

# The Role of Promotion and Service Quality in Shaping Customer Loyalty: The Mediating Effect of Customer Satisfaction in Service Industries

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**ABSTRACT.** The increasing competition in Indonesia's Islamic banking sector requires Islamic Rural Banks (Bank Pembiayaan Rakyat Syariah/BPRS) to strengthen long-term customer relationships. Customer loyalty has become a strategic asset that determines sustainability, particularly for regional Islamic banks such as BPRS ABC. This study examines the role of promotion and service quality in shaping customer loyalty, with customer satisfaction as a mediating variable. Using a quantitative approach, data were collected from 100 customers of BPRS ABC and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that promotion and service quality significantly influence customer satisfaction and customer loyalty. Furthermore, customer satisfaction significantly mediates the relationship between promotion, service quality, and loyalty. The study highlights the importance of integrating effective promotional strategies and superior service quality to enhance satisfaction and foster sustainable loyalty in Islamic rural banking institutions.

Keyword: Customer Loyalty; Customer Satisfaction; Promotion; Service Quality.

JEL Classification: MM1

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## INTRODUCTION

The Islamic banking industry in Indonesia has experienced significant development over the past decade, driven by increasing public awareness of sharia-compliant financial systems and government support for Islamic financial inclusion. Islamic Rural Banks (BPRS) play an important role in serving micro and small-scale communities by providing accessible financing and savings services. However, the increasing competition between Islamic and conventional financial institutions has intensified the need for BPRS to maintain customer loyalty as a foundation for long-term sustainability.

Customer loyalty is widely recognized as a key determinant of business performance in service industries. Loyal customers are more likely to repeat transactions, recommend services to others, and resist competitor offers (Oliver, 1999; Zeithaml, Berry, & Parasuraman, 1996). In the banking sector, loyalty contributes not only to stable revenue but also to reputational strength and relationship continuity. Therefore, understanding the factors that shape loyalty is crucial for Islamic banking institutions, particularly at the regional level.

In service-based organizations, promotion and service quality are two critical variables influencing customer perceptions. Promotion functions as a strategic communication tool that informs and persuades customers regarding product benefits and institutional values (Kotler & Keller, 2016). In Islamic banking, promotional activities often include direct community engagement, religious-based financial education, digital campaigns, and relationship marketing initiatives. Effective promotional strategies can shape positive expectations and strengthen customer attachment.

Service quality, on the other hand, represents the institution's ability to deliver services consistently according to customer expectations. Parasuraman, Zeithaml, and Berry (1988) conceptualized service quality through dimensions such as reliability, responsiveness, assurance, empathy, and tangibles. In banking services, reliability and trustworthiness are particularly important because financial transactions involve risk and long-term commitments. Empirical studies have consistently shown that service quality significantly affects customer satisfaction and loyalty in financial services (Caruana, 2002; Amin, Isa, & Fontaine, 2013).

Although many studies confirm the importance of promotion and service quality, previous findings reveal inconsistencies regarding their direct influence on customer loyalty. Some research suggests that promotion directly enhances loyalty, while other studies indicate that the effect occurs indirectly through customer satisfaction (Caruana, 2002; Amin et al., 2013). Satisfaction is considered a psychological evaluation resulting from the comparison between expectations and actual performance (Oliver, 1999). When promotional messages and service delivery are aligned, customers are more likely to feel satisfied, which then strengthens loyalty.

Based on these theoretical and empirical considerations, this study aims to examine the influence of promotion and service quality on customer loyalty, with customer satisfaction as a mediating variable, in the context of BPRS ABC. This research contributes to the literature on Islamic banking and relationship marketing by providing empirical evidence from a regional Islamic rural bank.

Promotion is defined as organizational communication aimed at informing, persuading, and reminding customers about products and services (Kotler & Keller, 2016). Effective promotion reduces information asymmetry and builds trust, which is crucial in financial services. When

customers perceive that promotional messages are clear and transparent, satisfaction is more likely to emerge.

Service quality refers to the gap between customer expectations and perceived performance (Parasuraman et al., 1988). In banking, high service quality enhances trust, perceived value, and relational commitment. Caruana (2002) found that service quality significantly influences customer satisfaction and indirectly affects loyalty.

Customer satisfaction is a post-consumption evaluative judgment concerning service performance (Oliver, 1999). Satisfied customers tend to maintain relationships and exhibit loyal behavior. The Commitment-Trust Theory (Morgan & Hunt, 1994) also suggests that trust and satisfaction strengthen long-term relationships.

Based on these arguments, the hypotheses are formulated as follows:

- H1: Promotion positively influences customer satisfaction.
- H2: Service quality positively influences customer satisfaction.
- H3: Promotion positively influences customer loyalty.
- H4: Service quality positively influences customer loyalty.
- H5: Customer satisfaction positively influences customer loyalty.
- H6: Customer satisfaction mediates the relationship between promotion and loyalty.
- H7: Customer satisfaction mediates the relationship between service quality and loyalty.

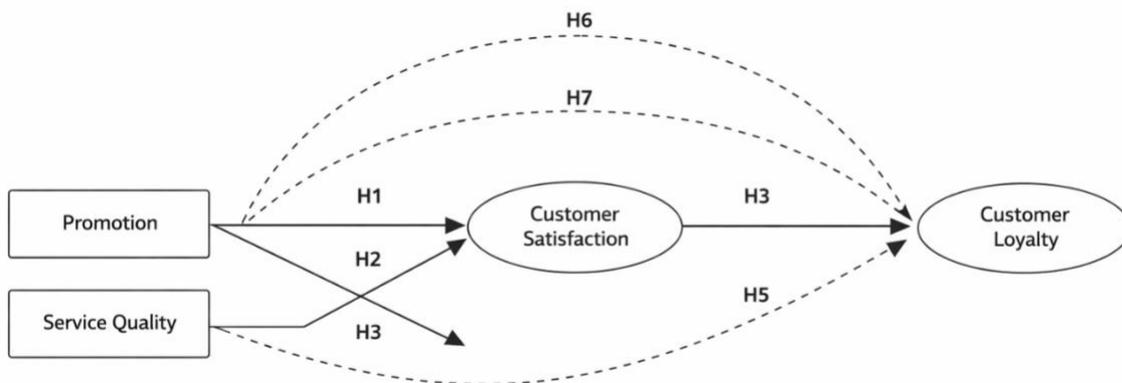


Figure 1. The Relationship Between Variables

Source: researcher data

## METHODS

This study employs a quantitative explanatory design. The population consists of customers of BPRS ABC who have conducted at least two banking transactions within the last two years. Purposive sampling was applied to ensure respondents had sufficient experience evaluating service quality and promotional activities.

A total of 100 valid responses were obtained. Data were collected using structured questionnaires measured on a five-point Likert scale. Data analysis was conducted using PLS-SEM, following the recommendations of Hair et al. (2021).

## RESULT AND DISCUSSION

### RESULT

Measurement model evaluation (outer model) was conducted to ensure that the latent constructs in this study met validity and reliability criteria before conducting structural model analysis. In the PLS-SEM approach, the measurement model aims to assess the extent to which the indicators used accurately and consistently represent the construct being measured (Hair et al., 2021). Convergent validity was measured using the Average Variance Extracted (AVE) value, while construct reliability was measured using Composite Reliability and Cronbach's Alpha. A construct is considered to have convergent validity if the AVE value is greater than 0.50, indicating that the construct is able to explain more than 50% of the variance in its indicators. Meanwhile, Composite Reliability and Cronbach's Alpha values above 0.70 indicate good internal consistency.

The results of validity and reliability testing for the Promotion, Service Quality, Customer Satisfaction, and Customer Loyalty variables are presented in Table 1. The AVE values for all constructs are above the recommended minimum limit, as are the Composite Reliability and Cronbach's Alpha values, which indicate an excellent level of reliability. These findings indicate that all constructs in this study have met the measurement model criteria and are worthy of further analysis at the structural model stage..

**TABLE 1.** Measurement Model Results

| Variable              | AVE  | Composite Reliability | Cronbach's Alpha |
|-----------------------|------|-----------------------|------------------|
| Promotion             | 0.81 | 0.94                  | 0.94             |
| Service Quality       | 0.82 | 0.95                  | 0.94             |
| Customer Satisfaction | 0.73 | 0.91                  | 0.91             |
| Customer Loyalty      | 0.91 | 0.97                  | 0.97             |

Source: researcher data

After the measurement model is declared valid and reliable, the next stage is to evaluate the structural model (inner model). This evaluation aims to assess the model's ability to explain the relationships between latent variables and measure the predictive power of the independent constructs relative to the dependent construct. In PLS-SEM, one of the main indicators for assessing the quality of a structural model is the coefficient of determination ( $R^2$ ) (Hair et al., 2021). The  $R^2$  value indicates the proportion of the variance in endogenous variables that can be explained by the exogenous variables in the research model.

The  $R^2$  test results in this study indicate that the Customer Satisfaction variable has an  $R^2$  value of 0.61, meaning that 61% of the variation in customer satisfaction can be explained by Promotion and Service Quality. Meanwhile, the Customer Loyalty variable has an  $R^2$  value of 0.79, indicating that 79% of the variation in customer loyalty is explained by Promotion, Service Quality, and Customer Satisfaction. These values indicate that the model has strong explanatory power in the context of BPRS ABC. The results of the structural model evaluation are presented in Table 2 below.

**TABLE 2.** R-Square Values

| Endogenous Variable   | R <sup>2</sup> |
|-----------------------|----------------|
| Customer Satisfaction | 0.61           |
| Customer Loyalty      | 0.79           |

Source: researcher data

Hypothesis testing was conducted to determine the significance and direction of the relationships between variables in the structural model. This testing used the bootstrapping procedure in PLS-SEM to obtain the path coefficient ( $\beta$ ), t-statistic, and p-value. The relationship between variables was declared significant if the p-value was less than 0.05 and the t-statistic exceeded the recommended critical limit (Hair et al., 2021).

The test results showed that all direct relationships in the model had positive and significant coefficients. Promotion and Service Quality were shown to have a significant effect on Customer Satisfaction. Furthermore, Promotion, Service Quality, and Customer Satisfaction also had a significant influence on Customer Loyalty. These findings indicate that both marketing communication strategy and service quality play a significant role in shaping customer loyalty at BPRS ABC, both directly and through customer satisfaction as a mediating variable. The complete results of the direct hypothesis testing are presented in Table 3 below.

**TABLE 3.** Path Coefficients

| Relationship                   | $\beta$ | T-Statistic | p-value |
|--------------------------------|---------|-------------|---------|
| Promotion → Satisfaction       | 0.54    | 7.13        | 0.000   |
| Service Quality → Satisfaction | 0.60    | 10.24       | 0.000   |
| Promotion → Loyalty            | 0.62    | 9.55        | 0.000   |
| Service Quality → Loyalty      | 0.65    | 11.98       | 0.000   |
| Satisfaction → Loyalty         | 0.34    | 3.71        | 0.000   |

Source: researcher data

Furthermore, an indirect effect test was conducted to examine the mediating role of Customer Satisfaction in the relationship between Promotion and Service Quality on Customer Loyalty. Bootstrapping results showed that the indirect effect of both variables was significant, thus Customer Satisfaction was proven to act as a mediator that strengthens the relationship between the independent variables and customer loyalty. Thus, all research hypotheses (H1–H7) were declared accepted.

**DISCUSSION**

The results of this study provide a strong empirical understanding of the role of promotion and service quality in shaping customer loyalty at BPRS ABC, with customer satisfaction as a mediating variable. Overall, the research model demonstrates high explanatory power, with an R<sup>2</sup> value of 0.79 for the customer loyalty variable indicating that 79% of the variation in customer loyalty can be explained by promotion, service quality, and customer satisfaction. This value falls into the strong category according to Hair et al.'s (2021) criteria, indicating that the model has excellent predictive ability in the regional Islamic banking context.

The analysis shows that promotion has a positive and significant effect on customer satisfaction ( $\beta = 0.54$ ,  $p < 0.001$ ). This coefficient indicates that a one-unit increase in promotional effectiveness will increase customer satisfaction by 0.54 units in the structural model. Statistically, the high t-statistic indicates that this relationship is stable and not a random occurrence. In the context of BPRS ABC, promotion functions not only as a marketing communication tool but also as a means of Sharia-based financial education. When promotional messages are delivered clearly, transparently, and in accordance with Sharia principles, customers feel more confident in the products offered. This supports the Expectation-Confirmation theory (Oliver, 1999), which states that satisfaction arises when pre-formed expectations—in this case, through promotions—are confirmed by actual experiences.

Furthermore, promotions have also been shown to have a direct effect on customer loyalty ( $\beta = 0.62$ ,  $p < 0.001$ ). This coefficient indicates a fairly strong effect, although slightly lower than the effect of service quality on loyalty. This indicates that effective promotions can strengthen customer relational commitment, especially in the context of community-based banking such as BPRS. However, the mediation results indicate that the effect of promotions on loyalty is partially mediated by customer satisfaction. This means that while promotions can directly increase loyalty, the effect is stronger when the promotion results in satisfaction. This emphasizes that marketing communications not accompanied by a satisfying service experience have the potential to result in less stable loyalty.

Service quality demonstrates a stronger influence than promotions, especially in shaping customer loyalty. The effect of service quality on customer satisfaction has a coefficient of  $\beta = 0.60$  ( $p < 0.001$ ), indicating that improving service quality significantly contributes to increased customer satisfaction. This value is higher than the effect of promotion on satisfaction, indicating that in the context of BPRS ABC, service experience plays a more dominant role than marketing communications. This finding aligns with the SERVQUAL model (Parasuraman et al., 1988), where the dimensions of reliability and assurance are crucial in the financial industry. In Islamic banking, reliability relates not only to transaction accuracy but also to compliance with Islamic principles. When customers experience fast, accurate, friendly, and Islamically compliant service, their perceived value and satisfaction increase significantly.

Furthermore, service quality has the strongest direct effect on customer loyalty ( $\beta = 0.65$ ,  $p < 0.001$ ). This coefficient is the highest among the direct relationships in the model, indicating that BPRS customer loyalty is highly dependent on service consistency and quality. Statistically, the magnitude of this coefficient indicates substantial practical significance, not merely statistical significance. In the context of relationship marketing (Morgan & Hunt, 1994), consistent service quality builds trust and commitment, which are the foundation of long-term loyalty. Therefore, for BPRS ABC, investing in improving employee competency, service speed, and information transparency will have a direct impact on the sustainability of customer relationships.

Customer satisfaction has been shown to have a significant influence on customer loyalty ( $\beta = 0.34$ ,  $p < 0.001$ ). Although this coefficient is smaller than the direct effects of promotion and service quality on loyalty, satisfaction remains a significant mediating variable. This coefficient value indicates that satisfaction acts as a psychological mechanism that transforms perceptions of quality and promotion into behavioral commitment.

The  $R^2$  value of 0.61 for customer satisfaction indicates that most of the variation in satisfaction is explained by promotion and service quality, but 39% of the variation is still explained by factors outside the model. This indicates that although satisfaction plays a significant role, loyalty in the

context of Islamic banking is also influenced by other factors such as trust, religiosity, perceived value, or emotional attachment.

The significant mediation effect indicates that satisfaction strengthens the relationship between the independent variables and loyalty. Conceptually, promotion and service quality shape initial perceptions and service experiences, while satisfaction serves as the final evaluation point before customers decide to remain loyal. Thus, loyalty formed through satisfaction tends to be more stable and sustainable than loyalty formed solely through promotions.

## CONCLUSION

This study aims to analyze the role of promotion and service quality in shaping customer loyalty, with customer satisfaction as a mediating variable at BPRS ABC. Based on the results of the PLS-SEM analysis, all research hypotheses were proven significant. Promotion and service quality have a positive influence on customer satisfaction and directly influence customer loyalty. Furthermore, customer satisfaction was shown to act as a mediator, strengthening the relationship between these two independent variables and customer loyalty.

Empirically, service quality emerged as the most dominant determinant in shaping customer loyalty at BPRS ABC, as indicated by a higher path coefficient value compared to other variables. This finding indicates that in the context of regional Islamic banking, consistent, reliable, responsive, and Sharia-compliant service experiences are key factors in building long-term relationships with customers. Meanwhile, promotion plays a significant role in shaping initial expectations and strengthening value communication, but ongoing loyalty is largely determined by the quality of the directly perceived service experience.

The coefficient of determination ( $R^2$ ) of 0.79 for the customer loyalty variable indicates that the research model has strong explanatory power. This confirms that integrating marketing communication strategies and service quality is an effective approach to increasing customer loyalty in the Islamic financial services industry. Theoretically, this study strengthens the relevance of the SERVQUAL model, Expectation-Confirmation Theory, and Commitment-Trust Theory in explaining loyalty behavior in the context of regional Islamic banking.

Practically, the results of this study imply that BPRS ABC should prioritize improving service quality as a primary strategy for maintaining customer loyalty. Efforts to improve employee competency, service speed, contract transparency, and consistent application of Sharia principles will significantly impact customer satisfaction and loyalty. Promotion is still necessary, but it must be aligned with service capacity to avoid a gap between expectations and service delivery.

While this study provides a strong empirical contribution, several limitations warrant consideration. First, this study was conducted at only one BPRS in the ABC area, so generalizing the results to other BPRS or larger Islamic financial institutions requires caution. Demographic characteristics, culture, and levels of competition in other regions may result in different relationship dynamics. Second, this study used a cross-sectional approach, thus failing to capture the dynamics of long-term changes in customer loyalty. Loyalty is a construct that develops gradually, so a longitudinal study would provide a more comprehensive understanding. Third, the research model only includes promotion and service quality as primary determinants, while other factors such as trust, perceived value, religiosity, digital banking experience, and emotional attachment have not been incorporated into the model.

Based on these limitations, future research is recommended to expand the geographic scope by involving several BPRS (Islamic rural banks) or Islamic financial institutions in various regions to allow for comparative analysis. Future research could also employ a longitudinal design to observe changes in customer satisfaction and loyalty over time. Furthermore, the integration of additional variables such as trust, perceived value, digital service quality, or religiosity could provide a deeper understanding of loyalty behavior in the Islamic banking context. A mixed-methods approach could also be considered to explore emotional and spiritual dimensions that may not be fully captured through quantitative surveys. Overall, this study confirms that customer loyalty at BPRS ABC is not solely determined by promotional activities, but primarily by service quality, which can generate sustained satisfaction. A strategy oriented towards service experience and long-term relationships is the main key to strengthening the competitiveness and sustainability of Islamic banking institutions at the regional level.

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