

Predictors of customer loyalty in the South African retail banking industry

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Abstract

The South African retail banking industry is a highly competitive industry which has experienced an increase in customer attrition over the last three years, with a large number of customers showing intentions to leave their banks. Consequently, South African banks have begun to put more focus on the use of loyalty or loyalty programmes to ensure that customers are not easily tempted to switch banks. To this end, banks are investing billions of Rands on loyalty programmes with the aim of obtaining and keeping profitable customers.

The aim of this article was to investigate service quality, trust, switching costs, and satisfaction as predictors of customer loyalty, in South African retail banks. A quantitative descriptive research approach was followed, implementing non-probability convenience and quota sampling. Data was collected by means of a self-administered questionnaire, which was distributed among South African retail bank (Absa, Capitec Bank, First National Bank (FNB), Nedbank and Standard Bank) customers in the Gauteng Province.

Based on the results, this article proposes a framework that indicates how South African retail banks can attain loyalty through improving customer satisfaction, which is achieved by enhancing service quality, establishing trust among their customers, and minimising switching costs.

Key phrases

banking industry, loyalty, relationship marketing, retail banking, satisfaction, service quality, switching costs, trust

1. INTRODUCTION

Overall customer loyalty within the South African retail banking industry has decreased with more than 3% over the last three years, which is of significant concern to banks marketing themselves on the ease of switching to their banks (Consulta 2017:Internet). In order to address the issue of customer switching, retail banks have focused a great deal on the use of loyalty or reward programmes to ensure that current customers are not easily tempted to switch banks (Ernst & Young 2017:11). These programmes have, however, proven futile, as some of the major South African retail banks are still experiencing customer attrition (BusinessTech 2017a:Internet).

The increasingly competitive nature of the South African retail banking industry further contributes to sustainability concerns (PwC 2017:12), as this industry is regularly confronted with new entrants (MarketLine 2017:17). In most instances, when one of the major South African banks initiates an innovative offering into the market, other banks imitate this offering shortly after (BusinessTech 2016:Internet).

Subsequently, the core products and services that banks provide to their customers tend to be mostly similar in nature (PwC 2017:2). As a result, it is not difficult for customers to consider shifting from one bank to another – resulting in banks having to implement marketing strategies aimed at attracting new customers or retaining existing ones (Magasi 2015:2). According to the SAcsi (2015:Internet), customers are more likely to switch from one bank to another if they are dissatisfied with products or services – evident from FNB and Capitec's advertising campaigns, marketing themselves on the ease with which customers can switch to their bank if they were unhappy with their present banks (BusinessTech 2017a:Internet).

Apart from the increasing levels of competition in the retail banking industry, customers are highly knowledgeable and selective, and are becoming increasingly demanding in terms of the quality of the services they expect to receive (Ernst & Young 2017:2). Banks, therefore, need to attain a clear sense of who their customers are, and what their preferences are, as to establish relevant offerings that can contribute to the improvement of overall customer loyalty (Mecha, Martin & Ondieki 2015:270).

In the increasingly competitive global financial environment, relationship marketing is believed to be a perfect means for banks to create distinctive and long-term relationships with customers (PwC 2017:12). Mecha *et al.* (2015:270) posit that relationship marketing has proven to be an invaluable tactic in the banking industry to create intimate relationships with customers in order to gain insights about customers, their preferences, and their satisfaction.

In light of the above sentiments, it is clear that relationship marketing is essential to the forming of long-term loyal relationships with customers. Since the South African retail banking industry is faced with continuously changing trends, it is imperative to conduct ongoing research in this field.

This article, therefore, aims to determine the predictors of customer loyalty in the South African retail banking industry. To achieve this, the influence of selected relationship marketing constructs (namely service quality, trust and switching costs) on customer satisfaction are investigated, in order to analyse the influence of customer satisfaction on customers' loyalty.

2. RESEARCH OBJECTIVES

Based on the above background discussion, the aim of this article is therefore to investigate the predictors of customer loyalty, including service quality, trust, switching costs, and customer satisfaction, in South African retail banks.

To reach this aim, the following objectives have been formulated:

- 1) Compile a demographic profile of respondents.
- 2) Determine the retail banking habits of respondents.
- 3) Determine respondents' perceptions of the service quality of their banks.
- 4) Determine respondents' trust in their bank.
- 5) Determine respondents' perceived costs of switching between banks.
- 6) Determine respondents' satisfaction with their banks.
- 7) Determine respondents' loyalty towards their banks.

- 8) Determine the interrelationship between service quality, trust, switching costs, satisfaction and loyalty in South African retail banks.

3. LITERATURE REVIEW

3.1 Industry overview

Retail banks offer personal financial products and services, such as savings, loans, mortgages, deposits, and guidance to individuals, and generally differentiate themselves by offering different fees, interest rates, lending limits, customer convenience, as well as the quality of services (MarketLine 2017:7, 14). The South African retail banking industry is the largest banking sector in Africa, and is, as indicated in Figure 1, dominated by five major role-players (namely Absa, Capitec Bank, FNB, Nedbank, and Standard Bank).

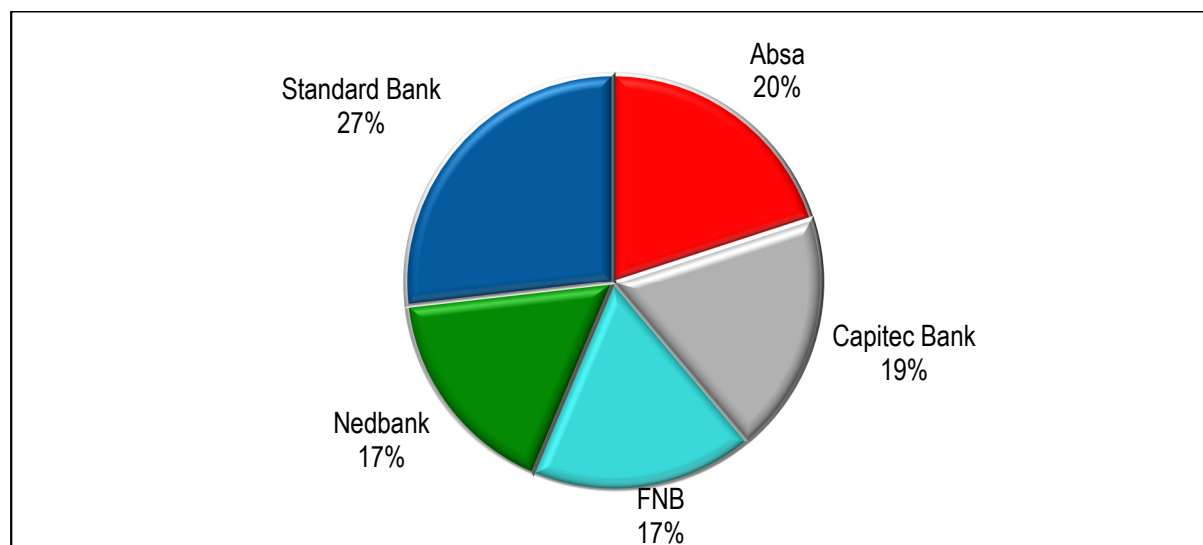


FIGURE 1: Major South African retail banks market shares

Source: Adapted from BusinessTech 2017b:Internet

The South African retail banking industry is experiencing fast and irrevocable changes, including demographic shifts, which means that banks have to anticipate these changes and render products and services that suit these changing demographic profiles (Ernst & Young

2017:2). In addition, according to Slater (2014:Internet), the nature of customers is changing – especially the young technological generation who seeks a technological means of service delivery. Slater (2014:Internet) further indicates that trends in technology, especially technology such as mobile banking, cell-phone banking applications and money transfers through cell phones, have taken over retail banking. The banking industry has also experienced a number of changes pertaining to the regulatory environment, product offerings and the number of competitors. This gave rise to high levels of competition from smaller bankers which have entered a low-income and formerly unbanked market (Banking Association South Africa 2014:1).

These aspects – along with customer service, reputation, and trust – significantly influence customers' satisfaction and loyalty (PwC 2017:12), which is evident from the decreasing levels of overall customer satisfaction and loyalty in the South African retail banking industry (Consulta 2017:Internet). Lo (2012:92) and Mecha *et al.* (2015:27) also emphasised the importance of studying those aspects (from a relationship marketing perspective) that might potentially predict customer loyalty in South African retail banks, since relationship marketing is regarded as the foundation for reinforcing relationships and maintaining customer loyalty.

3.2 Relationship marketing

The concept of relationship marketing has been studied from different viewpoints and examined in several ways, and has grown in theoretical and practical importance (Kaura, Prasad & Sharma 2015:405). Therefore, the concept of relationship marketing became the strategy – with the goal of creating and cultivating long-term relationships with customers – to manage challenges and to gain a competitive advantage. Sheth, Parvatiyar and Sinha (2015:125) state that the need to embrace total quality management in order to enhance quality and decrease costs – thus making it essential for suppliers and customers to be part of the programme in the value chain – led to the adoption of relationship marketing, as this required interactions between customers, suppliers and other marketing members.

According to Berry and Parasuraman (1991:133), relationship marketing entails attracting customers, developing lasting relationships with those customers, and potentially retaining

those customers for as long as profitable. Sheth *et al.* (2015:123) further define the concept of relationship marketing as the continuous process of engaging with customers, with the aim of establishing mutually economic, social, and psychological relationships.

The concept of relationship marketing is, therefore, predicated on the notion that customers should want to seek to establish a continuous, long-term relationship with the business, rather than constantly changing between providers in their quest for value (Hundre, Kumar & Kumar 2013:703). Business activities must, therefore, be focused on current customers' satisfaction, by implementing strategies that are centred on the flow of information. Subsequently, businesses should realise profits by upholding lower customer turnover and reinforcing relationships with existing customers (Husnain & Akhtar 2015:2).

Al-Hersh, Aburoub and Saaty (2014:68) further posit that the relationship marketing strategy is specifically essential in the service industry, which is characterised by intangible products with high levels of customer contact.

3.3 Service quality

The seminal work of Parasuraman, Zeithaml and Berry (1988:17) defines service quality as the difference between what customers expect to receive from a service and the view of the actual service quality received. According to Lau, Cheung, Lam and Chu (2013:265), service quality forms a critical success factor for businesses to differentiate themselves from rivals. Customers' perceptions of high levels of service quality generally results in positive behavioural intentions (such as repurchasing), which in turn reinforces their relationship with the business – building on the relationship marketing strategy (Karimi, Sanayei & Moshrefjavadi 2011:10).

Good service quality can also aid in forming and enhancing the service provider's image. Thus, if a business becomes characterised by a certain level of service quality, this helps to build and improve the image or brand of the business. A positive image makes it easier for the business to express its value to customers and also encourages favourable word-of-mouth (Chenet, Dagger & O'Sullivan 2010:340).

Service providers should, therefore, continuously attempt to enhance their overall service quality with a view to satisfy customers and encourage long-term relationships. However, the intangibility, heterogeneity and inseparability of services can complicate the process of accurately defining, measuring or controlling service quality (Lau *et al.* 2013:265; Zhang, Chen, Zhao & Yao 2014:84). The majority of research on service quality has been conducted using the well-known SERVQUAL model of Parasuraman *et al.* (1988) (Coetzee, Van Zyl & Tait 2013:7). Cronin and Taylor (1994) also developed the SERVPERF model to measure service quality, which uses the same five dimensions of SERVQUAL.

The SERVPERF model, however, adopted a performance-only approach, by specifically focusing on customers' actual experiences of the service quality, and not their expectations. The five generic dimensions of service quality, as used in both the SERVQUAL and SERVPERF models, are summarised in Table 1. For the purpose of this article, the SERVPERF model is used to investigate customers' actual perceptions of their retail banks' service quality.

TABLE 1: Service quality dimensions

Dimension	Description
Reliability	The ability of a business to deliver the promised service(s) dependably and perfectly.
Tangibles	The presentation of physical facilities, equipment, employees, and communication materials during the service delivery process.
Responsiveness	The enthusiasm of employees to assist customers, to provide speedy service, as well as to respond to individual customers' needs.
Assurance	The competence of staff, and their ability to stimulate trust and confidence in the business through knowledge, politeness, and honesty.
Empathy	The ability of employees to provide customers with personalised attention, which requires these employees to understand customers, and be aware of their needs.

Source: Adapted from Cronin & Taylor 1994:61 and Parasuraman *et al.* 1988:149

3.4 Trust

Trust can be described as the willingness of one party to depend on another party in whom one has confidence during a transaction between the parties (Morgan & Hunt 1994:23). According to Chenet *et al.* (2010:340), customers who have trust in a business expect promises to be fulfilled as advertised. Therefore, if a business fails to fulfil the promises as agreed upon, trust is betrayed, resulting in the interruption of the relationship, and straining the sustainability and profitability of the business. Thus, as posited by Dahlstrom, Nygaard, Kimasheva and Ulvnes (2014:269), trust is a catalytic managerial aspect that can help to diminish perceived risk.

In the strenuous business environment and more so in the retail banking industry, trust has evolved into a critical imperative to sustain customer-business relationships. Customers who are prepared to trust a business expect responsiveness and prompt delivery of service in exchange for their trust (Ernst & Young 2016:3; Roberts-Lombard, Van Tonder, Pelsler & Prinsloo 2015:28). Trust is, therefore, regarded a key predictor of customers' intentions to commit to a relationship with the business (Al-Hersh *et al.* 2014:78; Dash & Rajshekhar 2013:3).

The research of Chenet *et al.* (2010) found a strong positive correlation between service quality and trust, and also determined that both these constructs form important differentiators to businesses. Thus, highlighting the importance of providing both trusting and quality services to customers as a way to establish a competitive advantage.

The research of Chu, Lee and Chao (2012) and Dahlstrom *et al.* (2014) further supports this relationship, emphasising the importance of service quality in establishing trust among customers, underscoring the importance of trust as a means of establishing and maintaining stability in the business. Based on the above discussion, the following alternative hypothesis is proposed:

H₁: Service quality has a significant positive relationship with trust in the retail bank.

3.5 Switching costs

Switching refers to the customer's likelihood of switching, the intent to switch, as well as the action of switching to a different provider (Pick & Eisend 2013:187). According to Zhang *et al.* (2014:269), Porter (1980) was the first author to present the concept of switching costs into the field of marketing, who defined switching costs as once-off costs incurred by a customer due to moving from one provider to another. The presence of high switching costs makes it difficult for customers to switch to another business, irrespective of satisfaction perceptions. Therefore, even if a business pursues various differentiation strategies to establish a competitive advantage, switching costs could significantly influence its sustainability (Bhattacharya 2013:102).

Switching costs can be categorised into three types, namely (1) financial switching costs, which refers to the customer's loss of financially quantifiable resources when switching; (2) procedural switching costs, which refers to the time and effort involved for the customer to switch; and (3) relational switching costs, which involve the loss of identification and emotional ties with both the service provider and its employees with whom the customer interacted (Blut, Frennea, Mittal & Mothersbaugh 2015:226; Burnham, Frels & Mahajan 2003:112; Pick & Eisend 2013:187).

The role of relationship marketing factors on customers' switching perceptions and behaviours have been studied considerably, and similar trends emerged. The consequence of customers defecting or switching to a different provider could have a significant impact on the business' profit and service continuity (Bhattacharya 2013:102; Blut *et al.* 2015:226). The quality of services and the level of trust in the business could influence customers' perceptions of switching costs involved, specifically pertaining to procedural and relational costs, and switching costs could in turn significantly influence customers' trust in the business (Ahmad, Iqbal & Ahmad 2014:78; Şahin & Kitapçı 2013:914). Therefore, based on this discussion, the following alternative hypotheses are proposed:

H₂: Service quality has a significant positive relationship with the perceptions of retail banks' switching costs.

H₃: Trust has a significant positive relationship with the perceptions of retail banks' switching costs.

3.6 Customer satisfaction

According to Oliver (1999), customer satisfaction is the assessment that a customer makes of a certain transaction, which shows the relation of customers' expectations and the actual perceptions customers have of the product or service provided by the business. Consequently, a contrast between expectations and perceptions will result in either confirmation or disconfirmation, where confirmation occurs when product or service perceptions meet expectations, and disconfirmation occurs due to perceptions being lower than expectations.

Customer satisfaction is further consistently identified as a key antecedent to customer commitment and loyalty, enhanced customer retention, establishing an interactive relationship between the customer and the business, increasing customer tolerance, as well as positive word-of-mouth communication (Chu *et al.* 2012:1278; Karimi *et al.* 2011:10; Lee & Moghavvemi 2015:105). Consequently, businesses generally aim to meet or exceed customers' expectations in an attempt to encourage long-term loyal relationships (Rizan, Warokka & Listyawati 2014:7).

The research of Ahmad *et al.* (2014), Jaroensrisomboon (2009), and Kaura *et al.* (2015) identified service quality as a significant antecedent of customers' satisfaction. Therefore, to keep customers, and to look after and sustain long-term customer interest, banks need to maintain a continuing relationship with their customers. This can be achieved by understanding the needs of these customers, in so doing serving them satisfactorily by enhancing service quality (Lee & Moghavvemi 2015:92).

In addition to service quality, the research of Al-Hersh *et al.* (2014:78) and Dash and Rajshekhar (2013:3) established that trust is crucial in satisfying customers. Therefore, to ensure long-term successful relationships with their customers, banks should focus on maintaining and reinforcing trusting relationships, as high levels of trust can result in more satisfied and loyal customers (Chu *et al.* 2012:1278).

Matzler, Strobl, Thurner and Füller (2015:120) further add that switching costs can influence customers' satisfaction, as less satisfied customers might choose not to switch to a different provider, due to the perceived switching costs being higher than the benefits of switching. Thus, if banks are able to convince their customers that it might be too costly and risky to switch to another bank, they should be able to improve customers' overall satisfaction (Jaroensrisomboon, 2009:27; Şahin & Kitapçı 2013:910).

Based on the above discussion, the following alternative hypotheses are proposed:

- H₄:** Service quality significantly influences customers' satisfaction with a retail bank.
- H₅:** Trust significantly influences customers' satisfaction with a retail bank.
- H₆:** Perceptions of switching costs significantly influences customers' satisfaction with a retail bank.

3.7 Loyalty

Oliver (1999:34) defines loyalty as a customer's deep-held commitment to repurchase a desired product or service in the future, regardless of situational influences and marketing efforts that may have the potential to result in switching behaviour and recommending the product or service to other people. Therefore, customers tend to remain loyal to a business if they feel that the business offers them better products or services than another business (Kaura *et al.* 2015:412).

Hsu, Huang, Ko and Wang (2014:80) emphasise that cultivating loyalty and keeping customers are vital for every business. According to Roberts-Lombard *et al.* (2015:28), to obtain loyal customers, businesses are required to invest in relationship-building and customer intimacy, because establishing such relationships will result in stronger loyalty. Husnain and Akhtar (2015:2) further add that the ability of businesses to improve their existing customers' loyalty is based on whether they can manage their customer relationships in a satisfactory manner. Businesses are, therefore, constantly searching for innovative methods to obtain, increase and retain customers due to the increasing cost of losing customers (Petzer, Steyn & Mostert 2009:32).

Hundre *et al.* (2013:704) posit that the longer a customer remains with a bank, the better the chance for a relationship developing between the customer and the bank. This allows the bank to provide personalised services, making it hard for customers to defect. Therefore, acquiring knowledge on the aspects that improve the level of customer loyalty is a prerequisite for banks that want to establish a sustainable competitive edge (Chu *et al.* 2012:1277; Petzer *et al.* 2009:32). Srivastava and Rai (2016:29) add that the success of a business is based on its ability to create loyal customers and retaining them.

According to Kaura *et al.* (2015:412), a loyal customer base is one of the greatest advertising strategies for a business, as it portrays an image of quality and trust. Loyal customers are also relatively easier and less costly to retain than obtaining new customers. Less marketing effort and financial input are required to satisfy existing customers. Loyal customers are unlikely to be very price-sensitive, and will therefore be more prepared to pay a premium for products to avoid taking risks with a different business (Srivastava & Rai 2016:30). Ultimately, a loyal customer base tends to insulate a business from competition (Hundre *et al.* 2013:704).

Research have repeatedly supported the notion that satisfied customers are more likely to become loyal to the business than unsatisfied customers (Lee & Moghavvemi 2015:105). The research of Chu *et al.* (2014:1278), Magasi (2015:576), Rizan *et al.* (2014:7) support this notion, proving that customer satisfaction positively influences customers' loyalty. Therefore, if retail banks are able to consistently exceed their customers' expectations with regard to product or service offerings, they should be able to retain these customers, resulting in a loyal long-term customer base.

Based on the above discussion, the following alternative hypothesis is proposed:

H₇: Customer satisfaction significantly influences loyalty towards a retail bank.

From the above literature and formulated hypotheses, the following theoretical framework is proposed as shown in Figure 2.

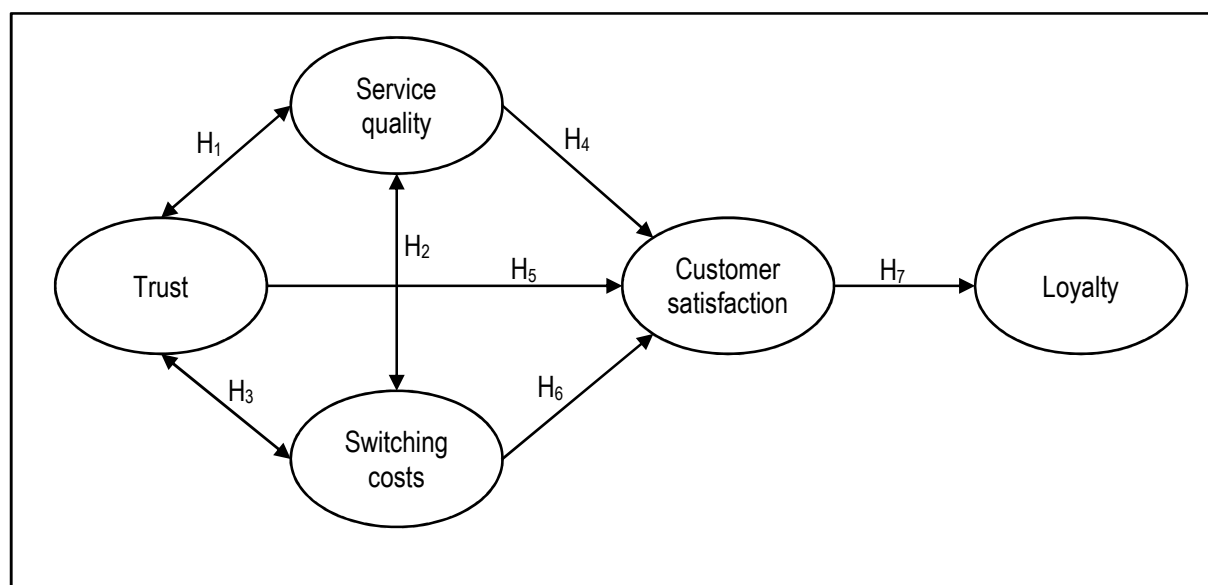


FIGURE 2: Theoretical framework

Source: Researchers' own construct

The proposed theoretical framework – as compiled from the above literature discussion and formulated hypotheses – sets out to investigate the relationship between retail bank customers' service quality perceptions, trust and switching costs, as well as whether these constructs influence their satisfaction with their bank. Ultimately, the influence of retail bank customers' satisfaction on their loyalty towards their bank is determined, to provide South African retail banks with an overall framework which can assist in sustaining a loyal customer base.

4. RESEARCH METHODOLOGY

This research followed a quantitative descriptive design. The population included individuals in the Gauteng Province of South Africa who are customers at one of the five major South African banks (i.e. Absa, Capitec Bank, FNB, Standard Bank and Nedbank). The Gauteng Province population was selected based on the fact that it is regarded the economic hub or powerhouse of South Africa, contributing 35% to the country's economy (The Citizen

2016:Internet). This province also has the largest population, representing 23.7% of the South African population (Stats SA 2014:16).

A non-probability convenience sampling method was used, since a sampling frame was not available due to the Protection of Personal Information Act (POPI) (4 of 2013) that promotes the protection of personal information by public and private bodies. Furthermore, quota sampling was implemented – based on the market share of each of the major South African retail banks (indicated in Figure 1) – to improve the overall representativeness of the sample. The initial sample included 500 respondents (135 from Standard Bank, 110 from Absa, 86 from Nedbank, 85 from Capitec Bank, and 84 from FNB), however, due to a number of response errors, a total of 464 useable responses were realised.

Research assistants aided with the data collection, by intercepting respondents and providing them with assistance in completing the structured, self-administered questionnaire. The questionnaire commenced with a preamble, explaining the aim of the research and ensuring respondents' anonymity, followed by the screening question (to ensure the respondent has been a customer of one of the major South African retail banks for longer than two years).

The subsequent sections were designed to obtain (1) demographic information of respondents, (2) bank patronage habits of respondents, and (3) determine respondents' service quality perceptions, trust, switching costs perceptions, satisfaction and loyalty towards their retail banks. Each of the items used to measure the respective constructs was measured on a five-point unlabelled Likert-type scale (with 1 = "Strongly disagree" and 5 = "Strongly agree").

Upon completion of the data collection, SPSS (version 24) was used to capture, edit, clean and analyse the data. The data analysis process included: (1) the calculation of frequencies and percentages for variables used to describe the demographic profile of respondents, as well as their retail bank patronage habits, (2) determining the reliability and validity of the scales used to measure each of the constructs (i.e. service quality, trust, switching costs, satisfaction, and loyalty), (3) calculating the overall mean scores and standard deviations

(SD) for each of the constructs, and (4) performing structural equation modelling, with the aid of AMOS, to determine the interrelationships among the variables.

5. RESEARCH FINDINGS

5.1 Demographic profile of respondents

The demographic profile of the respondents who participated in the research is summarised in Table 2.

TABLE 2: Demographic profile of respondents

Variable	Frequency	Percentage
Gender		
Male	192	41.4
Female	272	58.6
Age		
Younger than 38	281	61.9
38 to 49 years old	90	19.8
50 or older	83	18.3
Ethnicity		
Asian	5	1.1
Black	170	36.7
Coloured	24	5.2
Indian	17	3.7
White	246	53.1
Level of education		
Some primary school	4	0.9
Primary school completed	1	0.2
Some high school	25	5.4
Matric / Grade 12 completed	183	39.8
Technical college diploma	76	16.5
University or technology diploma	42	9.1
University degree (B-degree or Honours)	103	22.4
Postgraduate degree (Master's or Doctorate)	26	5.7

Employment		
Full-time student	98	21.1
Unemployed	8	1.7
Self-employed	37	8.0
Part-time employed	35	7.5
Full-time employed	271	58.4
Housewife or househusband	4	0.9
Retired	8	1.7
Other	3	0.6

As is evident from Table 2, the respondents are fairly equally represented in terms of gender, with males representing 41.4% and females 58.6% of the sample. In terms of age, the sample is also fairly distributed between the different age cohorts, with most of the respondents being aged younger than 38 (61.9%).

Furthermore, the majority of respondents were either white (53.1%) or black (36.7%). Most respondents either completed matric (39.8%) or hold a university degree (22.4%). Lastly, with regard to the employment status of the respondents, more than half of the respondents (58.4%) are full-time employed.

5.2 Retail bank patronage habits of respondents

Table 3 summarises the retail bank patronage habits of respondents.

As is evident from Table 3, the majority of the respondents have their personal (or most of their personal accounts) at Standard Bank (26.2%), whereas the smallest number of respondents uses Capitec Bank (15.1%). These results correspond closely with the initially proposed quota sample size. In addition, the majority of respondents (31.8%) have been with their bank for 5 to 10 years, and the smallest number of the respondents (8.2%) have been with their bank for 15 to 20 years.

In addition, to establish whether the duration with which respondents have been with their retail bank differ between banks, a one-way ANOVA was conducted. However, the results

indicated that there are no statistically significant differences in this regard. As a result, the detailed results are not included, as it does not influence the remainder of the findings.

TABLE 3: Retail bank patronage habits of respondents

Variable	Frequency	Percentage
Retail bank		
Absa	98	21.2
Capitec Bank	70	15.1
FNB	97	21.0
Nedbank	75	16.2
Standard Bank	123	26.2
Duration with retail bank		
Less than 5 years	131	28.9
5 to 10 years	144	31.8
10 to 15 years	61	13.5
15 to 20 years	37	8.2
Longer than 20 years	80	17.7

5.3 Validity and reliability

All items were either adopted or adapted from existing scales measuring service quality (Coetzee *et al.* 2013:11), trust (Morgan & Hunt 1994), switching costs (Matzler *et al.* 2015:123), customer satisfaction (Bennet & Rundle-Thiele 2004), and loyalty (Kaura *et al.* 2015:412). These respective authors found the scales valid to measure these constructs in their respective studies, thus confirming face validity.

A confirmatory factor analysis was further performed to assess the validity and reliability of the variables. The standardised factor loadings (see Table 4) were all above the lower limit of 0.50 as suggested by Hair, Black, Babin and Anderson (2014:617). All items also loaded significantly onto their respective constructs ($p < 0.01$) and can therefore be deemed representative of the measures they were assigned to. The measurement model further

provided good fit statistics, and as such confirmed construct validity: $\chi^2/df = 2.858$, CFI = 0.921, IFI = 0.921, RMSEA = 0.063, RFI = 0.860.

Table 4 further provides a summary of the AVE values for each variable. All values are above the lower threshold of 0.50, thereby indicating convergent validity. Finally, all constructs appeared to be reliable, as both the construct reliability values and the Cronbach alpha values exceeded the lower limit of 0.70.

TABLE 4: Validity and reliability

Construct, item	Standardised factor loadings	AVE	Construct reliability	Cronbach alpha
Reliability		0.671	0.910	0.907
When I have a problem, the staff show a sincere interest to help me.	0.811			
The bank has my personal and banking information up to date and error free.	0.646			
The staff perform a service correctly the first time.	0.832			
The staff keep the promises they make.	0.896			
The staff perform the services they promise or claim to do.	0.886			
Responsiveness		0.699	0.903	0.901
The staff are never too busy to respond to my requests and queries.	0.826			
The staff are willing to help me.	0.848			
The staff give me prompt and quick service.	0.852			
The staff constantly keep me informed about the progress of my queries.	0.817			
Assurance		0.734	0.917	0.916
The staff have the knowledge and the know-how of bank processes and policies to deal with my queries and concerns.	0.858			
The staff are polite towards me.	0.799			
The behaviour and knowledge of the staff instil confidence in me.	0.873			

I feel safe and confident about the staff's ability to deal with my concerns.	0.894			
Empathy		0.596	0.897	0.893
The staff always have my best interests at heart.	0.858			
The staff give me personal attention.	0.826			
My bank's employees are neat appearing.	0.625			
The staff understand my personal banking needs.	0.824			
The staff treat me as an individual with individual needs.	0.828			
My bank has operating hours that are convenient to me.	0.633			
Tangibles		0.690	0.899	0.894
My bank's branch layout is clearly demarcated and easy to understand.	0.801			
My bank's branch is visually appealing and clean.	0.908			
The staff are neatly and professionally dressed.	0.828			
My bank's branch has modern equipment.	0.781			
Trust		0.633	0.911	0.909
My bank is trustworthy.	0.763			
I have confidence in my bank.	0.847			
My bank is concerned with the security of my transactions.	0.732			
My bank is consistent in providing quality services.	0.869			
My bank's promises are reliable.	0.856			
My bank's employees show respect to its customers.	0.688			
Switching costs		0.608	0.860	0.722
I like the image (brand) of my bank.	0.758			
Switching to another bank could cause hidden (unpredictable) costs.	0.846			
Switching to another bank will probably result in some unexpected hassle.	0.658			
The process of switching to another bank is connected to many formalities.	0.842			
Customer satisfaction		0.749	0.947	0.947
I am satisfied with the services I receive from my bank.	0.880			

I believe my bank treats me fairly.	0.825			
My bank's services meet my expectations.	0.867			
I am proud of my relationship with my bank.	0.873			
My experiences with my bank have always been good.	0.835			
I am completely happy with my bank.	0.886			
Loyalty		0.720	0.938	0.938
I say positive things about my bank to other people.	0.852			
I would recommend my bank to someone who seeks my advice.	0.934			
I encourage friends and/or relatives to do business with my bank.	0.913			
I consider my bank as my first choice when I need services concerning my finances.	0.866			
I intend to continue doing business with my bank in the next few years.	0.855			
I am willing to try new services that my bank provides.	0.638			

5.4 Descriptive results

Table 5 presents the mean scores and standard deviations (SD) for the five constructs and their underlying dimensions for each of the banks individually, as well as in total.

The overall mean scores for the five service quality dimensions range from 3.80 to 4.22 on a five-point scale, with tangibles realising the highest mean score (4.22), followed by reliability, assurance and empathy (3.93), and responsiveness scoring the lowest (3.80). It is evident that all five service quality dimensions realised fairly positive overall mean scores. In addition, the overall mean scores for trust (4.07), switching costs (3.89), customer satisfaction (3.94), and loyalty (3.96) were all relatively high, given it was measured on a five-point scale.

It is further evident that, in comparison with the other banks, Absa scored the lowest on all constructs and dimensions – however still well above the midpoint of the five-point scale. Capitec bank, on the other hand, scored the highest on most of the constructs and

dimensions, except for assurance, empathy, switching costs, and customer satisfaction, which scored slightly lower than FNB.

TABLE 5: Descriptive results

	Absa		Capitec		FNB		Nedbank		Standard bank		Overall	
Construct	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD
Service quality	3.68	0.828	4.16	0.731	4.12	0.596	3.89	0.727	3.96	0.711	3.97	0.732
Reliability	3.67	0.863	4.17	0.721	4.04	0.749	3.88	0.823	3.94	0.819	3.93	0.818
Responsiveness	3.50	0.981	4.08	0.890	3.96	0.702	3.76	0.919	3.76	0.912	3.80	0.900
Assurance	3.61	0.957	4.10	0.880	4.15	0.654	3.84	0.824	3.96	0.873	3.93	0.865
Empathy	3.63	0.900	4.15	0.777	4.17	0.639	3.82	0.758	3.89	0.787	3.93	0.802
Tangibles	3.99	0.842	4.32	0.766	4.29	0.660	4.19	0.737	4.30	0.673	4.22	0.742
Trust	3.80	0.884	4.24	0.726	4.20	0.725	4.13	0.708	4.01	0.773	4.07	0.784
Switching costs	3.74	0.829	3.89	0.843	3.96	0.823	3.94	0.629	3.89	0.852	3.89	0.804
Customer satisfaction	3.60	0.967	4.13	0.874	4.14	0.701	4.11	0.780	3.80	0.934	3.94	0.889
Loyalty	3.55	1.037	4.29	0.887	4.26	0.733	3.95	0.813	3.85	0.988	3.96	0.948

5.5 Testing the theoretical framework

Structural equation modelling (SEM) was used to test the interrelationships between the various constructs (thus testing H₁ to H₇), as well as to determine the importance of each of these constructs (Sarstedt & Mooi 2014:257). The theoretical framework (Figure 2) was therefore tested by means of SEM, with maximum likelihood estimates of the model parameters. The structural model is presented in Figure 3, followed by the standard regression weights (Table 6), correlations (Table 7), and SEM goodness of fit indices for the structural model (Table 8).

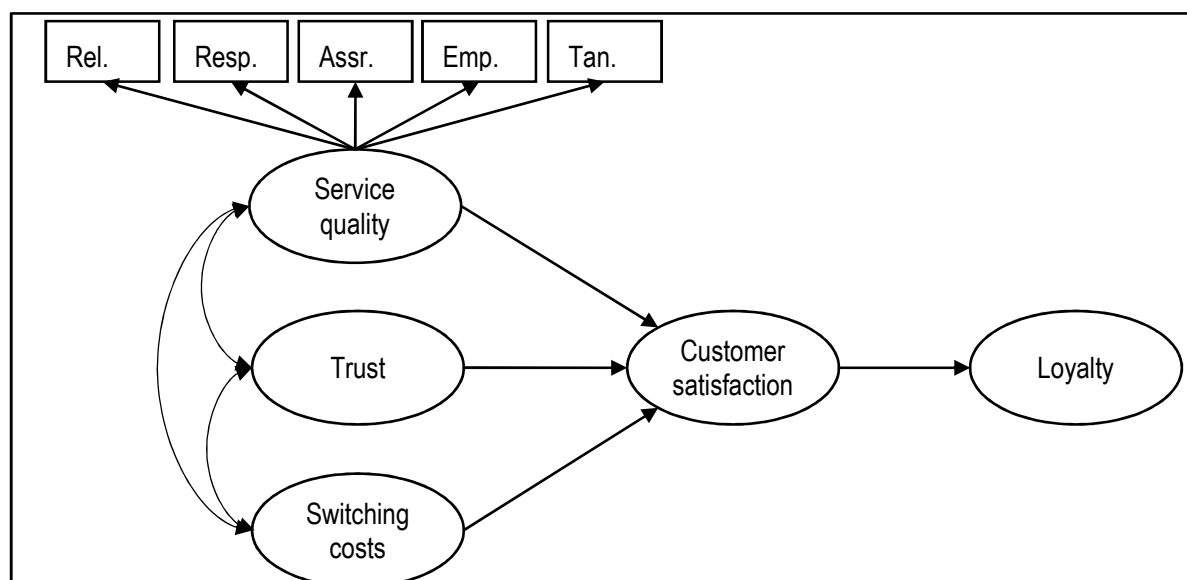


FIGURE 3: SEM model

Rel. = Reliability; Resp. = Responsiveness; Assr. = Assurance; Emp. = Empathy; Tan. = Tangibles

Source: Researchers' own construct

Table 6 presents the standardised regression weights (β -weight) as well as the p-values of the different paths. According to Suhr (2006:5), standardised regression weights with values less than 0.10 imply a small effect, values up to 0.30 imply a medium effect, and values larger than 0.50 imply a large effect.

TABLE 6: Standardised regression weights

Relationships	β -weight	p-value
Service quality → Customer satisfaction	0.20	0.00*
Trust → Customer satisfaction	0.80	0.00*
Switching costs → Customer satisfaction	0.06	0.05*
Customer satisfaction → Loyalty	0.69	0.00*

β -weight: standardised regression weight; * Statistical significance at the $p \leq 0.05$

Table 7 presents the correlations between the variables, as to provide an indication of the strength of the relationships between these variables.

TABLE 7: Correlations

Relationships	Correlations	p-value
Service quality ↔ Trust	0.37	0.00*
Service quality ↔ Switching costs	0.16	0.00*
Trust ↔ Switching costs	0.14	0.00*

* Statistical significance at the $p \leq 0.05$

To confirm model fit, several fit indices need to be reported. Some of the most commonly reported on fit indices include the Chi-square degrees of freedom (χ^2/df), the comparative fit index (CFI), and the root mean square error of approximation (RMSEA) (Hoe 2008:78; Hu & Bentler 1999:27; Wheaton, Muthen, Alwin & Summers 1977:99). As indicated in Table 8, a χ^2/df value of 3.66 was obtained, which falls within the suggested cut-off threshold (Wheaton *et al.* 1977:99). The CFI value of 0.93 is above the cut-off point (≥ 0.90), and the RMSEA 0.06 [0.05 – 0.07] indicates an acceptable overall fit for the model (Hoe 2008:78).

TABLE 8: Fit indices of the measurement model

Fit indices	Source for suggested cut-off point	Suggested cut-off point	Fit indices value
Chi square/ degrees of freedom (χ^2/df)	Wheaton <i>et al.</i> (1977:99)	≤ 5.00	$\chi^2/df = 3.66$
CFI	Hoe (2008:78), Hu & Bentler (1999:27)	≥ 0.90	0.93
RMSEA	Hoe (2008:78), McDonald & Ho (2002:72)	$< 0.05 =$ good fit $\leq 0.08 =$ acceptable fit $\leq 0.10 =$ average fit	0.06 [0.05 – 0.07]

Taking the above results from the SEM into consideration, the following can be concluded:

- There is a statistically significant ($p \leq 0.05$) positive correlation ($r = 0.37$) between service quality and trust. Thus, H_1 is supported.
- There is a statistically significant ($p \leq 0.05$) positive correlation ($r = 0.16$) between service quality and switching costs. Thus, H_2 is supported.
- There is a statistically significant ($p \leq 0.05$) positive correlation ($r = 0.14$) between trust and switching costs. Thus, H_3 is supported.
- Service quality has a medium (β -weight = 0.20) statistically significant ($p \leq 0.05$) influence on customer satisfaction. Therefore, H_4 is supported.
- Trust has a large (β -weight = 0.80) statistically significant ($p \leq 0.05$) influence on customer satisfaction. Therefore, H_5 is supported.
- Switching costs has a small (β -weight = 0.06) statistically significant ($p \leq 0.05$) influence on customer satisfaction. Therefore, H_6 is supported.
- Customer satisfaction has a large (β -weight = 0.69) statistically significant ($p \leq 0.05$) influence on loyalty. Therefore, H_7 is supported.

6. DISCUSSION AND RECOMMENDATIONS

As indicated in the literature review, Madjid (2013:49) notes that, in order to establish loyalty amongst customers, these customers need to be satisfied, which can be realised by establishing a trusting relationship between customer and provider (Hutchinson *et al.* 2011:194), providing consistent and high-quality services (Karimi *et al.* 2011:10), and discouraging customers from incurring the additional costs required to switch to another provider (Sanjeevan 2017:1). The main objective of this article was, therefore, to investigate service quality, trust, switching costs and customer satisfaction as possible predictors of loyalty in South African retail banks.

With regards to service quality, respondents rated the responsiveness of their retail banks the lowest of the five service quality dimensions. Responsiveness can therefore form a key

differentiator for South African retail banks, since the opportunity for improving this service quality dimension does exist in this industry. South African retail banks that wish to successfully differentiate themselves should, therefore, pay attention to the improvement of their responsiveness in assisting customers and providing speedy services, in an attempt to improve the overall quality of their services. Banks could further invest in staff training programmes, to ensure that their staff are conversant with the bank's policies and procedures, consequently enabling them to respond to customers' requests and queries in a timely manner.

The results further indicated that service quality and trust correlate strongly with each other. Therefore, to improve customers' trust in their retail bank, the bank could either focus on improving overall trust, or on improving the quality of its services. Even though the results indicated significant correlations between switching costs and trust, and switching costs and service quality, the strength of these relationships were rather weak.

Service quality and trust were also found to have a significant influence (medium and large effects respectively) on respondents' satisfaction with their retail bank, thus indicating that retail banks should increase the overall quality of their services and instil trust in their customers, as to ultimately improve their satisfaction. Switching costs, in turn, had a relatively small influence on respondents' satisfaction, indicating that it barely influences customers' satisfaction with their bank.

It further emerged that respondents' satisfaction has a significant influence on their loyalty towards their retail bank. To improve satisfaction, and subsequently loyalty, South African retail banks should aim to identify customers' needs, and strive to meet (or even exceed) these needs, and avoid exaggerated promises. Retail banks can further enhance satisfaction by encouraging customers to participate in value co-creation, in an attempt to identify better ways to satisfy their needs.

In light of the literature review and empirical results, this article proposes a framework (see Figure 3) which South African retail banks can integrate into their marketing plan and marketing strategy, with the view of reducing customer attrition, maintaining their customer base, and sustaining loyal customers. The proposed framework emphasises the attainment

of loyal customers, by improving customer satisfaction through the delivery of quality and trustworthy product and service offerings.

7. LIMITATIONS AND FUTURE RESEARCH SUGGESTIONS

Limited research has been conducted with regard to South African retail banks concerning switching costs of customers. Therefore, the researcher had to rely on information from international studies on banks and other industries. Furthermore, due to the POPI Act, retail banks were reluctant to provide their customer databases to serve as a sampling frame, and therefore the research had to rely on non-probability. Consequently, the results are only representative of those respondents who participated in research and not the entire target population. Future research could, therefore, attempt to collaborate with retail banks, in an attempt to conduct more representative research by means of probability sampling.

A comparative study can also be conducted amongst the different types of banks (i.e. private banks and commercial banks), in order to determine whether the same or a similar loyalty framework can be implemented. Finally, the framework developed in this article can be implemented in different studies in other emerging economies and in different service industries to test its reliability, relevance and applicability.

8. CONCLUSION

The purpose of this research was to examine the influence of South African retail bank customers' service quality perceptions, trust, and switching costs on their satisfaction, and ultimately whether their satisfaction influences their loyalty towards their bank. Subsequently, a sample of 464 South African retail bank customers was obtained, on which the data analysis was based. Data analysis included the testing of the theoretical framework, which included seven hypotheses. The results supported all seven hypotheses, therefore indicating that there is a correlation between respondents' service quality, trust and switching costs, and that these three constructs influence respondents' satisfaction with their retail bank. In addition, it was established that satisfaction influences respondents' loyalty toward their retail

bank. As a result, South African retail banks can implement the theoretical framework proposed in this paper, in order to sustain a loyal customer base.

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