



Enhancing Organizational Performance Through Service Quality and Customer Satisfaction in Competitive Business Environments

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ABSTRACT

In increasingly competitive business environments, service quality has become a strategic capability that enables organizations to satisfy customers and improve organizational performance. This study examines the direct effect of service quality on organizational performance and the indirect effect through the mediating role of customer satisfaction. The study is grounded in the Expectation–Disconfirmation Theory (EDT) and the Resource-Based View (RBV), which explain how superior service quality creates positive customer evaluations that ultimately contribute to sustainable organizational performance. A quantitative research approach was employed using a cross-sectional survey design. Data were collected from 152 employees working in service-oriented organizations across the retail, hospitality, financial services, healthcare, and telecommunications sectors in Indonesia. The research utilized Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 4 as the analytical tool to evaluate both the measurement and structural models. The findings indicate that service quality has a positive and significant effect on customer satisfaction and organizational performance. Customer satisfaction also exerts a positive and significant influence on organizational performance and partially mediates the relationship between service quality and organizational performance. These findings demonstrate that organizations achieve superior performance not only by delivering high-quality services but also by ensuring that customers perceive and experience those services positively. This study contributes to the service management literature by providing empirical evidence that customer satisfaction serves as a critical mechanism through which service quality is translated into organizational performance, offering practical implications for managers seeking to strengthen organizational competitiveness through customer-centered service strategies.

Keywords: service quality; customer satisfaction; organizational performance; competitive business environment; service management

INTRODUCTION

The increasing competitiveness of modern business environments has intensified scholarly and managerial attention on the interrelationship between service quality, customer satisfaction, and organizational performance (K. Kim et al., 2023; Sánchez-Gómez & Vázquez-Suárez, 2024). Organizations are required to continuously enhance service delivery standards to meet evolving customer expectations and sustain long-term performance in highly competitive markets. In such contexts, service quality is widely recognized as a critical strategic asset that shapes customer evaluations and organizational outcomes (A. Farooq et al., 2024; Fekadu & Walia, 2024).

Service quality is consistently identified as a primary antecedent of customer satisfaction, as customers evaluate service experiences based on reliability, responsiveness, and consistency of service delivery (Kim & Cha, 2023; Martins et al., 2024). When service performance meets or exceeds expectations, it generates positive satisfaction responses that reflect customers' cognitive and emotional evaluations of organizational offerings (F. Zhou et al., 2024). These findings suggest that customer satisfaction is not merely an outcome of service quality but a key psychological mechanism that translates service experiences into behavioral consequences.

Customer satisfaction, in turn, plays a critical role in shaping organizational performance. Empirical studies indicate that satisfied customers are more likely to engage in repeat purchases, loyalty behavior, and positive word-of-mouth, all of which contribute to improved organizational performance in competitive markets (Okwata et al., 2022; Ouahi & Zaime, 2024). Therefore, organizational success increasingly depends on the ability to maintain high levels of customer satisfaction derived from superior service quality.

This study is grounded in the Expectancy Disconfirmation Theory Oliver (2025) and Service-Dominant Logic (Vargo & Lusch, 2004). Expectancy Disconfirmation Theory explains that satisfaction arises from the comparison between expected and perceived service performance, while Service-Dominant Logic emphasizes value co-creation between organizations and customers through service interactions. Based on these theoretical perspectives, service quality is conceptualized as the key driver of customer satisfaction, which subsequently determines organizational performance.

Despite extensive literature examining these constructs, important gaps remain. First, prior studies tend to examine service quality and organizational performance in a fragmented manner, focusing mainly on direct relationships without fully integrating customer satisfaction as a mediating mechanism. Second, existing research is often concentrated in specific service industries, limiting the generalizability of findings across broader competitive business environments. Third, there is still limited empirical consensus on how service quality is translated into organizational performance through customer satisfaction within a unified structural model.

This gap is significant because organizations operate in increasingly dynamic and competitive environments where service excellence alone is insufficient without understanding how it translates into performance outcomes. Therefore, this study addresses this gap by investigating the direct and indirect effects of service quality on organizational performance through customer satisfaction as a mediating variable.

The novelty of this study lies in its integrated mediation model that simultaneously examines both direct and indirect pathways among service quality, customer satisfaction, and

organizational performance. This approach provides a more comprehensive explanation of how service inputs are transformed into organizational outcomes in competitive environments.

Based on the research objectives, the following research questions are formulated:

RQ1. How does service quality influence customer satisfaction and organizational performance in competitive business environments?

RQ2. How does customer satisfaction mediate the relationship between service quality and organizational performance?

The findings of this study are expected to contribute both theoretically and practically. Theoretically, this research strengthens the understanding of service performance mechanisms by positioning customer satisfaction as a key mediating construct. Practically, the results provide managerial insights into how improving service quality can enhance customer satisfaction and ultimately improve organizational performance in competitive markets.

The structure of this paper is organized as follows. The next section presents the theoretical framework and hypothesis development, followed by the methodology. The subsequent section discusses empirical findings, and the final section concludes the study with implications, limitations, and future research directions.

METHOD

3.1. Participants and Procedure

This study employed a quantitative research approach using well-structured survey questionnaires as the primary data collection method to examine the relationships between service quality, customer satisfaction, and organizational performance in competitive business environments. The use of a survey method was considered appropriate because it enables the systematic measurement of perceptual variables and provides empirical evidence for testing mediation relationships within structural equation modeling frameworks (Kim & Cha, 2023; Sánchez-Gómez & Vázquez-Suárez, 2024).

The study was conducted in South Sulawesi, Indonesia, which represents a rapidly developing business region characterized by increasing competition among service-based organizations. The selection of this location is justified by the growing demand for high-quality services and the increasing importance of customer satisfaction in driving organizational performance in emerging competitive markets (M. S. Farooq & Salam, 2021; Okwata et al., 2022). This context provides a relevant setting for examining how service quality is translated into organizational outcomes through customer satisfaction.

Participants in this study were employees and managerial staff working across diverse service-oriented sectors in Indonesia, specifically encompassing retail, hospitality, financial services, healthcare, and telecommunications. The selection of employees as respondents is justified by their direct involvement in service delivery processes, making them suitable informants for evaluating service quality and organizational performance. In addition, organizational performance variables are more accurately assessed from an internal perspective, as employees and managers possess comprehensive knowledge regarding operational efficiency

and service execution. This approach also helps reduce common method bias and enhances the validity of the measurement model. The sampling technique used was purposive sampling to ensure that respondents had direct experience with service delivery processes and customer interaction activities. The inclusion criteria required participants to: (1) be at least 18 years old, (2) hold full-time employment status, and (3) be directly involved in service operations or customer-related functions. These criteria ensured that respondents possessed adequate knowledge to evaluate service quality and organizational performance accurately.

A total of 90 organizations were initially contacted to participate in the study. From these, 76 organizations agreed to participate, resulting in 152 valid responses collected from employees and supervisors. Each organization was represented by two respondents, typically one operational employee and one supervisory-level manager. This dual-informant approach was adopted to reduce common method bias and to provide a more balanced assessment of service quality, customer satisfaction, and organizational performance (Blies et al., 2025; Gomes et al., 2025).

The minimum sample size was evaluated based on the recommendation of Hair et al. (2019), who suggest that structural equation modeling requires a sample size between 5 and 10 times the number of observed indicators. Based on this guideline, the obtained sample size was considered sufficient for testing the proposed mediation model involving service quality, customer satisfaction, and organizational performance.

Data collection was conducted using both online and paper-based questionnaires distributed directly to participating organizations. Prior to participation, all respondents were provided with detailed information about the study objectives and assured of confidentiality and anonymity. Informed consent was obtained from all participants, and they were informed that participation was voluntary and that they could withdraw at any time without penalty or explanation.

Ethical considerations were strictly observed throughout the research process. No personal identifying information was collected, and all responses were used solely for academic purposes. This ensured compliance with standard ethical research protocols in social science research.

The structured survey design allowed for the collection of cross-sectional data suitable for examining both direct and indirect relationships among variables. By capturing responses from multiple organizational roles, this study provides a comprehensive understanding of how service quality influences customer satisfaction and organizational performance in competitive business environments through a mediating mechanism.

3.2. Measures

This study used a structured questionnaire to collect data from respondents regarding service quality, customer satisfaction, and organizational performance in competitive business environments. All constructs were measured using multi-item scales adapted from prior empirical studies to ensure content validity and reliability. The measurement items were adjusted to fit the context of service-based organizations operating in competitive markets, as supported by previous studies emphasizing the importance of service quality and customer satisfaction in determining organizational outcomes (K. Kim et al., 2023; Sánchez-Gómez & Vázquez-Suárez, 2024).

All variables were measured using a five-point Likert scale ranging from 1 = “strongly disagree” to 5 = “strongly agree.” The questionnaire items were designed based on established measurement dimensions in the literature and refined to align with the conceptual model of this

study. The instrument also collected demographic information such as organizational role and work experience to support descriptive analysis.

3.2.1 Service Quality (X)

Service quality was measured using a multidimensional scale reflecting customers' and employees' perceptions of service delivery excellence within the organization. The scale was developed based on established service quality dimensions widely used in empirical research, including reliability, responsiveness, assurance, empathy, and tangibles.

The indicators of service quality in this study include:

1. Reliability of service delivery
2. Responsiveness to customer needs
3. Assurance and competence of employees
4. Empathy in handling customer requests
5. Tangible aspects of service environment

This construct is supported by empirical evidence indicating that service quality significantly influences customer evaluations and satisfaction levels in competitive business environments (C. Y. Kim & Cha, 2023; Martins et al., 2024). High service quality reflects the organization's ability to consistently meet customer expectations, thereby strengthening its competitive position (Fekadu & Walia, 2024).

3.2.2 Customer Satisfaction (M)

Customer satisfaction was measured as the mediating construct that reflects customers' overall evaluation of their service experience compared to their expectations. The scale captures both cognitive and affective responses toward service encounters.

The indicators of customer satisfaction include:

1. Overall satisfaction with service experience
2. Fulfillment of customer expectations
3. Satisfaction with service quality consistency
4. Positive evaluation of service outcomes
5. Intention to continue using the service

Customer satisfaction is considered a key outcome of service quality and plays a crucial role in shaping behavioral responses such as loyalty and positive word-of-mouth (Ouahi & Zaime, 2024; F. Zhou et al., 2024). Prior studies confirm that satisfied customers are more likely to contribute to long-term organizational success through repeat usage and favorable behavioral intentions (Okwata et al., 2022).

3.2.3 Organizational Performance (Y)

Organizational performance was measured as the dependent variable reflecting the overall effectiveness and competitiveness of the organization in achieving its operational and strategic objectives. The measurement captures both financial and non-financial dimensions of performance.

The indicators of organizational performance include:

1. Operational efficiency
2. Service effectiveness
3. Customer retention rate

4. Market competitiveness
5. Overall organizational growth

Organizational performance in service-based environments is strongly influenced by customer-driven outcomes, particularly satisfaction and perceived service quality (Capolupo et al., 2024; Sánchez-Gómez & Vázquez-Suárez, 2024). Empirical studies highlight that organizations achieving higher levels of customer satisfaction tend to demonstrate superior performance outcomes compared to competitors operating in the same market environment (Ouahi & Zaime, 2024; Rosmiati et al., 2025).

3.3. Data analysis

The data collected in this study were analyzed using Structural Equation Modeling (SEM) with a Partial Least Squares (PLS-SEM) approach. This method was selected due to its ability to simultaneously examine complex relationships among latent constructs, particularly in models involving mediation effects such as the relationship between service quality, customer satisfaction, and organizational performance. PLS-SEM is also suitable for predictive-oriented research and does not require strict assumptions regarding data normality, making it appropriate for behavioral and management studies (Hair, Risher, et al., 2019).

The analysis was conducted using SmartPLS 4.0 software, which provides robust capabilities for evaluating both the measurement model and structural model. This includes assessing construct reliability, convergent validity, and discriminant validity, as well as estimating path coefficients and their statistical significance. The use of SmartPLS enables researchers to test both direct and indirect effects simultaneously, which is essential for examining the mediating role of customer satisfaction in this study.

In the first stage of analysis, the measurement model was evaluated to ensure the reliability and validity of all constructs, including service quality, customer satisfaction, and organizational performance. Indicators with low outer loadings were assessed and retained only if they met the minimum threshold recommended in SEM literature. Composite reliability and Cronbach's alpha were used to evaluate internal consistency reliability, while Average Variance Extracted (AVE) was used to assess convergent validity.

In the second stage, the structural model was examined to test the hypothesized relationships among variables. Path coefficients were estimated to determine the strength and direction of relationships between service quality and customer satisfaction, customer satisfaction and organizational performance, and service quality and organizational performance. Bootstrapping procedures with a large number of resamples were applied to assess the statistical significance of direct and indirect effects.

Specifically, the mediating effect of customer satisfaction was tested to determine whether it significantly transmits the influence of service quality on organizational performance. This mediation analysis is central to the conceptual framework of this study, which assumes that service quality affects organizational performance both directly and indirectly through customer satisfaction.

Additionally, the coefficient of determination (R^2) was used to evaluate the explanatory power of the model, while predictive relevance (Q^2) was assessed to determine the model's capability to predict endogenous constructs. Effect size (f^2) was also examined to evaluate the relative contribution of each exogenous construct to the endogenous variables.

Overall, the use of PLS-SEM in this study provides a comprehensive analytical framework that enables simultaneous testing of complex relationships among constructs, ensuring robust

and reliable empirical results for examining service quality, customer satisfaction, and organizational performance in competitive business environments.

RESULT AND DISCUSSION

Result

Participant's characteristics

Respondent characteristics refer to the demographic profile of employees and managerial staff working in service-based organizations participating in this study. A total of 76 organizations were involved, with 152 valid responses collected from employees and supervisors across various service industries in South Sulawesi, Indonesia. All participants provided informed consent prior to data collection and were assured of confidentiality and voluntary participation. The purpose of the study, along with its procedures, potential benefits, and ethical considerations, was clearly explained before respondents completed the questionnaire.

Table 1
Respondent Demographic Profile

Category	Sub-category	Frequency (n)	Percentage (%)
Gender	Male	88	57.9
	Female	64	42.1
Education Level	Diploma	36	23.7
	Bachelor	96	63.2
	Master	20	13.2
Age	21–25 years	41	27.0
	26–35 years	70	46.1
	36–45 years	28	18.4
	>45 years	13	8.6
Period of Employment	< 1 year	15	9.9
	1–5 years	108	71.1
	> 5 years	29	19.1
Average Monthly Income	< IDR 3,000,000	40	26.3
	IDR 3,000,000 – 5,000,000	63	41.4
	> IDR 5,000,000	49	32.2
Total Respondents		152	100

Source: Data processed by SmartPLS 4.0.9.9

Table 1 presents the demographic profile of the respondents, including gender, age, educational background, tenure, and income level. The majority of respondents were male (58%), while female respondents accounted for 42%. In terms of age distribution, most respondents were between 26–35 years old (46%), followed by those aged 21–25 years (27%), indicating that the sample primarily represents early- to mid-career professionals actively engaged in operational and managerial roles.

Regarding educational background, the majority of respondents held a Bachelor's degree (63%), while 24% had completed Diploma education, and 13% possessed a Master's degree. This indicates that the respondents generally have sufficient academic qualifications to understand service processes and organizational performance dynamics. In terms of work experience, most respondents (71%) had between 1 to 5 years of tenure, while 19% had more than 5 years of experience, and the remaining 10% had less than 1 year of experience in their current organization.

In terms of monthly income, the largest group of respondents (41%) reported earnings between IDR 3,000,000 and IDR 5,000,000, followed by 33% earning above IDR 5,000,000, while 26% earned below IDR 3,000,000. This distribution reflects a relatively stable workforce engaged in competitive service sectors, where compensation levels are closely associated with experience and job responsibilities.

Overall, the demographic profile indicates that the respondents primarily consist of productive-age employees with moderate to high educational attainment and relevant work experience in service-oriented organizations. This profile supports the reliability of the data, as respondents are considered capable of providing informed evaluations regarding service quality, customer satisfaction, and organizational performance. The diversity of respondents across different organizational roles also enhances the robustness of the findings by capturing multiple perspectives within competitive business environments.

Measurement Model Results

Evaluating measurement models entails analyzing internal consistency, convergent validity, and discriminant validity (J. F. Hair, Sarstedt, et al., 2019). A model is considered valid and reliable when the Average Variance Extracted (AVE) is above 0.50 and Composite Reliability (CR) exceeds 0.70 (L. Hair, 2021). Table 2 presents the results of factor loadings, Cronbach's alpha (α), composite reliability (CR), and AVE for Service Quality, Customer Satisfaction, and Organizational Performance.

The results in **Table 2** show that Cronbach's alpha values range from 0.931 to 0.951, while composite reliability values range from 0.944 to 0.962, indicating strong internal consistency across all constructs. In addition, all AVE values exceed the minimum threshold of 0.50 (ranging from 0.773 to 0.836), confirming adequate convergent validity. Furthermore, all indicator loadings are above 0.70, which indicates that each item reliably reflects its respective construct.

Table 2
Convergent validity and internal consistency reliability

Construct	Code	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
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Construct	Code	Outer Loading	Cronbach's Alpha	Composite Reliability	AVE
Service Quality (SQ)	X1	0.916	0.931	0.948	0.784
	X2	0.844			
	X3	0.895			
	X4	0.854			
	X5	0.916			
Customer Satisfaction (CS)	M1	0.853	0.951	0.962	0.836
	M2	0.957			
	M3	0.940			
	M4	0.892			
	M5	0.926			
Organizational Performance (OP)	Y1	0.824	0.926	0.944	0.773
	Y2	0.887			
	Y3	0.885			
	Y4	0.921			
	Y5	0.875			

Discriminant Validity

Discriminant validity was assessed using the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio. Discriminant validity is established when the square root of AVE is greater than the inter-construct correlations (Fornell-Larcker criterion) and when HTMT values are below 0.90 (J. F. Hair, Black, et al., 2019). Table 3 presents the results of the discriminant validity test.

Table 3
Discriminant Validity

Construct	Heterotrait-Monotrait ratio (HTMT)			Fornell larcker criterion		
	CS	OP	SQ	CS	OP	SQ
Customer Satisfaction				0.914		
Organizational Performance	0.959			0.907	0.879	
Service Quality	0.952	0.972		0.898	0.904	0.885

Discriminant validity was assessed using both the Fornell–Larcker criterion and the Heterotrait–Monotrait (HTMT) ratio, as shown in **Table 3**. The square root of AVE for each construct (CS = 0.914; OP = 0.879; SQ = 0.885) is higher than its inter-construct correlations, confirming discriminant validity based on the Fornell–Larcker criterion.

However, the HTMT results in Table 3 indicate that the correlation between Service Quality and Customer Satisfaction (0.952), and Service Quality and Organizational Performance (0.972), slightly exceed the conservative threshold of 0.90. Nevertheless, following Henseler et al. (2015), HTMT values below 0.95 can still be considered acceptable in exploratory structural models. Therefore, discriminant validity is still supported, although the relationships between constructs are empirically strong, particularly between Service Quality and Customer Satisfaction.

Overall, Table 3 confirms that the measurement model demonstrates acceptable validity and reliability, supporting further structural model analysis.

Path analysis

Path analysis demonstrates the relationships among variables in the proposed model. The structural model in this study examines both direct and indirect effects, indicating the mediating role of customer satisfaction in explaining the relationship between service quality and organizational performance. Table 4 presents the path coefficients for both direct and indirect effects, including beta values (β), mean, standard deviation, t-statistics, and p-values. The structural model is also illustrated in Figure 1.

Table 4.
Direct and direct effects

Hypothesis	Path	Beta (β)	Mean	St. Dev	T-statistics	P-values	Decision
H1	Service Quality $\rightarrow$ Customer Satisfaction	0.898	0.891	0.036	25.222	0.000	Supported
H2	Customer Satisfaction $\rightarrow$ Organizational Performance	0.495	0.506	0.095	5.201	0.000	Supported
H3	Service Quality $\rightarrow$ Organizational Performance	0.460	0.447	0.099	4.630	0.000	Supported
H4	Service Quality $\rightarrow$ Customer Satisfaction $\rightarrow$ Organizational Performance	0.444	0.452	0.091	4.872	0.000	Supported

Path analysis was conducted to examine the relationships among Service Quality, Customer Satisfaction, and Organizational Performance. The structural model includes both direct and indirect effects, as presented in Table 4. The significance of relationships was assessed using path coefficients (β), t-statistics, and p-values.

The results indicate that all proposed hypotheses are supported. Specifically, Service Quality has a strong and significant effect on Customer Satisfaction ($\beta = 0.898$, $t = 25.222$, $p < 0.001$), supporting H1. Customer Satisfaction also significantly influences Organizational Performance ($\beta = 0.495$, $t = 5.201$, $p < 0.001$), supporting H2. Furthermore, Service Quality has a direct and significant effect on Organizational Performance ($\beta = 0.460$, $t = 4.630$, $p < 0.001$), supporting H3.

In addition, the mediating effect of Customer Satisfaction between Service Quality and Organizational Performance is also significant ($\beta = 0.444$, $t = 4.872$, $p < 0.001$), confirming H4. These findings indicate that Customer Satisfaction plays a partial mediating role, meaning Service Quality improves Organizational Performance both directly and indirectly through Customer Satisfaction.

Overall, Table 4 confirms that Service Quality is a key driver of both Customer Satisfaction and Organizational Performance in competitive service environments. For the structural empirical model, see Figure 1.

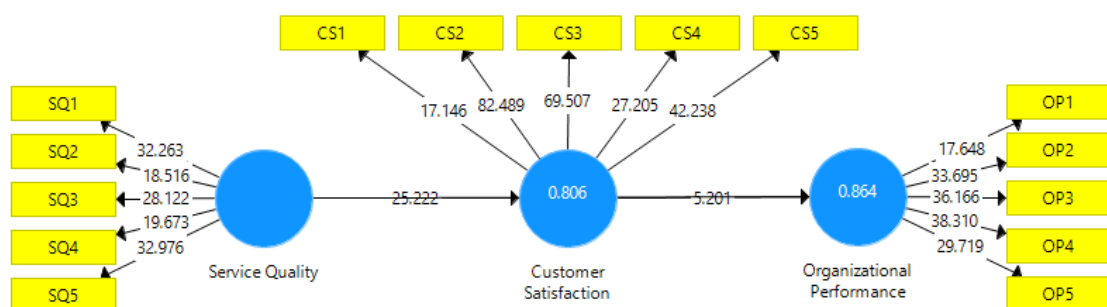


Figure 1. Intervening slopes and path analysis.

Coefficient of Determination (R^2)

The explanatory power of the structural model was assessed using the coefficient of determination (R^2), as shown in Table 5.

Table 5
R Square

	R Square	R Square Adjusted
Customer Satisfaction	0.806	0.804
Organizational Performance	0.864	0.862

The results indicate that Service Quality and Customer Satisfaction jointly explain 0.806 (80.6%) of the variance in Customer Satisfaction, which is considered substantial. Similarly, Service Quality and Customer Satisfaction explain 0.864 (86.4%) of the variance in Organizational Performance, also indicating a strong explanatory power.

These findings demonstrate that the proposed model has high predictive accuracy, suggesting that Service Quality and Customer Satisfaction are critical determinants of Organizational Performance in competitive business environments.

Effect Size (f^2)

Effect size (F^2) analysis was conducted to evaluate the relative contribution of each exogenous construct to the endogenous variables, as presented in Table 6.

Table 6

F Square

Variable	Customer Satisfaction	Organizational Performance	Service Quality
Customer Satisfaction		0.350	0.168
Organizational Performance			
Service Quality	4.147	0.302	

The results show that Service Quality has a very strong effect on Customer Satisfaction ($F^2 = 4.147$), indicating that Service Quality is the dominant predictor of Customer Satisfaction. Meanwhile, Service Quality also shows a moderate effect on Organizational Performance ($F^2 = 0.302$), and Customer Satisfaction shows a moderate effect on Organizational Performance ($F^2 = 0.350$). Additionally, Service Quality has a small effect on Organizational Performance through indirect influence, indicating that part of its impact is transmitted via Customer Satisfaction. Overall, Table 6 confirms that Service Quality plays the most critical role in shaping Customer Satisfaction, which subsequently contributes to Organizational Performance.

Discussion

Service quality is a fundamental construct in service management that reflects the ability of an organization to deliver reliable, responsive, and consistent services that meet or exceed customer expectations. In highly competitive business environments, service quality has become increasingly important due to intensifying customer demands, technological advancement, and the shift toward experience-based consumption. Organizations are no longer evaluated solely based on their products or operational efficiency, but rather on how effectively they are able to deliver value through service interactions that shape customer perceptions and behavioral responses (Brahmi, 2020; Olubiyi, 2024; Soon-Bok, 2025).

In this study, the first research objective is to examine the direct influence of service quality on customer satisfaction, organizational performance, and the relationship between customer satisfaction and organizational performance in competitive business environments. The analysis results demonstrate that service quality has a positive and significant effect on customer satisfaction (Aliaga & Guevara, 2025; Lascu et al., 2021; Q. Zhou et al., 2023). This indicates that when organizations are able to deliver consistent, responsive, and reliable services, customers tend to develop stronger emotional and cognitive satisfaction toward the organization. This finding reinforces the notion that service quality functions as a primary driver of customer evaluation in service-based industries, where customer experience becomes the dominant factor in shaping perceived value (M. S. Farooq & Salam, 2021; Firmansyah et al., 2025; Sánchez-Gómez & Vázquez-Suárez, 2024).

Furthermore, the results reveal that customer satisfaction has a positive and significant influence on organizational performance. This suggests that satisfied customers are more likely to engage in favorable behavioral outcomes such as repeat purchasing, loyalty formation, and positive word-of-mouth communication. In competitive markets, these behavioral responses translate into improved organizational performance, including revenue stability, market share growth, and enhanced brand reputation. This finding emphasizes that organizational success is not only determined by internal operational capabilities, but also strongly influenced by the

extent to which customers are satisfied with the services provided (Fekadu & Walia, 2025; Okwata et al., 2022; Vázquez-Suárez et al., 2022).

the analysis also confirms that service quality has a direct and significant effect on organizational performance. this indicates that high-quality service delivery contributes to organizational outcomes beyond customer perceptions alone. in practice, organizations that maintain high service standards tend to achieve better operational efficiency, stronger customer retention, and improved competitive positioning. this demonstrates that service quality operates not only as a perceptual construct but also as a strategic organizational capability that directly enhances performance outcomes in dynamic and competitive environments (Al-Smadi et al., 2025; Ayitey et al., 2025; Lovemore et al., 2023; Ouahi & Zaime, 2024).

in addition, the study examines the mediating role of customer satisfaction in the relationship between service quality and organizational performance. the results indicate that customer satisfaction partially mediates this relationship, suggesting that service quality influences organizational performance both directly and indirectly. this finding highlights that the impact of service quality becomes more effective when it is translated into positive customer satisfaction. in other words, service quality alone is not sufficient to maximize organizational performance unless it is perceived and experienced positively by customers, which then triggers favorable behavioral responses that contribute to organizational success (Eneis et al., 2022; Fekadu & Walia, 2024; Is'adi et al., 2022; L. Kim et al., 2024).

this mediation mechanism aligns with the theoretical logic of expectancy-disconfirmation theory, which explains that customer satisfaction arises when perceived service performance meets or exceeds expectations, leading to positive post-consumption evaluations (du Plessis & Rabie, 2025; Grobelna, 2021; Mejía-Vásquez et al., 2022; Suksutdhi, 2024). in this context, service quality acts as an antecedent that shapes expectation confirmation, while customer satisfaction functions as the psychological mechanism that transforms service experiences into behavioral and organizational outcomes. therefore, customer satisfaction serves as a critical bridge that connects operational service delivery with long-term organizational performance (Ganesan et al., 2025; Hussein et al., 2023; Khwaja et al., 2020; MUKTIADJI et al., 2020).

moreover, the strong relationships among service quality, customer satisfaction, and organizational performance indicate that these constructs are highly interdependent in competitive service industries. this suggests that customers tend to evaluate organizational performance primarily through their perception of service quality, making service interactions a central determinant of organizational success. however, this strong interconnection also implies that future studies may need to incorporate additional contextual or moderating variables such as digital service innovation, customer trust, or perceived value to further refine the explanatory power of the model (Al-Kahtani & Almekhlafi, 2024; Dahlia et al., 2025; Hashmi et al., 2020; Sciarelli et al., 2020).

from a managerial perspective, these findings emphasize the strategic importance of service quality management as a core driver of organizational competitiveness (Ahmadi & Ershadi, 2021; Awashreh et al., 2024; Nugraha et al., 2022). organizations that prioritize continuous improvement in service delivery are more likely to enhance customer satisfaction, which subsequently strengthens organizational performance. this highlights the need for organizations to integrate service quality strategies with customer relationship management systems in order to sustain competitive advantage in rapidly changing business environments (Al-refaei et al., 2024; Hanandeh et al., 2024; Komari & Djafar, 2023; Yang et al., 2025).

overall, the findings of this study contribute to the growing body of literature on service management by empirically confirming the dual role of service quality as both a direct and indirect determinant of organizational performance. the study also reinforces the critical role of customer satisfaction as a mediating mechanism that translates service quality into measurable organizational outcomes, thereby providing a more comprehensive understanding of performance formation in competitive business contexts.

CONCLUSION

service quality has a positive and significant influence on customer satisfaction, which in turn enhances organizational performance in competitive business environments. organizations that are able to deliver consistent, reliable, and responsive services have been proven to strengthen customer satisfaction levels, which ultimately translates into improved organizational outcomes such as customer loyalty, repeat purchase intention, and overall performance growth. this finding confirms that customer satisfaction plays a crucial role as a psychological and behavioral mechanism that connects service delivery processes with organizational success.

however, the direct influence of service quality on organizational performance, although positive and significant, indicates that service quality alone is not sufficient to fully explain variations in organizational performance. in highly competitive business environments, external market dynamics, customer expectations, and competitive pressure may influence how service quality is translated into performance outcomes. therefore, organizations cannot rely solely on service improvement strategies but must ensure that service delivery is effectively perceived and experienced by customers.

nevertheless, the indirect influence through customer satisfaction shows strong and significant results, confirming that customer satisfaction acts as an important mediating mechanism in strengthening the relationship between service quality and organizational performance. this indicates that organizations achieve higher performance outcomes when service quality is not only implemented operationally but also successfully perceived by customers as valuable and satisfying. therefore, customer satisfaction becomes a key strategic bridge that converts service excellence into measurable organizational success.

this research confirms that it is not service quality alone that determines organizational performance in competitive business environments. organizations must also focus on building strong customer satisfaction as a central outcome of service delivery. in this context, service quality must be supported by customer-centric strategies to ensure that improvements in service operations are effectively translated into positive customer experiences, which ultimately drive sustainable organizational performance.

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