

## The Impact of Service Quality, Pricing, and Customer Satisfaction on Customer Loyalty in Indonesian MSMEs: A Systematic Literature Review

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### ABSTRACT

This study aims to investigate how customer loyalty in Indonesian MSMEs is impacted by service quality, pricing, and customer happiness. Fifty articles published between 2020 and 2023 were analyzed as part of a systematic review of the literature. After reviewing the literature, we created a theoretical framework that argues that MSMEs' antecedent configurations influence their service quality and customer satisfaction at different phases. We examine the fundamental theories of customer loyalty in SME research, as well as service quality, customer happiness, and loyalty, using in-depth content analysis. The assessment points out important theoretical knowledge gaps.

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## **INTRODUCTION**

At the national and international levels, business competition is becoming more intense. Business people need to be able to please their clients in order to win the competition. This includes providing superior products, cheaper costs, quicker delivery, and better customer service than rivals (Insani and Madia, 2020). If customers are satisfied, they will compare their services or products to those offered by other companies. Customers that are happy with the company's services or goods will utilize them again and refer others to them. Businesses will still have to contend with fierce rivalry and keep evolving alongside one another. Customer loyalty is the term used to describe the loyalty of consumers to products or services. Because it allows businesses to maintain their current clientele, customer loyalty is crucial to their survival and financial success. This is the primary driving force behind every company's attempts to draw in and keep customers (Rahmawati, 2019).

Nalendra (2018) asserts that customer loyalty is influenced by customer satisfaction in addition to service quality and cost. A customer's experience with a product or service includes their level of contentment or discontent. Customers often develop specific values based on their experiences. Consumers will compare their experiences with those of competitors' goods and services using these criteria. A business that produces high-quality goods or services is expected to live up to client expectations, which eventually maximizes value, fosters customer satisfaction, and boosts customer loyalty.

Customer loyalty and the willingness to repurchase are significantly impacted by customer satisfaction. When the perceived performance of the product is compared to the customer's expectations of the activity, customer satisfaction can be either positive or negative. Price and service quality are two factors that influence customer satisfaction following a transaction, and they form the foundation of the customer satisfaction that is being discussed here.

Customer satisfaction and discontent are terms used to describe how customers feel about a company's services or goods. Consumers may compare a product or service to rivals as a result of their experience with it. A company's ability to satisfy its customers is demonstrated by its high-quality products, and happy customers are more likely to refer the company to others than to its rivals (Nalendra, 2018). Innovative product creation and customers are two elements that significantly encourage business growth. Customers are more satisfied with the products and services they have used when each product is innovative. Accordingly, a customer will stick with a product or service provided it fulfills their requirements and wants and does it in a satisfactory manner (Nurhalimah et al., 2018).

The following are the issue formulations for this study based on the previously mentioned background:

1. How does customer loyalty relate to service quality?
2. How is consumer loyalty impacted by price perception?
3. How does client loyalty relate to satisfaction?

## LITERATURE REVIEW

### *Client Loyalty*

Every firm must take client loyalty into account to guarantee the long-term viability of its operations. When businesses have devoted customers, they can ensure the anticipated sales volume. Rahmadani et al. (2019) describe customer loyalty as a customer's commitment to a brand, service, or merchant that is exhibited by regular repeat business and is founded on a very positive outlook. While consumers' inclination to renew subscriptions or make occasional purchases of similar goods and services in the future certainly influences customer loyalty, Insani and Madia (2020) contend that external factors like situations and advertising campaigns also have an effect on the behaviors that encourage repeat purchases.

### *Quality of Service*

In Ratnasari & Aksa (2011), Parasuraman et al. state that the two primary aspects of service quality are the service that customers perceive to be provided and the service that they anticipate or desire. Service quality is the term used to describe any quality or service action a company makes to satisfy client expectations. The primary dimensions of service quality tangible, reliability, assurance, responsiveness, and empathy are summed up by Parasuraman (Kotler & Keller, 2016) using indicators such as physical facilities, equipment, the capacity to deliver accurate and dependable service, the willingness to assist customers, the ability to deliver quick service, employee courtesy and knowledge, the capacity to build trust, and the ability to provide care and attention to customers. Prior studies by Karmanto (2020), Putra et al. (2018), Insani and Madiawati (2020), and Setyowati & Wiyadi (2016) provide evidence that service quality factors significantly and favorably affect customer loyalty.

### *Client Contentment*

According to Zeithaml et al. in Widodo & Yosepha (2022), consumer satisfaction is the evaluation of whether a specific good or service satisfies the wants and expectations of the customer. Customer satisfaction is anticipated in a positive mentality when expectations and the quality received are in line. Customer happiness and the quality of the services are intimately tied. The customer will be happy if the service lives up to expectations. "Satisfaction is a state of mind in which a person expresses his feelings about the performance of the service received vs. expected," claim Kotler and Keller (2016). The audience will be pleased if the performance lives up to their expectations. Synthesized contentment is the state in which consumers' expectations of a service align with the actual experience they get. Instantaneous, accurate, consistent, fulfilling, precise, quick, responsive, relationship-building, effective communication, and attentive are some examples of indicators of customer satisfaction (Priana, 2017).

## METHODOLOGY

In order to locate, examine, and interpret research findings pertinent to a specific research question, topic area, or phenomenon of concern, this study employed the Systematic Literature Review (SLR) technique (Kitchenham, 2004).

Descriptive qualitative research data were summarized in the systematic review using a qualitative method. The methods described by Francis and Baldesari served as the foundation for the systematic literature review that was carried out for this study Baldesari and Francis (2006).

To choose which publications to search, this study employed the PRISMA-P (Preferred Reporting Items for Systematic Reviews and Meta-Analyses Protocols) flow chart. This flowchart illustrates how data passes through the different phases of a systematic review, including the number of records or articles that were located, added, or removed, as well as the rationale behind each choice (Liberati et al., 2009).

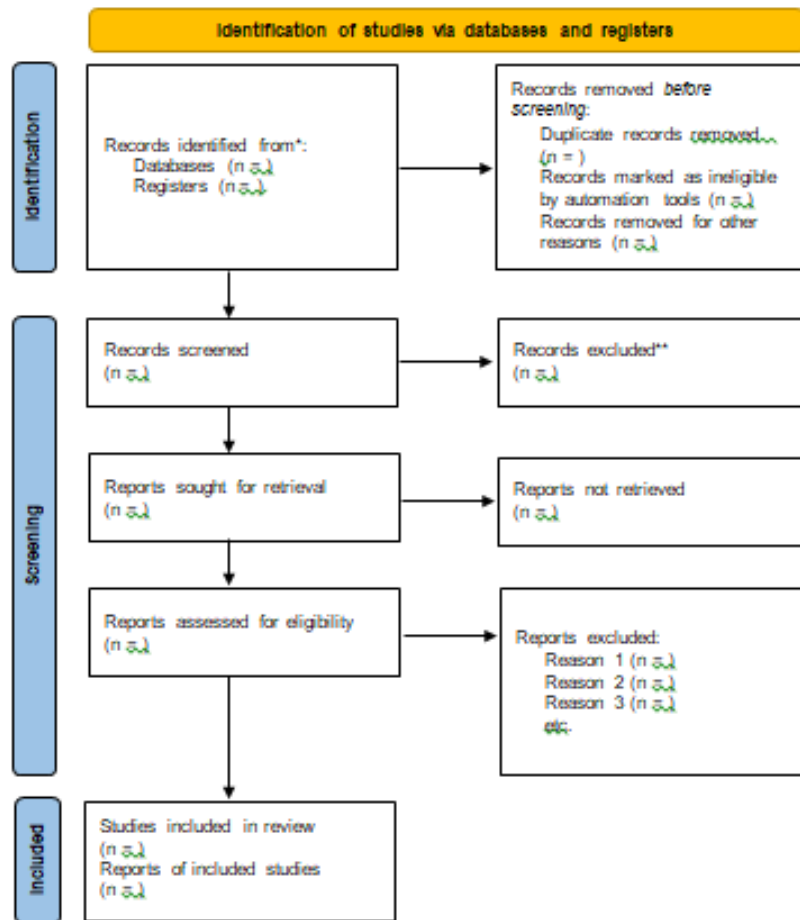


Figure 1. data passes through the different phases of a systematic review

### ***Bibliometric Evaluation***

#### *1. Identification and Exploration of Keywords*

Examining potential approaches to service quality, customer happiness, and customer loyalty was the goal of this study. Therefore, the researcher established a number of criteria before beginning the literature search. At this point, the researcher chose the terms "service quality," "customer satisfaction," and "customer loyalty" for the literature search.

#### *2. Search for Literature*

The Publish or Perish application was used to perform a literature search utilizing the Scopus search engine API key. Finding scientific content that is

known to be indexed by Scopus is the reason for choosing this search engine. The literature search turned up 50 journals published between 2020 and 2024. Additionally, the 50 journals were retrieved in the format of the Research Information System (RIS). The RIS format is supported by the Mendeley Reference Manager tool. After being entered into the application, each journal's RIS format is translated (exported) to create a single RIS format for all journals. The RIS for each journal was then input into the Vosviewer program to provide a visual representation of the Bibliometric map. Citation analysis is a summary of the publications that authors and researchers cite while assembling scientific papers (Saputro, 2022).

## RESEARCH RESULT AND DISCUSSION

### *Bibliometry*

#### *Co-Occurrence*

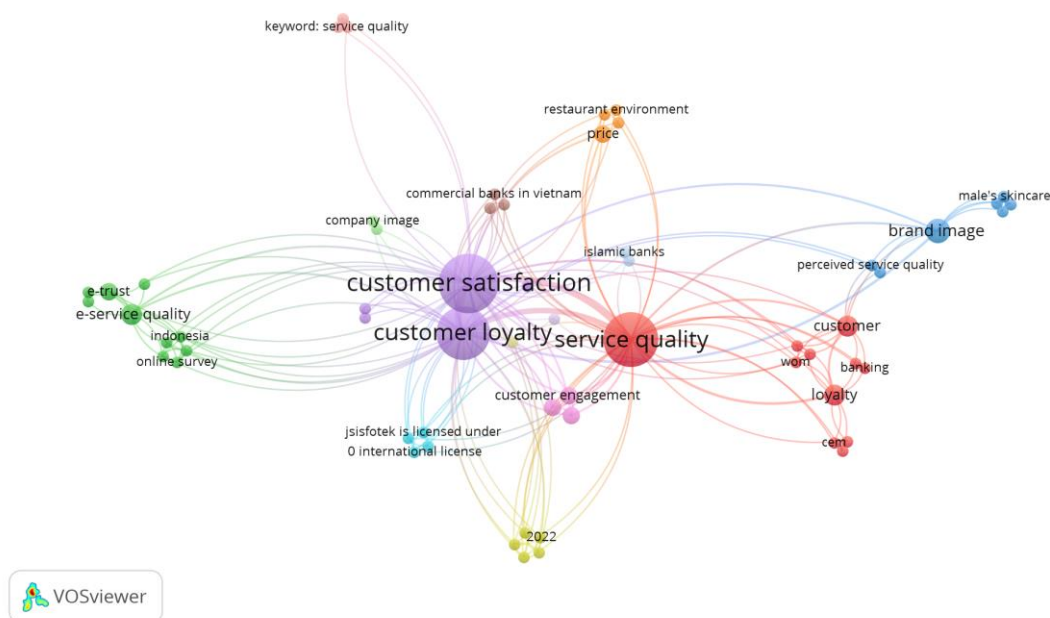


Figure 2. Co-Occurrence

Following the literature search, researchers used VOSviewer to determine the association between the keywords they found, Mendeley to collect the abstracts of 50 publications, and additional tools to do the screening process and establish criteria (see Figure 2). Figure 2 illustrates the clear correlation between loyalty and customer satisfaction and service excellence.

#### *Systematic Review and Meta-Analysis PRISMA (Preferred Reporting Items)*

The PRISMA (Preferred Reporting Items for Systematic Review and Meta-Analysis) results are as follows. publications retrieved from Scopus POP. Customer loyalty, customer satisfaction, and loyalty are the keywords that are employed. A total of 200 journals were found. One hundred journals were then obtained by filtering the journal publication year from 2020 to 2024. Fifty journals and fifty relevant journals are available out of the 100 that are accessible.

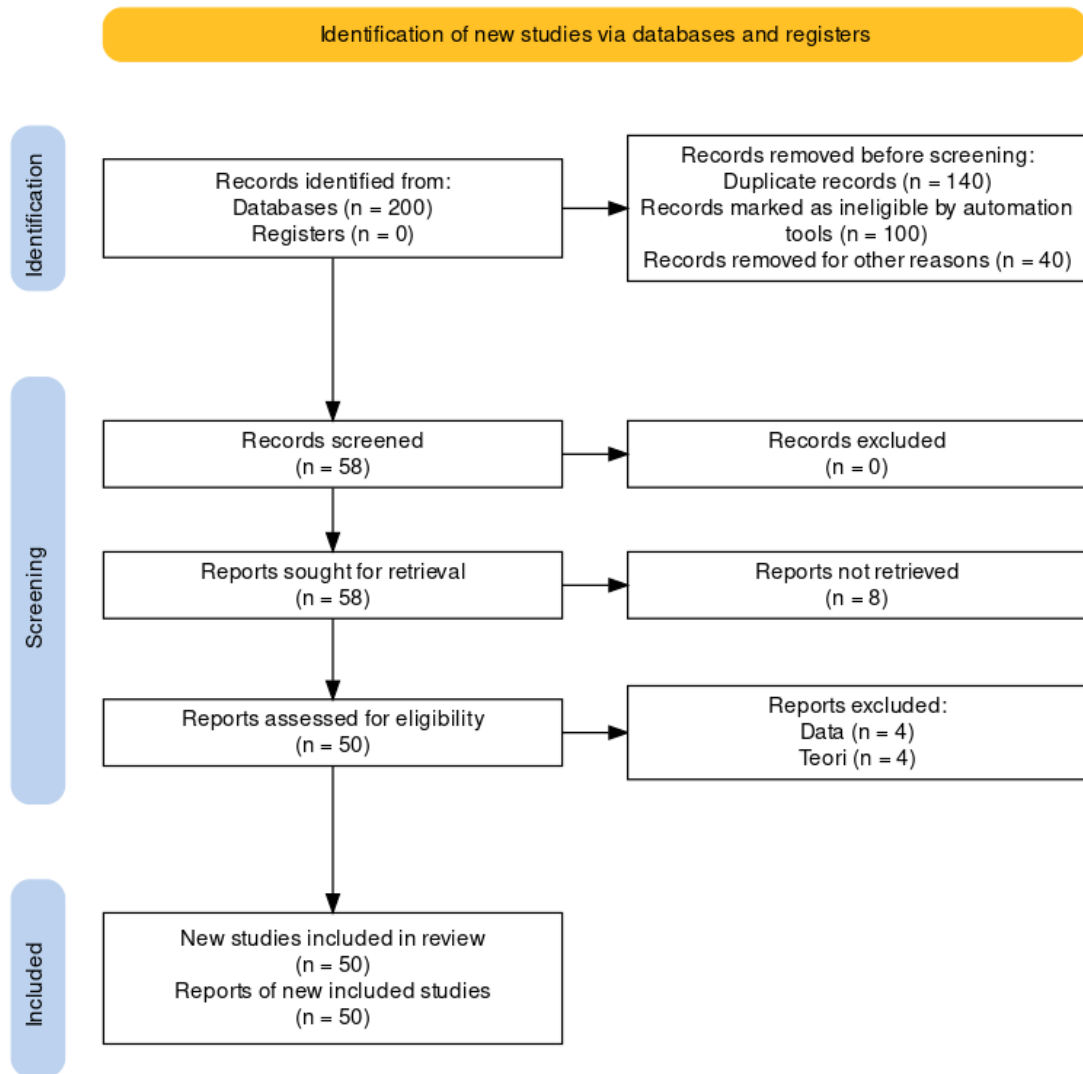


Figure 3. Systematic Review and Meta-Analysis PRISMA

Fifty carefully chosen studies that examine customer happiness, customer loyalty, and service quality are included in the literature review. With 50 articles published between 2020 and 2023, the highest article publication income is followed by 18 articles in 2020, 19 in 2021, 7 in 2022, and 6 in 2023. The different articles mentioned above were published by Elsevier, MDPI, Scienccdirect, Emerald, and other publishers.

Kotler and Keller (in Ririn et al., 2011) define satisfaction as a mental state in which an individual communicates his or her feelings regarding the performance of services received in comparison to those anticipated. If the performance lives up to expectations, customers will be satisfied. When a customer's expectations and the actual service they receive align, this is known as "synthesised satisfaction." The dimension of pleasure, according to Priansa (2014), is comprised of tangible physical proof, dependability, responsiveness, and empathy. Indicators of this dimension include immediate service, accuracy, consistency, satisfaction, precision, reliability, speed, responsiveness, relationship, good communication, and attentiveness.

Table 1. Relevant Literature on Innovation in MSMEs

<b>Authors</b>	<b>Research Results</b>
<i>"The influence of service quality, corporate image, and customer satisfaction on customer loyalty in banking sector in Yogyakarta". (Christanto, Santoso, 2022)</i>	Customer satisfaction has a strong and significant association with customer loyalty, and the research findings indicate that it has a favorable and large relationship with corporate image and service quality. However, neither company image nor service quality have a major impact on customer loyalty.
<i>"Service quality, religiosity, customer satisfaction, customer engagement and Islamic bank's customer loyalty". (Abror, Patrisia, Engriani, Dastgir, 2019)</i>	Service quality has a positive and significant impact on customer satisfaction. The association between customer satisfaction and service quality is significantly and negatively moderated by religiosity. Service quality has little effect on customer loyalty. Customer happiness has a high correlation with customer engagement and loyalty. Lastly, client interaction has a significant and advantageous impact on consumer loyalty.
<i>"Effects of service quality and customer satisfaction on loyalty of bank customers". (Achmad Supriyanto, Bambang Budi Wiyono &amp; Burhanuddin Burhanuddin, 2021)</i>	The results of the study indicate that although customer satisfaction has a higher effect on customer loyalty than service quality, overall customer loyalty is more impacted by service quality. Customer loyalty is indirectly impacted by service quality through customer satisfaction. Future research is anticipated to examine relationship models with other parameters.
<i>"The influence of food trucks' service quality on customer satisfaction and its impact toward customer loyalty". (Gopi, Samat, 2020)</i>	Three out of five high-quality service attributes have a substantial correlation with customer happiness, according to research findings. These features include physical proof ( $\beta = 0.225, p < 0.05$ ), resolution ( $\beta = 0.349, p < 0.05$ ), and assurance ( $\beta = 0.311, p < 0.05$ ). There is a significant correlation between customer satisfaction and loyalty ( $\beta = 0.643, p < 0.01$ ).

(Source: The author's processing of multiple journals)

One significant element affecting passenger happiness is service quality. Numerous studies demonstrate that providing excellent service can boost

customer happiness and loyalty, according to the findings of a systematic literature review. "Customer satisfaction has a positive and significant impact on corporate image and service quality, and that customer satisfaction has a positive and strong impact on customer loyalty," according to a study by Christanto and Santoso (2022). On the other hand, neither company image nor service quality have a positive and significant impact on customer loyalty. Another study by Abror et al. (2019) found that service quality had a favorable and significant impact on customer satisfaction.

The association between customer satisfaction and service quality is significantly and negatively moderated by religiosity. Service quality has little effect on customer loyalty. Customer happiness is strongly correlated with customer engagement and loyalty. Lastly, there is a strong and positive relationship between customer loyalty and customer engagement. According to Gopi and Samart (2020), customer happiness is significantly correlated with three of the five service quality indicators. According to this study, customer experience is significantly influenced by elements like staff friendliness and attentiveness. Additionally, studies by Santoso & Lestari (2020) and Budiansari & Sujana (2021) show that enhancing service quality can improve the bond between buyers and sellers, which would ultimately boost loyalty.

They stress that intangible factors like staff professionalism and attitude have an impact on customer satisfaction in addition to more concrete factors like comfort. It is evident from the numerous research that have been examined that customer happiness and loyalty are greatly influenced by the quality of the services provided.

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the examination of several research, service quality and competitive pricing are the three primary elements that continuously show up as determinants of customer happiness and loyalty. High safety standards, fair and open pricing, and excellent service all have a big impact on passenger expectations and help keep them loyal. SMEs must so constantly work to enhance different facets of their offerings, follow stringent safety regulations, and establish reasonable and open rates. By doing this, they can make sure that the wants and needs of their customers are satisfied, which will improve their standing in the SME sector and increase customer loyalty and satisfaction.

## **ADVANCED RESEARCH**

Based on findings from various recent studies, service quality and competitive pricing consistently emerge as critical factors influencing customer satisfaction and loyalty, particularly within the SME context. The implementation of high safety standards, transparent and fair pricing, and exceptional service significantly shape passenger expectations and serve as the foundation for sustaining customer loyalty. Therefore, SMEs are required to continuously innovate and enhance quality across multiple operational aspects, including strict compliance with safety regulations and the adoption of fair and transparent pricing strategies. These efforts not only strengthen customer trust but also contribute to increased competitiveness and business reputation in the

increasingly dynamic SME sector, ultimately fostering long-term relationships between customers and service providers.

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