to engage better with the programme and the bank. The expectancy-disconfirmation theory further illustrates that customers' satisfaction levels were met based on their previous experiences and standards they have developed. With that said, people have

different experiences and standards and assuming that a stock standard programme will satisfy everyone's needs is short sighted. Marketers therefore need to move to more agile programmes that speak to each client's needs.

Where one customer may value cashbacks, another possibly values discounts on travel, and another would like points converted to cash that he/she can reinvest. Fundamentally, every customer has differing desire and needs. The future of loyalty programmes therefore lies in the ability to provide individualised and personalised service offering that will satisfy the customer's needs and meet their expectations.

6.4 Implications

This section presents the implications of the study pertaining to management and theoretical concerns**.**

6.4.1 Managerial implications

The results of this study present useful knowledge for managers in the banking sector that offer loyalty programmes to their customer base. According to the findings of the study, loyalty programmes have a positive influence on customer satisfaction, however they do not significantly influence customer loyalty. In the current environment of extreme competition, the research concludes that building durable customer relations for long lasting business is mandatory for managers.

This means that managers need to identify what satisfies their customers, rather than assuming that their loyalty programme automatically drives retention and customer loyalty. Efforts therefore need to be made by managers to offer a loyalty programme that increases the satisfaction of their customers.

It is important for managers to understand what drives customer satisfaction, and to be aware of the dissatisfaction that may exist. It has been highlighted in this study that customer satisfaction leads to repeat purchase behaviour, purchasing of additional services, and possibly retention as well. Service quality significantly impacts customer satisfaction. Therefore, managers need to make sure that, alongside a successful loyalty programme, service levels need to be of high quality and satisfactory as well.

In conclusion, both managers and marketers in the South African banking industry will find this research insightful in terms of the deliverables necessary in implementing appropriate loyalty programmes in the banking sector. In the current environment of

extreme competition, building durable customer relations for long lasting business is mandatory for managers.

6.4.2 Theoretical implications

The theoretical findings from this study extend the existing theory of expectation confirmation theory and relationship marketing theories. Both theories were applied to study loyalty programmes and customer loyalty. This study broadens the knowledge and importance of customer satisfaction, brand reputation, and service quality in the banking sector in South Africa. Based on the empirical findings in this study, customer satisfaction has the strongest influence on customer loyalty, and customer satisfaction is greatly influenced by service quality. The findings in this study reinforce the theories that service quality has a great influence on customer satisfaction. It further confirms that customer satisfaction has the greatest influence on customer loyalty.

The research supports the debates about whether customer loyalty programmes indeed guarantee customer loyalty, as the findings seen in this study show that the hypothesis was not supported, but not statistically significantly so, meaning the strength of the relationship between the two was not observed in the population.

6.4.3 Limitations of the study

The sample of 220 participants was relatively small and cannot be generalised to the greater population that exists in the South African banking sector. Furthermore, the study used a self-administered questionnaire, which is limiting as the respondents could not share their views and insights on loyalty programmes. Therefore, using a mixed method may have given more merit to findings.

The accuracy of the information may additionally pose a limitation to the study as it was not possible to verify if participants were indeed loyalty programme members, or if they were actively making use of a loyalty programme. Another limitation is that the study was geared towards loyalty programmes in the banking sector, therefore not observing the overall loyalty programme landscape.

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6.4.4 Suggestions for future studies

Due to the limited studies on loyalty programmes in the banking sector, future scholars should look at focusing on studies in the banking sector as these proved to be limited, especially in the South African context. Scholars could possibly conduct comparative studies between the various sectors that have loyalty programmes. Future scholars to look at introducing a covariate variable such as customer value or integrate interesting demographic variables.

6.4.5 Summary

This chapter presented the conclusion of the study by highlighting that from the eight hypotheses presented, only five were supported. The results presented the fact that loyalty programmes do not automatically lead to customer loyalty but that other factors such as customer satisfaction and service quality contribute to customer loyalty.

This chapter presented recommendations based on the findings, and the implications on managerial and theoretical implications are also outlined. Finally, a discussion of the limitations inherent in the study were presented along with suggested possible areas of future research.

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APPENDIX A:

University of the Witwatersrand

Wits Business School

Email: rudydaniella511@gmail.com

Date: 27 July 2020

Questionnaire

Dear Student

This research is being conducted by Ms Daniella Olifant a Master of Management in Strategic Marketing student at Wits Business School.

Thank you for paying attention to this academic questionnaire. The purpose of the study is to assess the effect of loyalty programs on customer loyalty in the retail banking sector.

I am therefore, requesting your assistance to complete the questionnaire below. The research is purely for academic purposes and the information obtained will be kept confidential.

It will take you approximately 7 minutes to complete the whole questionnaire.

Please answer these questions with your primary bank in mind.

Section A:

This section requires general information and the banking background about the research respondents. Please indicate by marking X next to the relevant item.

1. Gender:

Female	
Male	
Prefer not to answer	

2. Age:

18-29	
30-39	
40-49	
50-64	
65+	

3. Which from the below is your primary bank?

Absa	
First National Bank	
Nedbank	
Standard Bank	
Other	

4. How long have you been a client of this bank?

Less than 1 year	
1-2 years	
2-5 years	
5 years+	

5. Are you aware of your bank's loyalty programme?

Yes	
No	

6. Are you actively using your bank's loyalty programme?

Yes	
No	

7. How long have you been actively using the loyalty programme?

Less than 1 year	
1-2 years	
2-5 years	
5 years+	

8. The number of loyalty programme memberships you engage with?

Only one loyalty programme	
Two loyalty programmes	
Three loyalty programmes	
Four loyalty programmes	
Five loyalty programmes	
Six or more loyalty programmes	

Section B:

You can indicate the extent to which you agree or disagree with the statement by ticking the corresponding number in the 7 point scale below:

1	2	3	4	5	6	7
Strongly disagree	Disagree	Somewhat disagree	Neutral	Somewhat agree	Agree	Strongly Agree

The bank loyalty programme:

1.	The loyalty programme is easy to use	1	2	3	4	5	6	7
2.	The proposed rewards are what I want	1	2	3	4	5	6	7
3.	The proposed rewards have a high cash value	1	2	3	4	5	6	7
4. .	I will not switch my bank because of the loyalty programme	1	2	3	4	5	6	7

5.	I am satisfied with the service received from the loyalty programme	1	2	3	4	5	6	7
6.	I like the proposed loyalty programme more than other programmes	1	2	3	4	5	6	7
7.	The loyalty programme meets my expectations	1	2	3	4	5	6	7
8.	I would recommend the loyalty programme to others	1	2	3	4	5	6	7

Customer Satisfaction

9.	I am happy with the relationship I have with my bank	1	2	3	4	5	6	7
10.	Joining this bank has been one of my best decisions	1	2	3	4	5	6	7
11.	I am satisfied with my bank fees	1	2	3	4	5	6	7
12.	Products and services offered by my bank meet or exceed my expectations	1	2	3	4	5	6	7
13.	My bank offers convenience	1	2	3	4	5	6	7
14.	My customer expectations are met	1	2	3	4	5	6	7
15.	I trust my bank	1	2	3	4	5	6	7
16.	I feel good about being a client of the bank	1	2	3	4	5	6	7
17.	My bank is credible	1	2	3	4	5	6	7

Service quality

18.	My bank is reliable	1	2	3	4	5	6	7
19.	My bank is responsive	1	2	3	4	5	6	7
20.	I am confident in the employees' product knowledge and their financial astuteness	1	2	3	4	5	6	7

21.	I am satisfied with the image of my bank	1	2	3	4	5	6	7
22.	My bank understands me	1	2	3	4	5	6	7
23. .	All my expectations are met	1	2	3	4	5	6	7

Customer loyalty

24.	I am most likely to increase my banking portfolio with the same bank (repeat purchases)	1	2	3	4	5	6	7
25.	I will not switch banks because all my needs are currently met	1	2	3	4	5	6	7
26.	I am most likely to recommend this bank to my family and friends	1	2	3	4	5	6	7