

# THE PATH TO LOYALTY: A CONCEPTUAL MODEL OF SERVICE QUALITY, BRAND IMAGE, AND THE MEDIATING ROLE OF SATISFACTION

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**Abstract** – *This study aims to develop a conceptual model that examines the influence of service quality and brand image on customer loyalty, with customer satisfaction as a mediating variable, in the context of ULaMM at PT Permodalan Nasional Madani, Bogor Branch. This article presents a conceptual model framework that explains the relationships between these variables. Also discussed are the implications and directions for future research.*

**Keywords:** *brand image, customer loyalty, customer satisfaction, service quality*

## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a pivotal role in Indonesia's economic development. According to the Ministry of Cooperatives and SMEs, Indonesia hosts approximately 64.2 million MSMEs, contributing around 61.07% to the national GDP and employing 96.9% of the workforce (Junaedi, 2023). Despite their significance, MSMEs continue to face persistent challenges in accessing financing, forming strategic partnerships, and engaging in digital transformation (BRIN & Kemenkeu-RI, 2022).

To support this sector, the Indonesian government established PT Permodalan Nasional Madani (PNM) with a mission to empower MSMEs through financial services and business development assistance. Since the launch of its micro-loan product “Unit Layanan Modal Mikro (ULaMM)” in 2008, PNM has expanded to over 600 branches, reaching millions of customers nationwide. In 2021, PNM became a subsidiary of Bank Rakyat Indonesia (BRI), further strengthening its role in Indonesia’s ultra-micro financing ecosystem (Mendonca, 2024).

However, sustaining customer loyalty remains a key challenge. Data from PNM shows that several branches, including PNM Bogor, report a high percentage of drop-out (DO) customers who fail to renew or top-up their loans, with Bogor recording a DO rate of 64%, among the highest nationally. Additionally, fluctuating financing realization rates between 2021–2023—despite ambitious targets—signal potential disengagement among clients (PNM, 2023). These indicators suggest a pressing issue regarding customer loyalty, which could affect the long-term sustainability of ULaMM products.

In the financial services sector, loyalty is not only a key performance indicator but also a strategic imperative. Loyal customers tend to exhibit consistent purchasing behavior, greater tolerance toward service shortcomings, and a higher likelihood of engaging in positive word-of-mouth (Kotler & Keller, 2016). Existing literature highlights several factors influencing customer loyalty, including service quality, brand image, and customer satisfaction. According to Parasuraman et al., service quality is defined as the gap between customer expectations and actual service delivery (Tjiptono, 2018), while brand image refers to customer perceptions shaped by their experiences with a brand (Kotler & Keller,

in Putri & Yasa, 2023). Satisfaction, in turn, is a direct consequence of perceived value and service performance, which leads to long-term loyalty (Wahyoedi, 2022).

Previous empirical studies provide mixed results on the relationship between these variables. While numerous studies support a significant and positive relationship among service quality, brand image, satisfaction, and loyalty (Sandjaya et al., 2020; Aini, 2022; Windiari & Djumarno, 2021), others report insignificant effects, indicating a research gap (Supriyanto & Dahlan, 2024; Henda, 2021). Particularly, the mediating role of customer satisfaction remains inconclusive in several contexts, emphasizing the need for further investigation.

Given the importance of enhancing customer loyalty in the context of ultra-micro financing, especially at PNM Bogor, this study aims to examine the influence of service quality and brand image on customer loyalty, mediated by customer satisfaction. This paper is expected to contribute theoretically by validating loyalty-related constructs in the financial services context and practically by offering insights for improving customer retention strategies at PNM.

## **II. LITERATURE REVIEW**

### **2.1 Theoretical Foundations**

Customer loyalty has long been a central theme in marketing and consumer behavior studies. Two behavioral theories that underpin this paper are the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB). TRA, proposed by Ajzen and Fishbein (1975), suggests that an individual's intention to perform a behavior is influenced by their attitude and subjective norms. It posits that individuals act rationally after evaluating the outcomes of their actions (Montano & Kasprzyk, 2015). In the context of financial services, customer intention to stay loyal is influenced by their evaluation of service quality and brand perception.

TPB, a refinement of TRA (Ajzen, 1991), adds Perceived Behavioral Control (PBC) as a predictor of intention. It recognizes that behavior is not only a function of attitude and norms but also perceived ease or difficulty of performing the behavior. In this paper, PBC is reflected in the extent to which customers feel in control of their relationship with a financial institution—shaped by service experiences and perceived brand value.

### **2.2 Customer Loyalty**

Customer loyalty is defined as a deep commitment to repurchase a preferred product or service consistently in the future (Kotler & Keller, 2016). It reflects a combination of favorable attitudes, resistance to competitive offerings, and willingness to recommend the brand. Key dimensions of loyalty include repeat purchases, retention, and referrals (Widyaningrum, 2020). Loyalty is not merely transactional but emotional and attitudinal, rooted in trust and consistent satisfaction.

Loyalty is influenced by multiple factors including customer satisfaction, service quality, brand image, trust, perceived value, customer relationships, switching costs, and reliability (Hasan, 2016). Among these, satisfaction, service quality, and brand image have shown the most direct and significant influence across various service sectors.

### **2.3 Service Quality**

Service quality refers to the gap between customer expectations and actual service performance (Parasuraman et al., in Tjiptono, 2018). It has been operationalized through five core dimensions—reliability, responsiveness, assurance, empathy, and tangibles—collectively known as the SERVQUAL model. These dimensions capture not only functional service delivery but also emotional and relational aspects, such as trust and personalized attention.

Service quality can be evaluated from multiple perspectives: transcendental, product-based, user-

based, manufacturing-based, and value-based (Garvin in Tjiptono, 2018). The Gap Model developed

by Parasuraman et al. also identifies key discrepancies between management perception and customer experience, helping organizations diagnose failures in service delivery.

## **2.4 Brand Image**

Brand image represents customer perceptions and associations with a brand formed through experience, communication, and expectations (Kotler & Keller, 2016; Chalil et al., 2020). A strong brand image enhances trust, encourages repeated purchases, and differentiates a company from competitors. Favorable brand associations, such as uniqueness, strength, and credibility, drive loyalty in competitive markets.

Key indicators of brand image include favorability, strength, and uniqueness (Handayani et al., 2022). Moreover, factors such as quality, trust, perceived usefulness, service reliability, and price perception contribute to the formation of a brand image (Schiffman & Kanuk in Alma & Priansa, 2021). A compelling brand image strengthens the emotional bond between customers and the company, encouraging long-term engagement.

## **2.5 Customer Satisfaction**

Customer satisfaction is defined as a post-purchase evaluative judgment resulting from a comparison between expectations and actual performance (Kotler & Keller, 2016). It is both emotional and cognitive, impacting future behavior such as repeat purchasing and brand loyalty (Daryanto & Setyobudi, 2019; Irawan, 2021).

Satisfaction is shaped by multiple factors including service quality, product quality, price perception, emotional experience, and situational/personal factors (Zeithaml & Bitner in Tjiptono, 2018; Lupiyoadi, 2016). Its indicators include customer retention, repeat purchase, positive word-of-mouth, willingness to pay more, and constructive feedback (Priansa, 2018).

## **2.6 Research Propositions**

In developing a theoretical framework for this study, customer loyalty is positioned as a key outcome variable reflecting business sustainability, particularly in the context of financial services. Drawing from the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB), this conceptual model posits that customers' behavioral intentions are shaped by attitudes formed through their perceptions of service quality and brand image. These perceptions influence satisfaction levels, which in turn affect loyalty.

### **Service Quality and Customer Satisfaction**

Service quality is widely recognized as a core determinant of customer satisfaction. Defined as the gap between customer expectations and perceived service performance (Lupiyoadi, 2016), it reflects dimensions such as reliability, responsiveness, and empathy. When service experiences align with or surpass expectations, satisfaction is likely to increase (Kotler & Armstrong in Bernik, 2019). Previous studies (e.g., Sandjaya et al., 2020; Nisa et al., 2024; Windiari & Djumarno, 2021) have consistently found a positive relationship between service quality and customer satisfaction.

Proposition 1 (P1): Service quality positively influences customer satisfaction.

### **Brand Image and Customer Satisfaction**

Brand image represents the mental associations and perceptions that customers hold about a brand, shaped through their cumulative experiences (Kotler & Keller in Putri & Yasa, 2023). A favorable brand image contributes to a sense of trust and alignment with customer values, thereby enhancing satisfaction. Empirical evidence from Aini (2022), Sandjaya et al. (2020), and others support this positive linkage.

Proposition 2 (P2): Brand image positively influences customer satisfaction.

### **Customer Satisfaction and Customer Loyalty**

Customer satisfaction, regarded as a post-consumption evaluative response (Wahyoedi, 2019), is a critical predictor of loyalty outcomes such as repeat purchase, retention, and positive word-of-mouth

(Lovelock in Rahayu, 2021). Numerous studies (e.g., Aini, 2022; Rashid et al., 2021; Hou & Lisa, 2023) affirm that satisfied customers are more likely to remain loyal and promote the service.

Proposition 3 (P3): Customer satisfaction positively influences customer loyalty.

### **Service Quality and Customer Loyalty**

Beyond its impact on satisfaction, service quality also directly fosters loyalty. High-quality service, characterized by consistency and responsiveness, strengthens emotional bonds and customer retention (Kotler & Keller, 2016). Empirical findings (e.g., Muzarkosah & Syarifah, 2022; Wayudi, 2019) validate this direct relationship.

Proposition 4 (P4): Service quality positively influences customer loyalty.

### **Brand Image and Customer Loyalty**

Brand image serves not only as a differentiating factor but also as a driver of long-term commitment. A strong and credible brand image enhances customer trust, reducing perceived risk and encouraging loyalty (Griffin in Wahyoedi & Saporso, 2019). Research by Windiari & Djumarno (2021) and Aini (2022) supports this view.

Proposition 5 (P5): Brand image positively influences customer loyalty.

### **The Mediating Role of Customer Satisfaction in the Relationship between Service Quality and Loyalty**

Customer satisfaction acts as a crucial mediator in the service quality–loyalty linkage. When customers perceive high service quality, satisfaction levels rise, which subsequently enhances loyalty (Sundari et al., 2024; Masram & Mu'ah, 2021). Studies by Sandjaya et al. (2020) and Erikson & Salim (2023) provide empirical support for this mediating effect.

Proposition 6 (P6): Customer satisfaction mediates the relationship between service quality and customer loyalty.

### **The Mediating Role of Customer Satisfaction in the Relationship between Brand Image and Loyalty**

Similarly, brand image influences loyalty indirectly through satisfaction. A positive brand image strengthens emotional connections, leading to enhanced satisfaction and greater customer loyalty (Shabbir & Wisdom, 2020; Wijaya, 2024). Prior studies, including Delima et al. (2019) and Aini (2022), highlight this mediating mechanism.

Proposition 7 (P7): Customer satisfaction mediates the relationship between brand image and customer loyalty.

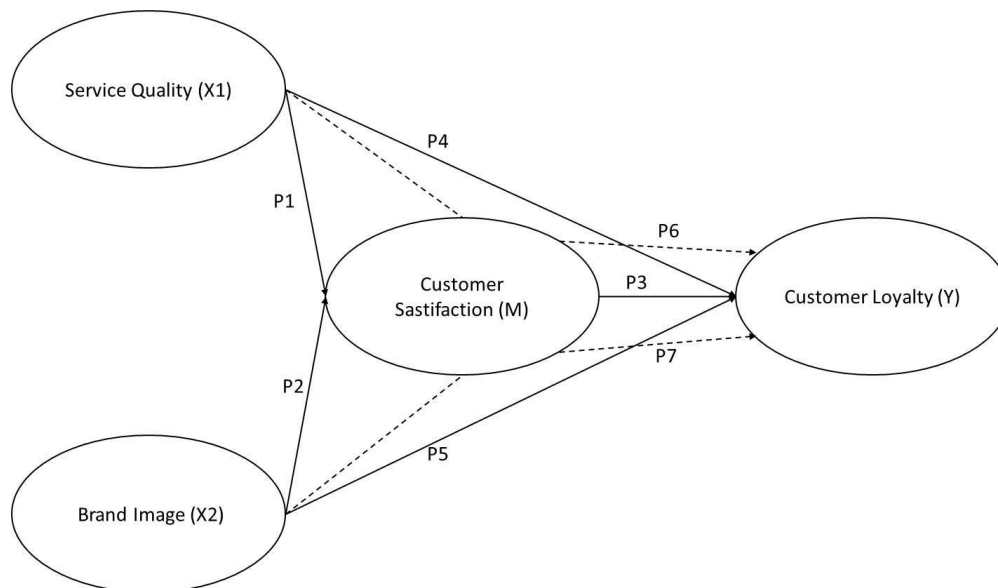


Figure 1. Research Model

### III. METHODS

#### 3.1 Research Design

This study will adopt a quantitative approach, aiming to examine the causal relationship between service quality and brand image on customer loyalty, with customer satisfaction as a mediating variable. The research will be conducted at the PNM ULamm Bogor Branch, which will be selected due to its notably high customer dropout rate of 64%, indicating a potential issue in customer loyalty. The research design will be structured to test the proposed hypotheses using numerical data and statistical analysis through Structural Equation Modeling–Partial Least Squares (SEM-PLS).

#### 3.2 Unit of Analysis

The unit of analysis will be the individual customer of PNM ULamm at the Bogor branch who will be eligible for a loan top-up. The study will target these customers as the primary decision-makers whose attitudes and behaviors will be directly relevant to the variables under investigation. The focus will be placed on the customers of PT Permodalan Nasional Madani (PNM) Bogor branch, as it will represent a strategic microfinance unit actively serving diverse customer segments through the ULamm program. This branch will be selected due to its significance in reflecting the dynamics of service quality, brand image, and customer loyalty within a practical and policy-oriented financial setting.

#### 3.3 Variables and Operational Definitions

This study will conceptualize a model involving four primary variables: service quality and brand image as independent variables, customer satisfaction as the intervening variable, and customer loyalty as the dependent variable. Each construct will be measured using a five-point Likert scale, ranging from "strongly disagree" to "strongly agree."

Service quality will be conceptualized through five key dimensions, namely reliability, responsiveness, assurance, empathy, and tangibles, which are adopted from the widely recognized SERVQUAL framework. Brand image will be defined using the dimensions of favorability, brand strength, and uniqueness, capturing the customers' cognitive and emotional perceptions of the brand. Customer satisfaction, which will serve as the mediating variable in this model, will be represented by indicators such as loyalty intention, product repurchase behavior, willingness to recommend, price tolerance, and openness to providing feedback. Customer loyalty will be measured through behavioral outcomes, including repeat purchases, customer retention, and the intention to refer others.

This variable structure will serve as the foundation for developing a conceptual framework that will explain the pathways through which service quality and brand image are expected to influence customer loyalty both directly and indirectly through the mediating effect of customer satisfaction.

#### 3.4 Population and Sampling

Given the relatively small and accessible population size, a total sampling technique will be employed. Data will be collected using structured questionnaires, which will be distributed to all eligible respondents. The selection criteria will include customers who are officially registered under the top-up category and who voluntarily agree to complete a single questionnaire for the purpose of this study.

#### 3.5 Data Type and Sources

To establish a strong theoretical foundation, the study will employ a literature review to support the development of variables and conceptual relationships. The questionnaire will consist of items measured on a five-point Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), encompassing the four core variables: service quality, brand image, customer satisfaction, and customer loyalty.



The data to be collected will be analyzed using descriptive statistics and Partial Least Squares Structural Equation Modeling (PLS-SEM), utilizing the SmartPLS 3.0 software. Descriptive statistics will provide insights into the distribution of responses by summarizing mean values, standard

deviations, and response frequencies. To further interpret the response intensity, a respondent achievement level (TCR) scale will be applied.

PLS-SEM will be chosen due to its appropriateness for analyzing non-normally distributed data and relatively small sample sizes, ensuring a comprehensive evaluation of the proposed model. The analysis will be conducted in two primary stages: the measurement model and the structural model. Within the measurement model, convergent validity will be confirmed through outer loading values exceeding 0.70 and Average Variance Extracted (AVE) values greater than 0.50. Discriminant validity will be verified when cross-loading values are higher than 0.70. Construct reliability will be assessed using Composite Reliability and Cronbach's Alpha, both of which will be considered acceptable if they exceed the threshold of 0.70.

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