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Faculty of Management
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Faculty of Management

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Project title

**The Impact of Customer Service Quality on the Level of
Customer Satisfaction and Loyalty in Service Organizations**

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Table of Contents

1. Chapter 1: Introduction	3
1.1. Research Background	4
1.2. Research Problem.....	7
.....	7
.1.2.1 Theoretical Gaps	8
1.2.2. Practical Gaps.....	8
1.3. Research Significance.....	9
1.3.1. At the theoretical level	10
1.3.2. At the practical level	10
1.4. Research Questions	11
1.5. Research Objectives	11
1.6. Research Hypotheses.....	12
1.7. Research Model	12
1.8. Research Methodology	13
1.9. Scope of The Study	14
1.10. The Suggested Project Structure.....	14
References.....	16

1. Chapter 1: Introduction

1.1. Research Background

In today's highly competitive and rapidly evolving business environment, organizations are increasingly focusing on improving the quality of services they provide in order to attract, satisfy, and retain customers. The growth of the service sector and the increasing expectations of customers have made service quality a fundamental factor for organizational success. Customers today are more informed and have a wide range of alternatives available, which means that organizations must continuously improve their services to remain competitive. Consequently, service quality has become a strategic priority for many service organizations seeking to build strong relationships with their customers and maintain a sustainable competitive advantage.

Service quality is generally defined as the organization's ability to deliver services that meet or exceed customer expectations. When customers receive services that are reliable, responsive, and delivered professionally, they tend to develop positive perceptions toward the organization. These perceptions significantly influence customers' evaluations of their service experience and determine whether they will continue interacting with the organization in the future. High-quality services not only enhance the overall customer experience but also contribute to improving organizational performance, reputation, and long-term sustainability.

Customer satisfaction is widely recognized as one of the most important outcomes of service quality. Customer satisfaction refers to the degree to which customers feel that their expectations and needs have been fulfilled by the services provided. When customers perceive that the services offered by an organization meet or exceed their expectations, they are more likely to feel satisfied with their experience. Previous studies have demonstrated that service quality plays a crucial role in shaping customer satisfaction and influencing customers' behavioral intentions toward a company (Shrestha, 2021). In other words, when organizations

provide high-quality services, customers are more likely to evaluate their experiences positively and develop favorable attitudes toward the organization. Moreover, customer satisfaction plays an important role in building trust and long-term relationships between customers and service providers. Satisfied customers tend to trust the organization and feel confident in its ability to consistently deliver high-quality services. This trust encourages customers to continue using the organization's services and strengthens the relationship between customers and the organization. Research indicates that satisfied customers are more likely to become loyal customers who repeatedly purchase services, recommend the organization to others, and maintain long-term relationships with the service provider (Akbar & Parvez, 2009). Therefore, customer satisfaction is considered a key driver of customer loyalty and long-term organizational success.

Customer loyalty has become one of the most valuable assets for service organizations because loyal customers contribute significantly to organizational growth and stability. Loyal customers tend to maintain long-term relationships with the company, make repeated purchases, and often act as advocates who promote the organization through positive word-of-mouth. In addition, retaining existing customers is generally more cost-effective than acquiring new customers, which further highlights the importance of customer loyalty for service organizations. For this reason, many organizations focus on improving service quality as a way to increase customer satisfaction and ultimately strengthen customer loyalty.

Several empirical studies have confirmed the strong relationship between service quality, customer satisfaction, and customer loyalty. For instance, research conducted by Supriyanto, Wiyono, and Burhanuddin (2021) demonstrated that improvements in service quality significantly increase customer satisfaction, which subsequently leads to higher levels of customer loyalty. Similarly, other studies have emphasized that service quality influences customer loyalty both directly and indirectly through the mediating role of customer satisfaction (Adelia & Purnama, 2025). These findings highlight the importance of understanding how service

quality contributes to creating positive customer experiences and strengthening long-term customer relationships.

Furthermore, recent studies emphasize that organizations that prioritize service quality are better able to improve customer satisfaction and build stronger relationships with their customers. For example, Kurniawan et al. (2025) found that high levels of service quality significantly enhance customer satisfaction and play a critical role in strengthening customer loyalty. Likewise, Yum and Yoo (2023) reported that service quality has a significant impact on customer loyalty through customer satisfaction, particularly in digital service environments such as mobile social media platforms. These findings suggest that improving service quality remains an essential strategy for organizations operating in both traditional and digital service contexts.

Despite the growing recognition of the importance of service quality, many service organizations still face challenges in consistently delivering services that meet customer expectations. Differences in service delivery, employee performance, and organizational processes may lead to variations in service quality that affect customer satisfaction and loyalty. Therefore, understanding the relationship between service quality, customer satisfaction, and customer loyalty is essential for organizations seeking to improve their service performance and maintain strong relationships with their customers.

Given the increasing importance of customer-centered strategies in modern service organizations, examining the impact of service quality on customer satisfaction and customer loyalty has become an important area of research. Understanding these relationships can help organizations develop more effective service strategies, improve the quality of customer experiences, and enhance their competitive position in the market. Therefore, this study aims to examine the impact of service quality on customer satisfaction and customer loyalty in service organizations, highlighting how improving service quality can enhance customer experiences and strengthen long-term organizational success.

1.2. Research Problem

In the modern service economy, organizations face increasing competition and rapidly changing customer expectations. Customers today expect high-quality services, quick responses, and professional interactions when dealing with service providers. However, many service organizations still struggle to consistently deliver services that meet or exceed customer expectations. When service quality is poor or inconsistent, customers may experience dissatisfaction, which can negatively affect their trust in the organization and reduce their willingness to continue using its services.

One of the major challenges faced by service organizations is maintaining high levels of customer satisfaction and loyalty. Customer satisfaction is strongly influenced by the quality of service provided, and dissatisfaction often occurs when there is a gap between customer expectations and the actual service experience. Studies have shown that service quality is one of the most important factors affecting customer satisfaction and long-term customer relationships (Shrestha, 2021). When customers perceive the service quality as inadequate, they are more likely to switch to competing organizations that offer better service experiences.

Moreover, the lack of attention to service quality may weaken customer loyalty and reduce the organization's competitive advantage. Research indicates that organizations that fail to provide high-quality services may struggle to retain their customers and maintain long-term business success (Supriyanto, Wiyono, & Burhanuddin, 2021). In contrast, organizations that focus on improving service quality can increase customer satisfaction and encourage customers to remain loyal to their services (Kurniawan et al., 2025).

Despite the growing importance of service quality in service organizations, there is still a need to better understand how service quality influences customer satisfaction and how this satisfaction contributes to building customer loyalty. Therefore, this study seeks to investigate the impact of service quality on customer satisfaction and customer loyalty in

service organizations, aiming to provide insights that may help organizations improve their service performance and strengthen their relationships with customers.

1.2.1. Theoretical Gaps

Although many previous studies have examined the relationship between service quality, customer satisfaction, and customer loyalty, several theoretical gaps still exist in the literature. First, many studies focus on the direct relationship between service quality and customer loyalty without sufficiently examining the mediating role of customer satisfaction. Some researchers argue that customer satisfaction acts as a key mechanism that links service quality to customer loyalty, yet this relationship still requires further investigation in different service contexts (Adelia & Purnama, 2025).

Second, previous research has often concentrated on specific industries such as banking, healthcare, or digital services, which limits the generalizability of findings across different types of service organizations. For example, studies such as Supriyanto, Wiyono, and Burhanuddin (2021) investigated service quality within the banking sector, while Yum and Yoo (2023) focused on mobile social media platforms. Therefore, there is a need for further research that examines these relationships in broader service environments to provide a more comprehensive theoretical understanding.

Furthermore, although several studies confirm that service quality significantly influences customer satisfaction and loyalty, the mechanisms through which service quality contributes to long-term customer relationships remain an area that requires additional empirical examination (Kurniawan et al., 2025). Addressing these theoretical gaps can contribute to strengthening the conceptual framework linking service quality, customer satisfaction, and customer loyalty.

1.2.2. Practical Gaps

From a practical perspective, many service organizations still face difficulties in effectively implementing strategies that improve service quality and enhance customer satisfaction.

Despite the availability of theoretical models and service quality frameworks, organizations often struggle to translate these concepts into practical actions that improve the customer experience.

In many cases, organizations may focus on operational efficiency or cost reduction while overlooking the importance of delivering high-quality services that meet customer expectations. As a result, customers may experience dissatisfaction, which negatively affects their loyalty and willingness to continue using the organization's services. Studies indicate that improving service quality can significantly enhance customer satisfaction and encourage long-term loyalty among customers (Shrestha, 2021).

Additionally, managers and decision-makers may lack clear empirical evidence that demonstrates how service quality improvements lead to increased customer satisfaction and loyalty in different service contexts. Therefore, there is a practical need for research that provides insights into how organizations can improve service quality to strengthen customer satisfaction and loyalty, ultimately contributing to better organizational performance (Akbar & Parvez, 2009).

Main Research Question

Based on the identified theoretical and practical gaps, the main research question guiding this study is:

What is the impact of service quality on customer satisfaction and customer loyalty in service organizations?

1.3. Research Significance

This research is important because it contributes to a better understanding of the relationship between service quality, customer satisfaction, and customer loyalty in service organizations. By examining these relationships, the study provides both theoretical and

practical contributions that may help researchers and practitioners better understand how service quality influences customer behavior.

1.3.1. At the theoretical level

At the theoretical level, this study contributes to the existing literature on service quality and customer relationship management by providing further empirical evidence on the relationship between service quality, customer satisfaction, and customer loyalty. The study also helps clarify the role of customer satisfaction as a key factor that links service quality to customer loyalty. Previous studies have highlighted the importance of these relationships, but further research is needed to strengthen the theoretical framework and expand understanding in different service contexts (Yum & Yoo, 2023).

Additionally, this research may support the development of future academic studies by providing a conceptual foundation for examining how service quality influences customer behavior and organizational success.

1.3.2. At the practical level

At the practical level, this study provides useful insights for managers and decision-makers in service organizations who aim to improve customer satisfaction and strengthen customer loyalty. By understanding how service quality influences customer perceptions and behavior, organizations can develop strategies to improve service delivery and enhance the overall customer experience.

Moreover, the findings of this study may help organizations identify key aspects of service quality that contribute most significantly to customer satisfaction and loyalty. This can support managers in designing more effective service strategies that enhance customer relationships and improve organizational competitiveness (Kurniawan et al., 2025).

1.4. Research Questions

Based on the research problem and the theoretical background, this study seeks to answer the following research questions:

1. What is the impact of service quality on customer satisfaction in service organizations?
2. What is the impact of service quality on customer loyalty in service organizations?
3. What is the relationship between customer satisfaction and customer loyalty?
4. Does customer satisfaction mediate the relationship between service quality and customer loyalty in service organizations?

1.5. Research Objectives

The main objective of this study is to examine the impact of service quality on customer satisfaction and customer loyalty in service organizations.

The specific objectives of this study are as follows:

1. To examine the impact of service quality on customer satisfaction.
2. To analyze the impact of service quality on customer loyalty.
3. To investigate the relationship between customer satisfaction and customer loyalty.
4. To examine the mediating role of customer satisfaction in the relationship between service quality and customer loyalty.

1.6. Research Hypotheses

Based on the literature and theoretical framework, the following hypotheses are proposed:

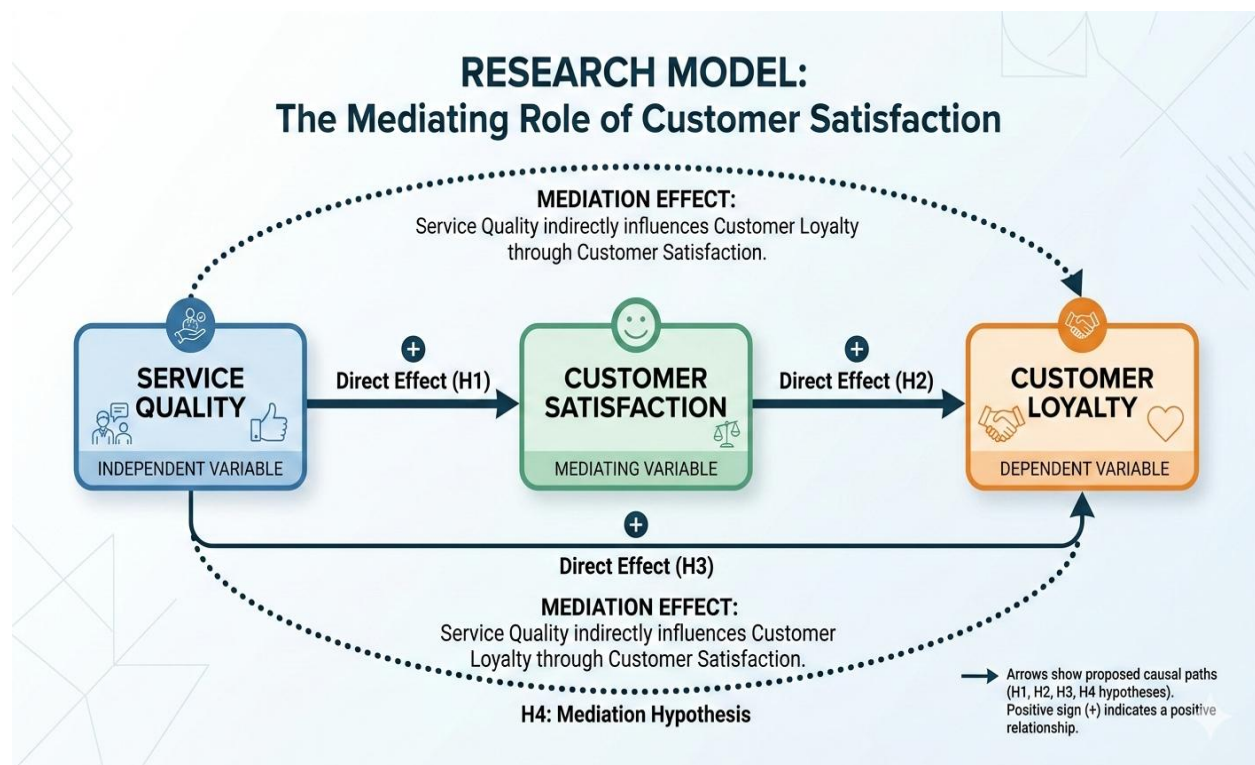
H1: Service quality has a significant positive effect on customer satisfaction.

H2: Service quality has a significant positive effect on customer loyalty.

H3: Customer satisfaction has a significant positive effect on customer loyalty.

H4: Customer satisfaction mediates the relationship between service quality and customer loyalty.

1.7. Research Model



1.8. Research Methodology

This study will adopt a quantitative research approach to examine the impact of service quality on customer satisfaction and customer loyalty in service organizations. A quantitative approach will be used because it allows the researcher to analyze the relationships between variables and test the proposed hypotheses using statistical methods.

The data for this research will be collected using a structured questionnaire designed to measure the key variables of the study, including service quality, customer satisfaction, and customer loyalty. The questionnaire will consist of several items developed based on previous studies in the field of service quality and customer relationship management. Respondents will be asked to express their opinions using a five-point Likert scale ranging from strongly disagree to strongly agree.

The target population of this study will include customers of service organizations who have experience using the services provided by these organizations. A convenience sampling technique will be used to select participants due to its practicality and accessibility in collecting data from respondents. The collected data will be analyzed using appropriate statistical analysis techniques in order to examine the relationships between the study variables and test the research hypotheses.

Furthermore, the study will aim to ensure the reliability and validity of the research instrument by reviewing previous literature and adapting measurement items that have been widely used in earlier studies related to service quality, customer satisfaction, and customer loyalty (Shrestha, 2021; Supriyanto, Wiyono, & Burhanuddin, 2021). The results of the analysis will help determine the strength and direction of the relationships between the study variables.

1.9. Scope of The Study

The scope of this study will focus on examining the relationship between service quality, customer satisfaction, and customer loyalty within service organizations. The study will specifically investigate how service quality influences customer satisfaction and how both variables contribute to customer loyalty.

The research will be limited to customers who have experience interacting with service organizations, as they will be able to evaluate the quality of services they receive. Additionally, the study will focus on three main variables: service quality as the independent variable, customer satisfaction as the mediating variable, and customer loyalty as the dependent variable.

The findings of this study may provide insights into how service organizations can **improve** service quality to enhance customer satisfaction and strengthen customer loyalty. However, the results **may be limited** by the sample size, sampling method, and the specific context of the service organizations that will be studied

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1.10. The Suggested Project Structure

This research will be organized into several chapters in order to present the study in a clear and systematic manner. The structure of the research will be as follows:

Chapter One: Introduction

This chapter will present the background of the study, research problem, research questions, research objectives, research significance, research hypotheses, and the research model.

Chapter Two: Literature Review

This chapter will review the relevant literature related to service quality, customer satisfaction, and customer loyalty. It will also discuss previous studies and will develop the theoretical framework for the study.

Chapter Three: Research Methodology

This chapter will explain the research design, population and sample, data collection methods, research instruments, and statistical techniques that will be used to analyze the data.

Chapter Four: Data Analysis and Results

This chapter will present the analysis of the collected data and the results of hypothesis testing.

Chapter Five: Discussion and Conclusion

This chapter will discuss the research findings, will present conclusions, and will provide recommendations for future research and practical applications in service organizations.

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