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ENHANCING CUSTOMERS' LOYALTY THROUGH SERVICE QUALITY

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Abstract

This study explores how the delivery of desirable services influences the overall performance of a service company in Kediri, particularly focusing on customer satisfaction, loyalty, and business outcomes. In the modern service industry, companies are expected to deliver fast, responsive, and personalized services to retain customers and remain competitive. A service company, a service-oriented enterprise, has been experiencing challenges in meeting these rising expectations. The writer used a descriptive qualitative approach using a case study approach consisting of observation, questionnaires, and interviews with customers, employees, and the business owner. This research investigates service delivery issues and their impact on customer experience and business performance. The findings reveal that the main problems are slow service response, lack of employee training, and low empathy in customer interactions. To address these issues, the company manages a feedback system, improves standard operating procedures (SOPs), holds regular service training, and implements better staffing strategies. These improvements yield 30% customers increase, 72% customers are satisfied, 18% neutral and 10% dissatisfied.

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Keywords: service quality, customer satisfaction, employee performance, company performance, customer loyalty

Introduction

Service quality plays a critical and strategic role in shaping a company's overall performance, particularly in today's increasingly competitive and customer-driven marketplace. In service-based industries, the quality of service delivery is not only a key differentiator but also a core factor influencing customer satisfaction, loyalty, and long-term business success. Modern consumers are no longer satisfied with merely functional transactions; they expect experiences that are efficient, empathetic, consistent, and personalized to their individual needs. As such, the ability to deliver desirable services that exceed customer expectations and create meaningful interactions has become essential for organizations aiming to thrive in a saturated market.

A service company, a service-oriented business located in Kediri, has recently faced growing concerns related to declining service quality. Despite its affordable pricing and strategic location, the company has experienced a noticeable increase in customer complaints and dissatisfaction. Common issues raised by customers include slow response times, inattentive staff, and inconsistencies in the information provided during service interactions. These challenges suggest a disconnect between customer expectations and the actual service experience. Internally, the situation is further complicated by operational problems. Employees have reported feeling overburdened, citing a lack of structured training, unclear service guidelines, and minimal managerial support all of which contribute to inconsistent and often subpar service delivery.

The primary aim of this research is to examine the impact of service quality on customer satisfaction and overall business performance at a service company. Through a detailed analysis of service-related issues, the study seeks to identify the root causes of performance gaps and propose realistic, evidence-based solutions. The research is grounded in established theoretical models, including the SERVQUAL model, which assesses service quality across five dimensions; the Service-Profit Chain, which links internal service quality to customer loyalty and profitability; and customer satisfaction theory, which explains how perceptions of service influence behavior. By integrating these frameworks with field data gathered through questionnaires, interviews, and observations, the study aims to deliver actionable recommendations that service company can implement to improve its service standards, enhance customer experiences, and reinforce its competitive position in the industry.

High service quality has been shown to have a direct and positive impact on customer satisfaction. Satisfied customers are more likely to return, engage in repeat transactions, and recommend the service to others thereby generating positive word-of-mouth and strengthening brand reputation (Zeithaml et al., 2018). Over time, this leads to increased customer loyalty, reduced churn rates, and improved financial performance for the business.

In addition to the SERVQUAL framework, the Service-Profit Chain model developed by Heskett et al. (1994) further underscores the strategic link between service quality and business outcomes. This model emphasizes that internal service quality including elements such as employee training, supportive work environments, and effective leadership directly influences employee satisfaction and productivity. When employees feel valued, well-equipped, and motivated, they are more likely to deliver high-quality service. This, in turn, enhances external service quality, leading to increased customer satisfaction, loyalty, and ultimately, profitability. The Service-Profit Chain thus highlights that improving customer-facing outcomes begins with investing in internal operations and human resource development.

In summary, the relationship between service quality and business performance is both cyclical and interdependent. Companies that prioritize service excellence by meeting customer expectations, empowering employees, and continuously refining their internal processes are more likely to build a loyal customer base, sustain competitive advantage, and achieve long-term success in the market.

Customer satisfaction refers to the cognitive and emotional evaluation that customers make following a service interaction. It reflects the degree to which a service meets or exceeds their expectations and plays a crucial role in shaping future customer behavior. According to Oliver's (1980) Expectation-Confirmation Theory, satisfaction occurs when a customer's perceived experience aligns with or surpasses their initial

expectations. If the service performs better than expected, positive disconfirmation occurs, leading to satisfaction; if it falls short, negative disconfirmation results in dissatisfaction. This psychological process is vital for businesses to understand because customer satisfaction serves as a direct predictor of customer loyalty. Satisfied customers are not only more likely to return but are also more inclined to recommend the service to others, thereby acting as informal brand ambassadors. Positive word-of-mouth, in turn, enhances the company's reputation and expands its customer base at a relatively low cost.

Sustained satisfaction over time fosters customer loyalty, which is essential for long-term business growth and stability. Loyal customers tend to continue using a company's services even when faced with minor inconveniences or occasional service failures, demonstrating a level of trust and emotional commitment. Additionally, they are typically less sensitive to price fluctuations and more tolerant of competitive offers, making them a valuable and cost-effective market segment to retain.

This research aims to investigate service delivery issues and their impact on customer experience and business performance. Service quality refers to the extent to which a service meets or exceeds customer expectations. It is a critical determinant of customer satisfaction, loyalty, and overall organizational success, particularly in service-based industries where intangible factors heavily influence customer perceptions. Parasuraman, Zeithaml, and Berry (1988) introduced the widely adopted SERVQUAL model, which conceptualizes service quality across five key dimensions: tangibles (physical facilities and appearance), reliability (consistency and accuracy of service), responsiveness (willingness to help and respond promptly), assurance (knowledge and courtesy of employees), and empathy (individualized attention and care). These dimensions provide a structured framework for assessing service performance from the customer's perspective and identifying areas for improvement.

Research Method

The method utilised in this study is a descriptive qualitative study using a case study approach. This study described how a service company established in 2003 in Kediri maintained its business by enhancing customer loyalty through service quality. When customers are satisfied, they will do repeat order and later they will be loyal customers, and the company will be able to keep their business.

The writers did the study in October 2024 - March 2025 by conducting participative observation, spreading questionnaires to customers and employees (front-line department, supervisor, manager), interviews with the owner, and document review. The writers analyzed it by doing data reduction from observation, then reduced it until got better data. The validity achieved through triangulation. After that, the writer compared the data from the document, observation, and interview, to get the accuracy.

This process involved transcribing the interview responses, thoroughly reviewing the content, and identifying recurring patterns, keywords, and themes. The data then categorized into main themes such as "customer expectations," "slow service response," and "lack of training." These themes gave deeper insight into the underlying causes of service quality issues and provided context to support and explain the findings. This approach gave a more accurate assessment of how service quality impacts customer satisfaction and organizational performance at this service company.

Results and Discussions

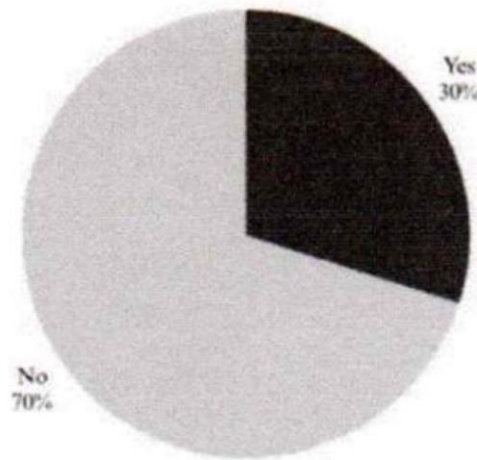


Figure 1. Customer satisfaction on the Service of the Company

The questionnaires spread to customers revealed that the majority of customers, 70% were not satisfied with the service provided by the company, while only 30% expressed satisfaction. It is a crucial condition that needs to be solved if the company wants to sustain the business. Thus the writer conducted deeper research and found several key service-related issues as follows:

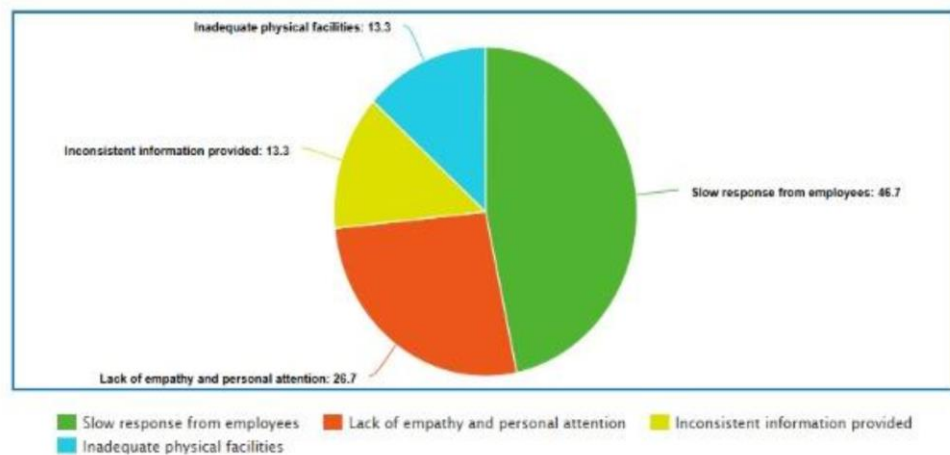


Figure 2. Service-related Issues

The data shows that the majority of customers are dissatisfied with the slow response time from employees, which directly affects their perception of service quality. The primary factors contributing to the problem include understaffing and inadequate employee training, both of which result in noticeable delays in addressing customer needs. These delays often manifest as extended waiting times, limited employee availability, and slower service resolution which collectively diminish the overall customer experience.

According to the SERVQUAL model, this issue aligns with the responsiveness dimension, which measures a company's ability and willingness to provide prompt assistance and respond to customer inquiries. Responsiveness plays a significant role in shaping perceived service quality. It reflects how well a business values its customers' time

and expectations. A lack of responsiveness, thus, suggests operational inefficiencies and weak service planning, which will lead to customer frustration and reduce the company's reliability.

The result shows that 26.7% of customers reported a lack of empathy and personalized service. This concern relates to the empathy dimension of the SERVQUAL model, which emphasizes the importance of providing individualized attention, understanding customer needs, and showing genuine care. Empathy in service delivery goes beyond basic politeness. Empathy involves attentive listening, thoughtful responses, and a sincere effort to connect with customers. These elements influence how customers perceive the human aspect of their experience.

The findings also revealed inconsistencies in information and inadequate physical facilities, suggesting a gap between service standards and customer expectations. These combined issues can have a significant impact on customer satisfaction and loyalty if unaddressed.

Meanwhile, during the interviews, the owner acknowledged a gap between the level of service that customers expect and the quality of service currently being delivered by the service company. He recognized that this mismatch contributed to customer dissatisfaction and admitted limitations within the company's service management system. A primary factor was the limited budget for critical areas such as staff recruitment and employee training.

The owner also noted that the Company lacks a formal system for collecting regular customer feedback. Without structured tools such as postservice surveys, feedback forms, or digital review platforms, the company misses out on valuable insights into customer experiences, satisfaction trends, and recurring service issues.

The lack of investment in staff development, customer feedback systems, and service monitoring tools severely limits the company's ability to identify problems early, respond effectively, and drive continuous improvement. These gaps highlight the urgent need for more strategic resource allocation and the implementation of practical service management systems that promote accountability, responsiveness, and a stronger focus on customer satisfaction.

Furthermore, the employees expressed a genuine desire to improve their service delivery and contribute to a more positive customer experience. However, many also feel uncertainty and frustration from the lack of clear guidance, structured support, and consistent managerial involvement in service development. One employee remarked, "We want to do better, but we haven't been shown how," capturing a common concern among staff about the absence of direction and resources necessary to enhance their performance.

These findings indicate that employees are not resistant to change; they are, in fact, eager to grow and improve. What they need is a clearer path and stronger engagement from leadership.

The owner realizes that the condition needs to be addressed as quickly as possible to be survive in the industry. He addressed it by first, updating the Standard Operating Procedure (SOP). He acknowledged that the SOP has not been regularly reviewed. As a result, the existing guidelines may no longer align with current customer expectations and evolving service standards. An outdated SOP can create inconsistencies in service delivery,

as employees may continue to follow routines that are ineffective or no longer relevant, ultimately impacting the customer experience.

Next, the owner collects customer feedback regularly. Without customer feedback, the company misses out on valuable insights into customer experiences, satisfaction trends, and recurring service issues. And then, the company monitors the service performance of employees. Without employee evaluations, it becomes difficult to track progress and assess the impact of any improvements. The last is the company holds routine customer service training. Without ongoing instruction or refresher sessions, staff are left to rely primarily on personal experience and intuition. The lack of formal development contributes to uneven performance and missed opportunities for improving service quality.

Those improvements done by the company resulted in a 30% increase in customers. Moreover, recently 72% customers are satisfied with the company's service, while 18% is neutral and 10% is dissatisfied.

Conclusion and Recommendation

This research concludes that service quality is a critical determinant of overall business performance at a service company. The study demonstrates that key service dimensions such as responsiveness, empathy, and employee competency are directly linked to customer satisfaction, loyalty, and retention. When these service elements are executed effectively, they not only enhance the customer experience but also contribute to a strong brand reputation and sustainable competitive advantage.

The study identified several core service issues, including: 1) Slow Response Times: Customers frequently experienced delays, which diminished their overall satisfaction with the service. 2) Lack of Employee Training: Insufficient training contributed to inconsistent service delivery and reduced the ability of staff to handle customer queries efficiently. 3) Impersonal Service Interactions: Many customers felt that interactions were mechanistic and lacked personalized attention, which reduced trust and loyalty.

These problems are primarily attributed to internal factors such as outdated and vague Standard Operating Procedures (SOPs) that no longer align with the expectations of today's consumer. The absence of a systematic customer feedback mechanism to monitor and improve service performance. Limited support for employees, resulting in high workloads and inadequate ongoing training.

Addressing these gaps is essential for improving customer satisfaction, strengthening brand reputation, and achieving better business outcomes.

Based on the research findings, the following solutions are proposed as recommendations to drive improvements in service quality at a service company. First, Implement Regular Employee Training Action: Conduct monthly workshops focused on key areas including communication skills, service recovery techniques, and effective problem-solving. Expected Outcome: Enhancing staff confidence and competence will lead to more consistent, empathetic, and speedy customer service.

Second, revise SOPs and Service Guidelines Action: Update the existing standard operating procedures to incorporate clear, practical instructions for customer interaction and service recovery. Include step-by-step procedures for handling complaints and ensuring consistency in service delivery. Expected Outcome: A revised set of guidelines

will streamline operations and ensure employees have a clear framework to follow, thereby reducing variability in service delivery.

Third, adopt a Customer Feedback System. Action: Develop digital and manual platforms (such as online forms, kiosks, or suggestion boxes) that allow customers to provide real-time feedback. Regularly analyze this data to identify trends and pinpoint service improvement opportunities. Expected Outcome: Continuous feedback will allow the company to monitor customer perceptions closely and respond promptly to emerging issues, building a customer-centric culture.

Fourth, reallocate Staffing During Peak Hours. Action: Analyze customer traffic patterns and strategically increase staffing levels or adjust work schedules during busy periods. Expected Outcome: This initiative will help reduce wait times, manage workload more efficiently, and maintain high service quality during peak hours.

Fifth, apply the Kaizen Principle Action: Establish a system where all employees are encouraged to suggest small, incremental improvements in daily operations. This can be facilitated through team meetings or dedicated suggestion channels. Expected Outcome: Embedding a culture of continuous improvement will drive innovation in service processes and foster a proactive attitude among staff.

Sixth, recognize and Reward Service Excellence Action: Introduce recognition programs such as performance bonuses, monthly awards, or public acknowledgment for employees who consistently demonstrate superior service. Expected Outcome: Rewarding positive behavior and service excellence will boost employee morale and reinforce the desired service behaviors across the organization.

By effectively implementing these recommendations, a service company will be better positioned to meet and exceed customer expectations. Improved service quality will not only enhance immediate customer satisfaction but also build long-term loyalty, thereby strengthening the company's competitive edge and driving sustainable business growth.

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