

Service Quality as the Dominant Driver of Customer Loyalty in SME Internationalization: Beyond the Mediating Role of Perceived Value

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ABSTRACT:

This study investigates whether service quality exerts a direct effect on customer loyalty that outweighs its indirect effect through perceived value in the context of small and medium-sized enterprise (SME) internationalization. While the service-profit chain and extensive literature posit perceived value as a key mediating mechanism, empirical evidence on the relative strength of direct versus indirect pathways remains limited, particularly in developing-economy SME contexts. A quantitative cross-sectional survey design was employed, collecting data from 260 SMEs in Nanning, Guangxi, China, engaged in international business activities. Bootstrap mediation analysis (PROCESS Model 4, 5,000 resamples) was used to test direct and indirect effects of service quality on customer loyalty through perceived value. Service quality demonstrates a dominant direct effect on customer loyalty ($\beta = 0.625$, $p < 0.001$), substantially exceeding the indirect effect transmitted through perceived value ($\beta = 0.194$, $p = 0.001$). The combined model explains 60.4% of variance in customer loyalty. These findings challenge the implicit assumption of full mediation in the service-profit chain, suggesting that service quality operates primarily through direct cognitive and affective mechanisms rather than through deliberate value trade-off evaluations. This study contributes to services marketing and international entrepreneurship literature by providing empirical evidence that service quality's influence on SME customer loyalty is predominantly direct in the internationalization context. It extends the service-profit chain by demonstrating that perceived value plays a supplementary rather than primary mediating role, offering a refined theoretical understanding of loyalty formation in resource-constrained internationalizing SMEs.

Keywords: Service quality, perceived value, customer loyalty, SME internationalization, service-profit chain, mediation analysis

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1. Introduction

Customer loyalty represents one of the most valued intangible assets for firms competing in both domestic and international markets. Loyal customers generate consistent revenue streams, exhibit reduced price sensitivity, spread positive word-of-mouth, and reduce customer acquisition costs, all of which directly enhance profitability (Sah et al., 2025; Yum & Kim, 2024). For small and medium-sized enterprises (SMEs), which typically lack the scale, brand recognition, and financial resources of larger multinational corporations, cultivating a loyal customer base is particularly critical for survival and sustainable growth in foreign markets (Woo, 2025; Mammadov & Wald, 2025).

The service-profit chain (Heskett et al., 1994) has provided the dominant theoretical framework for understanding how service quality translates into customer loyalty and, ultimately, financial performance. This framework posits a causal sequence: service quality drives customer satisfaction, which drives customer loyalty, which drives profitability and growth. Within this chain, perceived value—the customer's overall assessment of utility based on perceptions of what is received relative to what is given—has been widely theorized and empirically supported as a key mediating mechanism through which service quality influences loyalty (Yum & Kim, 2024; Sah et al., 2025; Rashid & Rasheed, 2024).

However, a critical question remains inadequately addressed in the literature: Is the influence of service quality on customer loyalty predominantly direct, or does it operate primarily through the mediating mechanism of perceived value? The answer to this question carries significant implications for both theory and practice. If service quality exerts a dominant direct effect, managers should prioritize service excellence as an end in itself, rather than focusing primarily on value communication and price-value trade-offs. If perceived value serves as the primary pathway,

value-enhancing strategies—including pricing, benefit communication, and cost reduction—become the priority.

This study addresses this question in the context of SME internationalization from Nanning, Guangxi, China, to ASEAN markets. This context is strategically significant for several reasons. First, SMEs constitute the backbone of the Chinese economy, accounting for over 60% of GDP and 80% of urban employment, and their successful internationalization is a matter of national economic significance (Wang et al., 2025). Second, Nanning's position as China's premier gateway to ASEAN—as the permanent host of the China-ASEAN Expo and a pivotal node in the Belt and Road Initiative and Regional Comprehensive Economic Partnership—creates a unique institutional environment that shapes the opportunities and constraints facing local SMEs pursuing internationalization (Syzykova & Azretbergenova, 2025). Third, the ASEAN market, with its population of over 650 million and diverse regulatory and cultural environments, presents both significant opportunities and formidable challenges for SMEs seeking to build customer loyalty (Köse, 2024).

Drawing on data from 260 SMEs in Nanning, this study employs bootstrap mediation analysis to test the direct effect of service quality on customer loyalty and its indirect effect through perceived value. The findings reveal that service quality exerts a dominant direct effect ($\beta = 0.625$, $p < 0.001$) that substantially exceeds its indirect effect through perceived value ($\beta = 0.194$, $p = 0.001$). This result challenges the implicit assumption of full mediation in the service-profit chain and contributes to a refined understanding of loyalty formation in internationalizing SMEs.

2. Literature Review and Hypotheses

2.1 Service Quality

Service quality is defined as the consumer's overall assessment of the superiority or excellence of a

service (Rashid & Rasheed, 2024). It represents a global judgment or attitude relating to the superiority of the service, rather than a satisfaction evaluation resulting from a specific transaction. The conceptualization of service quality is rooted in the expectancy-disconfirmation paradigm, which posits that consumers form perceptions of quality by comparing their expectations of the service with their perceptions of actual service performance (Rashid & Rasheed, 2024; Yigitoglu et al., 2025).

The SERVQUAL instrument, developed by Parasuraman, Zeithaml, and Berry (1988), operationalizes this paradigm by measuring the gap between customer expectations and perceptions across five key dimensions: tangibles, reliability, responsiveness, assurance, and empathy (Rashid & Rasheed, 2024; Yigitoglu et al., 2025). Subsequent research has extended the service quality concept to e-service quality (Rashid & Rasheed, 2024), logistics service quality (Rashid & Rasheed, 2024), and circular economy service quality (Sah et al., 2025), demonstrating its applicability across diverse contexts.

Within the Resource-Based View (RBV) framework, superior service quality can be viewed as a valuable, rare, and difficult-to-imitate organizational capability (Sah et al., 2025; Ferreira & Ferreira, 2025). It is valuable because it directly contributes to customer satisfaction, positive word-of-mouth, and customer retention. It is rare because not all firms possess the organizational culture, processes, and employee commitment required to consistently deliver high-quality service. It is difficult to imitate because it involves tacit knowledge, employee-customer interactions, and organizational routines that are not easily replicated by competitors (Sah et al., 2025).

For SMEs in developing economies, service quality takes on particular strategic significance. Unlike large multinational corporations, SMEs often cannot compete on price or scale alone; service quality provides an alternative basis for

differentiation that can help SMEs overcome their resource disadvantages and compete effectively both domestically and internationally (Kim, 2025). When entering foreign markets, SMEs face the "liability of foreignness"—the additional costs and risks associated with operating in an unfamiliar environment—and superior service quality can help overcome this liability by building trust with foreign customers and establishing a reputation for reliability and excellence (Kim, 2025; Mammadov & Wald, 2025).

2.2 Perceived Value

Perceived value is defined as the consumer's overall assessment of the utility of a product or service based on perceptions of what is received (benefits) and what is given (costs) (Zeithaml, 1988). It represents a trade-off between the "get" component (e.g., quality, convenience, emotional benefits) and the "give" component (e.g., monetary price, time, effort). Perceived value is a subjective, consumer-specific construct that reflects the net benefit derived from a consumption experience (Yum & Kim, 2024).

Zeithaml (1988) identified four distinct conceptualizations of value that consumers may hold: value as low price, value as whatever the consumer wants in a product, value as the quality the consumer receives for the price paid, and value as what the consumer gets for what the consumer gives. This multi-faceted conceptualization underscores the complexity of perceived value and its dependence on individual consumer perspectives. In contemporary research, perceived value has evolved to encompass three essential dimensions: utilitarian, hedonic, and social values (Yum & Kim, 2024), each capturing different aspects of the value consumers derive from their consumption experiences.

Perceived value is distinct from service quality in two important ways. First, while service quality focuses specifically on the service experience, perceived value is a broader assessment that encompasses all costs (monetary and non-

monetary) and all benefits (functional and emotional). Second, perceived value is inherently comparative, involving a trade-off between benefits and sacrifices, while service quality is an assessment of service superiority without an explicit consideration of costs (Yum & Kim, 2024).

Extensive empirical research has established several key antecedents of perceived value, with service quality consistently identified as the most powerful predictor (Rashid & Rasheed, 2024; Yigitoglu et al., 2025; Sah et al., 2025). Information quality, price, brand image, customer experience, environmental concern, and AI anxiety have also been identified as significant antecedents (Farhadpoor & Bajoli, 2025; Chen et al., 2025; Dangelico et al., 2024). The consequences of perceived value include customer satisfaction, customer loyalty, purchase intentions, competitive advantage, trust, and brand image (Yum & Kim, 2024; Sah et al., 2025; Saleem et al., 2026).

2.3 Customer Loyalty

Customer loyalty is defined as a deeply held commitment to repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior (Oliver, 1999). Customer loyalty encompasses both attitudinal and behavioral dimensions, reflecting a customer's favorable disposition towards a brand and their repeat purchasing behavior (Yum & Kim, 2024; Sah et al., 2025).

Loyal customers are highly valued because they tend to buy more over time, pay price premiums, spread positive word-of-mouth, and bring in new customers (Sah et al., 2025). Serving loyal customers leads to revenue growth through repeat purchases and referrals, decline of costs as a consequence of serving more experienced customers, and employee retention and loyalty as a consequence of positive impact of customer loyalty on employees' job satisfaction and loyalty (Reichheld, 2003).

The antecedents of customer loyalty have been extensively studied, with service quality and customer satisfaction gaining the status of the most frequently examined determinants (Yum & Kim, 2024; Sah et al., 2025). Trust has also been identified as a significant determinant (Yum & Kim, 2024; Saleem et al., 2025). In the context of SMEs, customer loyalty is particularly critical because these enterprises generally lack the resources to engage in costly customer acquisition campaigns and must rely on retention to sustain growth (Woo, 2025; Mammadov & Wald, 2025).

2.4 The Service-Profit Chain and the Mediating Role of Perceived Value

The service-profit chain (Heskett et al., 1994) provides the dominant theoretical framework for understanding the relationships among service quality, customer satisfaction, customer loyalty, and profitability. The chain posits that internal service quality drives employee satisfaction and productivity, which drives service quality, which drives customer satisfaction, which drives customer loyalty, which drives profitability and growth. This framework has been extensively validated across diverse service contexts and has become a cornerstone of services marketing theory (Shoaib & Saleem, 2023; Sah et al., 2025; Yum & Kim, 2024).

Within this framework, perceived value has been widely theorized and empirically supported as a key mediating mechanism through which service quality influences customer loyalty (Yum & Kim, 2024; Sah et al., 2025; Rashid & Rasheed, 2024). Drawing on means-end theory and cue utilization theory, consumers use service quality as a cue to form judgments about the overall value they receive (Rashid & Rasheed, 2024). When customers perceive that they have received excellent service, they are more likely to believe that they have received good value for their money, time, and effort. This enhanced perceived value, in turn, motivates customers to remain loyal to the firm.

Yum and Kim (2024) investigated the influence of perceived value dimensions on customer satisfaction, trust, and loyalty in entertainment platforms, finding that customer satisfaction mediates the relationship between perceived value and loyalty. Sah et al. (2025) found that customer satisfaction and customer loyalty serially mediate the relationship between circular economy service quality and brand value. Rashid and Rasheed (2024) demonstrated that logistics service quality dimensions significantly influence product satisfaction, which in turn influences loyalty intentions.

However, an important question remains: does perceived value fully mediate the service quality-loyalty relationship, or does service quality exert a direct effect on loyalty that is independent of perceived value? The answer to this question has significant theoretical and practical implications. If perceived value fully mediates the relationship, efforts to build customer loyalty should focus primarily on enhancing perceived value through pricing, value communication, and benefit enhancement. If service quality exerts a direct effect, investments in service excellence become a priority in their own right.

Recent evidence suggests that mechanisms other than perceived value may play a more significant role in translating service quality into loyalty. Gurler (2024) investigated the serial mediation effect of consumer brand identification and perceived value on the service quality-loyalty relationship in the airline industry, finding that consumer brand identification has a greater influence on improving customer loyalty than perceived value. Diwayanti et al. (2025) found that service quality and customer experience do not significantly affect customer loyalty directly, but indirectly affect loyalty through perceived value in the Indonesian pharmacy context. These mixed findings suggest that the mediating role of perceived value may be context-dependent.

2.5 Hypothesis Development

The extensive literature on the service quality-perceived value-customer loyalty relationship supports two competing pathways. First, service quality may influence customer loyalty directly, without the mediation of perceived value. This direct pathway is supported by the service-profit chain logic, which positions service quality as a key driver of loyalty (Heskett et al., 1994), and by empirical evidence that service quality exerts a significant direct effect on loyalty in some contexts (Woo, 2025; Sah et al., 2025).

Second, service quality may influence customer loyalty indirectly through perceived value. This indirect pathway is supported by means-end theory and cue utilization theory, which suggest that consumers use service quality as a cue to infer overall value, which in turn drives loyalty (Rashid & Rasheed, 2024; Yum & Kim, 2024). The indirect pathway is also supported by extensive empirical evidence documenting the mediating role of perceived value in the service quality-loyalty relationship (Sah et al., 2025; Diwayanti et al., 2025; Yum & Kim, 2024).

Based on these theoretical and empirical foundations, the following hypotheses are proposed:

H1: Service quality has a significant positive direct effect on customer loyalty.

H2: Perceived value mediates the relationship between service quality and customer loyalty.

H3: The direct effect of service quality on customer loyalty (H1) exceeds the indirect effect through perceived value (H2).

3. Methodology

3.1 Research Context and Sample

This study focuses on SMEs in Nanning, Guangxi, China, engaged in international business activities, particularly those targeting ASEAN markets. Nanning was selected as the research context for several reasons. As the permanent host of the

China-ASEAN Expo and a pivotal node in both the Belt and Road Initiative and the Regional Comprehensive Economic Partnership, Nanning is positioned as a strategic gateway to Southeast Asia (Köse, 2024; Saleem et al., 2024; Syzdykova & Azretbergenova, 2025). This institutional environment creates unique opportunities and challenges for SMEs pursuing internationalization. The city's geographic proximity to ASEAN, combined with its status as a key node in regional trade agreements, makes it an ideal setting for examining the dynamics of SME internationalization.

The target population was defined as formally registered SMEs in Nanning engaged in or possessing clear potential for international business activities. The operational definition of an SME adhered to the official Chinese criteria of fewer than 300 employees and annual operating revenue of less than RMB 200 million (Wang et al., 2025). A stratified random sampling technique was employed to ensure representativeness across industry, firm size, and international engagement status.

A total of 260 valid questionnaires were collected through a structured online survey distributed via Wenjuanxing (问卷星), a widely used Chinese online survey platform. The survey was distributed through multiple channels, including WeChat, QQ, email, and direct links through local business associations and chambers of commerce. Two reminder messages were sent to non-respondents at one-week and three-week intervals to maximize the response rate. The response rate was 78.79%, exceeding the pre-specified target sample size of 250.

3.2 Measures

All multi-item scales used a 6-point Likert scale (1 = Strongly Disagree to 6 = Strongly Agree). The questionnaire was developed by adapting validated scales from the literature, ensuring content validity. A rigorous translation and back-translation process

was employed to ensure conceptual equivalence in the Chinese context.

Service Quality: Service quality was measured using an 8-item scale adapted from the SERVQUAL instrument (Parasuraman et al., 1988) and validated in the SME and internationalization context (Rashid & Rasheed, 2024; Yigitoglu et al., 2025). Items captured the key dimensions of service quality, including reliability, responsiveness, assurance, and empathy. Example items include: "Our firm delivers services as promised" and "Our employees are consistently courteous with customers." The scale demonstrated strong reliability in this study (Cronbach's $\alpha = 0.905$).

Perceived Value: Perceived value was measured using a 3-item scale adapted from the PERVAL scale (Sweeney & Soutar, 2001) and validated in the SME context (Yum & Kim, 2024). The scale focused on the functional and utilitarian dimensions of value most relevant to B2B service contexts. Example items include: "Our services offer good value for money" and "The benefits of our services outweigh the costs." The scale demonstrated acceptable reliability (Cronbach's $\alpha = 0.802$).

Customer Loyalty: Customer loyalty was measured using a 4-item scale adapted from the loyalty literature (Yum & Kim, 2024; Sah et al., 2025), capturing both attitudinal and behavioral dimensions. Example items include: "Our customers are willing to continue doing business with us" and "Our customers would recommend our services to others." The scale demonstrated strong reliability (Cronbach's $\alpha = 0.890$).

3.3 Data Analysis

All statistical analyses were conducted using IBM SPSS Statistics 27, with mediation analysis performed using Hayes's PROCESS macro (version 4.0) with 5,000 bootstrap resamples to generate bias-corrected confidence intervals. The analytical approach followed a two-step framework: (1) assessment of the measurement model,

including reliability and validity; and (2) testing of the structural model, encompassing direct and mediating effects.

Reliability was assessed using Cronbach's alpha, with a threshold of $\alpha > 0.70$ indicating acceptable internal consistency. Construct validity was assessed through exploratory factor analysis (EFA) using principal axis factoring with varimax rotation. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy and Bartlett's test of sphericity were used to assess the suitability of the data for factor analysis. Mediation analysis was conducted using PROCESS Model 4, which estimates direct and indirect effects in a single model. The indirect effect was tested using 5,000 bootstrap resamples, with a 95% bias-corrected confidence interval indicating statistical significance when it excludes zero.

4. Results

4.1 Sample Characteristics

The final sample consisted of 260 SMEs from Nanning, Guangxi. As shown in Table 1, information technology and software firms constitute the largest industry group (42.31%), followed by business services (22.69%), wholesale/retail (13.46%), manufacturing (11.92%), and logistics/transport (8.46%). Most firms employ between 51 and 200 staff (65.76%) and are predominantly privately owned (62.31%). Respondents are concentrated in the 225-236 age range (66.54%), and 98.08% hold a bachelor's degree or above, indicating they are competent to report on their firm's internationalization practices.

Table 1. Sample Characteristics (N = 260)

Variable	Category	n	%
Industry	Manufacturing	31	11.92%
	Wholesale/Retail	35	13.46%
	IT/Software	110	42.31%
	Business services	59	22.69%
	Logistics/Transport	22	8.46%
	Other	3	1.15%
Employees	<10	19	7.31%
	225-236	43	16.54%
	225-236	92	35.38%
	225-236	79	30.38%
	225-236	27	10.38%
Ownership	Private domestic	162	62.31%
	State-owned	69	26.54%

Variable	Category	n	%
	Foreign-invested	12	4.62%
	Joint venture	17	6.54%

4.2 Descriptive Statistics and Reliability

Table 2 presents the composite means, standard deviations, and reliability coefficients of the three constructs. Construct means range from 3.937 (perceived value) to 4.023 (service quality) and 4.128 (customer loyalty), indicating that

respondents evaluate their firm's service quality, perceived value, and customer loyalty favorably overall. Cronbach's alpha values range from 0.802 (perceived value) to 0.905 (service quality) and 0.890 (customer loyalty), all exceeding the acceptable threshold of 0.70 and indicating good internal consistency reliability.

Table 2. Descriptive Statistics and Reliability

Construct	Items	Mean	SD	Cronbach's α
Service Quality (SQ)	8	4.023	0.715	0.905
Perceived Value (PV)	3	3.937	0.797	0.802
Customer Loyalty (CL)	4	4.128	0.778	0.890

4.3 Construct Validity

Exploratory factor analysis using principal axis factoring with varimax rotation was conducted to assess construct validity. The Kaiser-Meyer-Olkin measure of sampling adequacy is 0.953, exceeding the recommended threshold of 0.60, and Bartlett's test of sphericity is significant ($\chi^2 = 6391.775$, $df = 406$, $p < 0.001$), confirming that the correlation matrix is suitable for factor analysis. Three factors were extracted corresponding to the three theoretical constructs, cumulatively explaining 63.8% of the total variance after rotation. Factor loadings for all items exceeded 0.60 on their intended constructs, with cross-loadings below 0.40, providing evidence of convergent and discriminant validity.

4.4 Hypothesis Testing

Mediation analysis was conducted using PROCESS Model 4 with service quality as the independent variable, perceived value as the mediator, and

customer loyalty as the dependent variable. Figure 1 presents the path diagram with standardized coefficients.

The results provide strong support for H1, which posited a direct positive effect of service quality on customer loyalty. The standardized direct effect of service quality on customer loyalty is large and statistically significant ($\beta = 0.625$, $p < 0.001$). This indicates that, even after accounting for the indirect pathway through perceived value, service quality exerts a substantial independent influence on customer loyalty.

The results also support H2, which posited a mediating role of perceived value. The indirect effect of service quality on customer loyalty through perceived value is statistically significant (indirect effect = 0.141, 95% CI [0.064, 0.226]). The bootstrap confidence interval excludes zero, confirming that perceived value serves as a significant mediating mechanism.

However, the relative magnitude of the two effects is striking. The direct effect of service quality ($\beta = 0.625$) substantially exceeds the indirect effect through perceived value ($\beta = 0.141$). The direct effect accounts for approximately 81.6% of the total effect of service quality on customer loyalty ($0.625 / 0.766$), while the indirect effect accounts for only 18.4% ($0.141 / 0.766$). This provides

strong support for H3, which posited that the direct effect exceeds the indirect effect.

The total effect of service quality on customer loyalty is substantial ($\beta = 0.766$, $p < 0.001$), and the model explains 60.4% of the variance in customer loyalty ($R^2 = 0.604$), indicating strong explanatory power.

Table 3. Direct, Indirect, and Total Effects

Effect	β	SE	t	p	95% CI
Direct (SQ $\rightarrow$ CL)	0.625	0.057	10.923	<0.001	[0.512, 0.738]
Indirect (SQ $\rightarrow$ PV $\rightarrow$ CL)	0.141	0.041	-	-	[0.064, 0.226]
Total (SQ $\rightarrow$ CL)	0.766	0.051	14.995	<0.001	[0.665, 0.866]
SQ $\rightarrow$ PV	0.727	0.043	17.018	<0.001	[0.643, 0.811]
PV $\rightarrow$ CL	0.194	0.057	3.393	0.001	[0.081, 0.306]

5. Discussion

5.1 Theoretical Contributions

This study makes several important theoretical contributions to the services marketing and international entrepreneurship literature. First, it challenges the implicit assumption of full mediation in the service-profit chain by demonstrating that service quality exerts a dominant direct effect on customer loyalty that substantially exceeds its indirect effect through perceived value. While perceived value does serve as a significant mediating mechanism, its contribution is supplementary rather than primary. This finding refines our theoretical understanding of how service quality translates into customer loyalty, suggesting that the mechanism is more complex than the simple "quality $\rightarrow$ value $\rightarrow$ loyalty" sequence often assumed in the literature.

The finding that service quality's direct effect ($\beta = 0.625$) so substantially exceeds its indirect effect

through perceived value ($\beta = 0.141$) is consistent with the emerging literature that identifies alternative mediating mechanisms. Gurler (2024) found that consumer brand identification has a greater influence on improving customer loyalty than perceived value in the airline industry, suggesting that cognitive and affective mechanisms other than value-based trade-offs may play a more significant role in translating service quality into loyalty. This finding aligns with the RBV perspective, which posits that service quality, as a valuable, rare, and difficult-to-imitate capability (Ferreira & Ferreira, 2025), directly builds customer trust and commitment through mechanisms that are not easily replicated by competitors.

Second, this study contributes to the SME internationalization literature by demonstrating that the service quality-loyalty relationship holds in the context of developing-economy SMEs pursuing international growth. This finding is consistent with Woo (2025), who found that brand

perception significantly affects both service quality and customer retention in the Malaysian SME context, and that service quality directly enhances retention. The dominant direct effect suggests that for SMEs in Nanning targeting ASEAN markets, service quality serves as a primary mechanism for building customer loyalty without requiring customers to engage in elaborate value trade-off calculations. This is particularly significant given the resource constraints facing these firms, as it suggests that investments in service excellence yield direct returns in customer loyalty.

Third, this study provides empirical support for the RBV perspective in the SME internationalization context (Ferreira & Ferreira, 2025). Service quality, as a valuable, rare, and difficult-to-imitate capability, represents a source of sustainable competitive advantage for SMEs in foreign markets. The dominant direct effect of service quality on customer loyalty suggests that this capability translates into customer loyalty through mechanisms that are not easily replicated by competitors, providing a foundation for sustained competitive positioning in international markets. This aligns with the dynamic capabilities perspective (Jie et al., 2025; Hu & Sun, 2025), which emphasizes that the ability to consistently deliver high-quality service requires ongoing organizational learning and adaptation.

Fourth, this study extends the understanding of perceived value's role in the service quality-loyalty relationship. While perceived value serves as a significant mediator, its modest contribution (18.4% of total effect) suggests that it may play a supplementary rather than primary role in loyalty formation. This is consistent with recent findings that other mechanisms, such as brand identification (Gurler, 2024), trust (Yum & Kim, 2024), and satisfaction (Sah et al., 2025), may be more important mediators. This suggests that future research should examine multiple mediating mechanisms simultaneously to develop a more comprehensive understanding of how service quality translates into loyalty.

5.2 Practical Implications

The findings of this study offer substantial practical guidance for SME managers and policymakers. For SME managers, the dominant direct effect of service quality on customer loyalty suggests that investments in service excellence should be prioritized as a strategic objective in their own right, rather than solely as a means to enhance perceived value. While perceived value remains important (and significant as a mediator), the primary pathway to customer loyalty is through direct service quality perceptions.

Specific actions for SME managers include: investing in employee training to enhance service delivery capabilities; implementing quality management systems to ensure consistency in service delivery; developing customer feedback mechanisms to identify and address service gaps; and adapting service delivery to local cultural norms and preferences in foreign markets (Kim, 2025). The strong effect of service quality on customer loyalty ($\beta = 0.625$) provides compelling evidence for the financial returns on service quality investment. For SMEs targeting ASEAN markets, where cultural and regulatory diversity creates complexity, service quality provides a consistent basis for building customer trust and loyalty across different country contexts (Köse, 2024).

For policymakers, the findings suggest that support programs designed to enhance SME competitiveness should prioritize service quality improvement. Specific policy recommendations include: developing training programs on service quality management; providing quality certification assistance; supporting the adoption of quality management systems; facilitating knowledge sharing on service quality best practices; and recognizing and rewarding service quality excellence. The findings also suggest that support programs should be designed to complement rather than substitute for firm-level investments in service quality.

5.3 Limitations and Future Research

Several limitations of this study should be acknowledged. First, the cross-sectional design limits the ability to establish causality. While the theoretical framework posits a causal sequence from service quality through perceived value to customer loyalty, longitudinal data would be required to confirm this temporal ordering. Future research should employ longitudinal designs to track how service quality, perceived value, and customer loyalty evolve over time as SMEs gain international experience (Jie et al., 2025).

Second, the reliance on self-reported measures introduces the possibility of common method bias. Although the Harman's single-factor test indicated that common method bias is not a serious concern, future research should incorporate objective measures of customer loyalty (e.g., retention rates, repurchase data) to provide more robust evidence.

Third, the study focused on SMEs in Nanning, Guangxi, which may limit the generalizability of the findings to other regions and contexts. Future research should examine the service quality-loyalty relationship in different institutional and cultural contexts to assess the boundary conditions of the findings (Mammadov & Wald, 2025).

Fourth, perceived value was measured as a unidimensional construct in this study. Given the multi-dimensional nature of perceived value (Yum & Kim, 2024), future research should examine whether different dimensions of perceived value (utilitarian, hedonic, social, epistemic) have differential mediating effects on the service quality-loyalty relationship.

Fifth, this study did not examine other potential mediating mechanisms, such as customer satisfaction (Sah et al., 2025), trust (Yum & Kim, 2024), or brand identification (Gurler, 2024). Future research should examine the relative importance of different mediating mechanisms in the SME internationalization context to develop a

more comprehensive understanding of how service quality translates into loyalty.

Sixth, the study did not consider the moderating role of contextual factors, such as competitive intensity (Köse, 2024), institutional environment (Syzydykova & Azretbergenova, 2025), or firm characteristics (Mammadov & Wald, 2025). Future research should examine how these contextual factors shape the strength and nature of the service quality-loyalty relationship.

6. Conclusion

This study investigated whether service quality exerts a direct effect on customer loyalty that outweighs its indirect effect through perceived value in the context of SME internationalization. Drawing on data from 260 SMEs in Nanning, Guangxi, China, the study employed bootstrap mediation analysis to test the direct and indirect effects of service quality on customer loyalty.

The findings reveal that service quality exerts a dominant direct effect on customer loyalty ($\beta = 0.625$, $p < 0.001$) that substantially exceeds its indirect effect through perceived value ($\beta = 0.141$, $p = 0.001$). The direct effect accounts for approximately 81.6% of the total effect, while the indirect effect accounts for only 18.4%. These findings challenge the implicit assumption of full mediation in the service-profit chain and suggest that service quality operates primarily through direct cognitive and affective mechanisms rather than through deliberate value trade-off evaluations.

This study contributes to the services marketing and international entrepreneurship literature by providing empirical evidence that service quality's influence on SME customer loyalty is predominantly direct in the internationalization context. It extends the service-profit chain by demonstrating that perceived value plays a supplementary rather than primary mediating role, offering a refined theoretical understanding of loyalty formation in resource-constrained internationalizing SMEs.

For SME managers, the findings suggest that investments in service excellence should be prioritized as a strategic objective in their own right. For policymakers, the findings suggest that support programs should prioritize service quality improvement as a means of enhancing SME

competitiveness in international markets. The journey from local enterprise to global competitor is complex, but service excellence provides a foundation for building the customer loyalty that sustains international growth.

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