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Examining the Impact of Service Quality on Generation Z Customer Loyalty: Trust as a Mediating Variable in the MSME Sector

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Abstract: This study aims to analyze the influence of service quality on Generation Z customer loyalty in micro, small and medium enterprises in the creative screen printing and convection industry sector with trust variables as mediators. This study uses a quantitative approach by collecting data through questionnaires to three hundred and twenty-five Generation Z respondents who have ordered screen printing or convection services. Data analysis was carried out using structural equation modeling based on partial least square. The results of the study show that service quality has a positive and significant influence on customer loyalty. In addition, service quality also has a positive and significant effect on trust, and trust has a positive and significant influence on customer loyalty. The findings of the study also show that trust plays a role as a mediating variable in the relationship between service quality and customer loyalty. It was concluded that Generation Z's loyalty to micro, small and medium enterprises in the creative industry sector is not only influenced by the quality of service directly but is strengthened through the formation of trust first.

Keywords: service quality, trust, customer loyalty, Generation Z, UMKM.

INTRODUCTION

Today's economic development is increasingly oriented towards the quality of consumer experience, so service quality is a key factor for the competitiveness of modern businesses. In Indonesia, the economic structure is still strongly supported by MSMEs, with a contribution of 61.16% to national GDP and absorbing 97% of the workforce (BPS, 2024).Reported Kompas.id One of the sectors that has experienced significant growth is the creative industry, which contributes an added value of around IDR 1,300 trillion in 2022. In the fashion subsector, the t-shirt screen printing and convection business is a form of creative business that is widely run by the productive age generation because it is flexible, easy to develop, and based on design creativity (Singh et al., 2023). Meanwhile, the composition of Indonesia's population shows that Generation Z is the largest group today, which is around 27.94% or ±75 million

people (IDN Media, 2024). This generation has service-critical characteristics, easily changes brands, and tends to assess service experiences digitally, so their loyalty is unstable if the quality of service is not up to expectations (Kim & Yang, 2025). In *service quality* theory, service quality is defined as the conformity between the services received and consumer expectations (Surahman, 2023). Consumer loyalty is understood as the tendency of consumer behavior to continue to buy again and not move to competitors (Gobbilla & Usha, 2025). The trust variable is defined as the belief that the service provider is reliable and acts honestly (Yum & Kim, 2024). Previous research findings show that service quality has a positive effect on loyalty, and trust plays an important role as a mediator that strengthens these relationships(Najib & Sosianika, 2021). Therefore, the purpose of this study is to analyze the influence of service quality on Generation Z customer loyalty in MSMEs in the creative industry sector of t-shirt screen printing and convection, with trust as a mediating variable. This research is expected to make a theoretical contribution to the development of the concept of *relationship marketing* as well as a practical contribution for MSME actors in designing service improvement strategies to maintain Generation Z consumer loyalty.

The Relationship Between Service Quality, Trust, and Customer Loyalty

Service quality is one of the main factors that shape customer experience and value perception of a service provider. Gazi et al., (2025) explained that service quality is defined as the gap between the services received and the expectations expected by customers. In the context of Generation Z, service quality is increasingly important because this generation is more experience-oriented, quickly switches preferences, and likes instant and consistent service responses (Sengupta et al., 2024). When the quality of service is considered good, consumers tend to value the service provider as able to provide value and satisfaction, so they are more willing to maintain long-term relationships and build their loyalty to a brand.

The Mediating Effect of Trust on the Relationship Between Service Quality and Customer Loyalty

Trust plays an important role in bridging the impact of service quality on customer loyalty. Harris & Goode, (2004) explain that trust is the belief that other parties can be trusted, honest, and act in the interests of consumers. Research by (Rizal & Handrijaningsih, 2024) shows that trust strengthens the relationship between service quality and customer loyality. In the MSME sector of the creative industry such as t-shirt screen printing and convection, the order process often involves custom designs, gradual processing, and specific production times, so trust plays a vital role as psychological *assurance* for consumers so that they feel safe at every stage of the transaction that they cannot fully control directly.

Based on the theoretical description and previous empirical findings, it can be understood that *service quality* has the potential to have a direct or indirect influence on *customer loyalty*, and *trust* plays a role as a mediating variable that bridges the relationship. Therefore, the relationship between variables in this study can be formulated into the following conceptual framework:

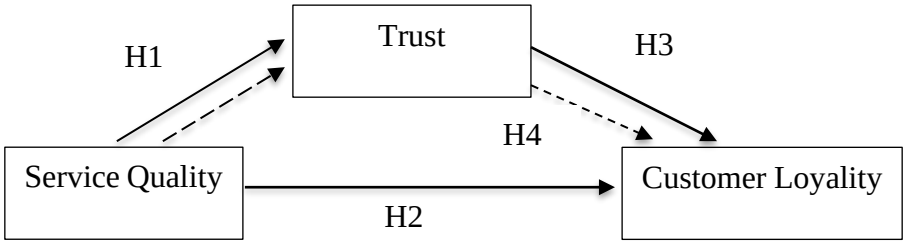

Figure 1. Conceptual Framework

METHODS

This type of research is a quantitative research. This study aims to determine the influence of *service quality* on *Generation Z customer loyalty* in MSMEs in the creative industry sector (especially t-shirt screen printing and convection) with *trust* as a mediating variable. The population in this study is Generation Z consumers who have used t-shirt screen printing or convection services at least once. The number of populations is not known for sure, so the sampling technique used was purposive sampling, and then continued with snowball sampling. The number of samples in this study is 325 respondents. The source of data for this study is primary data, with the type of quantitative data obtained through questionnaire instruments (questionnaires). The data analysis in this study was carried out using SmartPLS software. The variables in this study include *service quality* as an independent variable, *trust* as a mediation variable, and *customer loyalty* as a dependent variable.

PLS (*Partial Least Square*) is a variance-based *Structural Equation Modeling (SEM)* analysis technique that can test measurement models and structural models simultaneously. Measurement models are used to test the validity and reliability of instruments, while structural models are used to test relationships between variables or causality tests. PLS is *soft modeling* because it does not require certain assumptions, for example, the distribution of data must be normal at a certain level, so this method is suitable for use in contemporary social research and *behavioral research.*

RESULTS AND DISCUSSION

Convergent Validity, Discriminant Validity and Composite Reliability Test

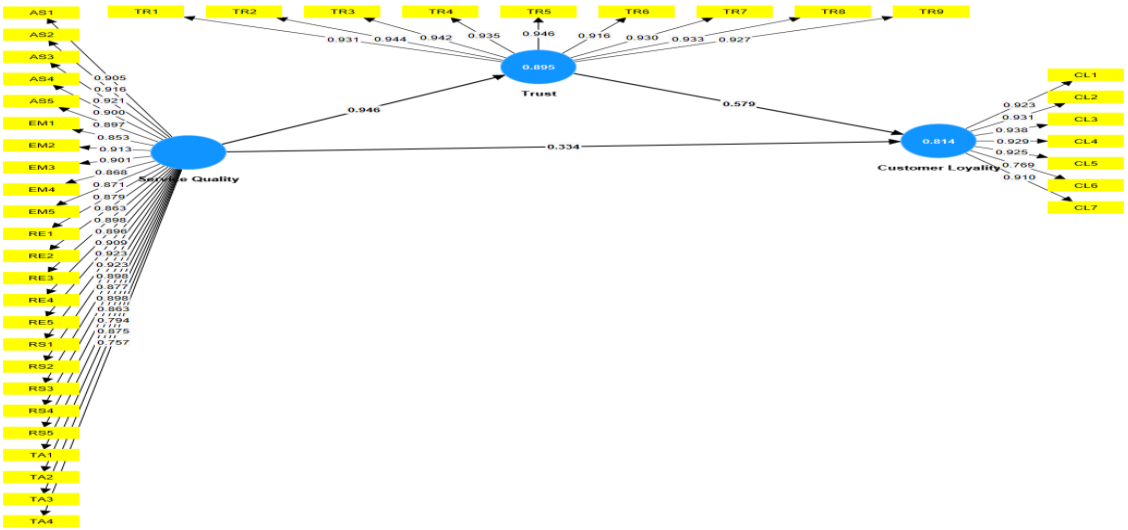

Figure 2. Outer Model
Source: Author's work, 2025

The *convergent validity* test in this study showed that all indicators had a *loading factor value* greater than 0.70. This is in accordance with Chin's criteria in (Ghozali, 2015) which states that the indicator is considered to have good convergent validity if the *loading factor* value is above 0.70, while the value of 0.50–0.60 is still acceptable at the *exploratory research* stage. In the SmartPLS processing results table, all items in the *Customer Loyalty*, *Service Quality*, and *Trust* variables have *a loading factor* of ≥ 0.757, so that all indicators are declared to meet *convergent validity*.

Furthermore, *the results of discriminant validity* can be seen through the *Average Variance Extracted (AVE)* value. The AVE values for each construct in this study were *Customer Loyalty* of 0.820, *Service Quality* of 0.782, and *Trust* of 0.872. These values are

above the minimum limit of 0.50 as suggested by Fornell and Larcker in Ghozali (2015). Thus, all constructs are declared to meet *the criteria of discriminant validity*.

Based on the results of the reliability test, Cronbach's Alpha value for *the Customer Loyalty* variable is 0.963, *Service Quality* is 0.988, and *Trust* is 0.982. The *Composite Reliability* value also shows results above 0.70 on all latent variables (Customer Loyalty = 0.969; Service Quality = 0.988; Trust = 0.984). Because all reliability parameters are above the minimum limit of 0.70 (Ghozali, 2015), it can be concluded that all constructs in this study are declared reliable or consistent internally.

Analisis R-Square (goodness-fitmodel)

The R-Square value is used to see how much the ability of endogenous variables can be explained by exogenous variables in a structural model. According to Chin in Ghozali (2015), the R-Square value of 0.67 is categorized as "good", 0.33 "moderate", and 0.19 "weak". Based on the results of data processing as shown in the following table:

Table 1. Result R-Square (goodness-fitmodel)

Variabel	R-square	R-square adjusted
Customer Loyality	0,814	0,813
Trust	0,895	0,895

Source: Author's work, 2025

Based on table 1, it can be seen that the *Trust* variable has an R-Square value of 0.895, which means that 89.5% of *the Trust* variation can be explained by *Service Quality*, while the remaining 10.5% is explained by other factors outside of this study. Meanwhile, *the Customer Loyalty* variable has an R-Square value of 0.814, which means that 81.4% of *Customer Loyalty* variations can be explained by *Service Quality* and *Trust*, while 18.6% are explained by other variables outside the model.

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Since both R-Square values are above 0.67, referring to Chin's criteria in Ghozali (2015), this research model can be categorized as good. This shows that the structural model used in this study has strong predictive power, so that it can be statistically accepted as a feasible model to explain the influence of *Service Quality* on *Customer Loyalty* with *Trust* as a mediating variable in Generation Z consumers in MSMEs in the screen printing and convection creative industry sector

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Q-Square (goodness-fitmodel)

Q-Square is used to measure how well the observation value can be reconstructed by the model as well as its estimation parameters. The higher the Q-Square value, the better the

model's predictive ability. If *the value of Q-Square is > 0* , then the model has *predictive relevance*, while if *Q-Square ≤ 0* indicates no predictive relevance (Ghozali, 2015).

Table 2. Q-Square test (goodness-fit model)

Variabel	SSO	SSE	Q^2 (=1-SSE/SSO)
Customer Loyality	2275,000	777,187	0,658
Service Quality	7800,000	7800,000	0,000
Trust	2925,000	668,901	0,771

Source: Author's work, 2025

Based on table 2, it can be explained that the *Trust* variable has a Q-Square value of 0.771, and the *Customer Loyalty* variable has a Q-Square value of 0.658. Both values are above 0, indicating that the model has good *predictive relevance*. Meanwhile, *the Service Quality* variable has a Q-Square value of 0.000, because this variable is an exogenous variable so it is not predicted by other variables. It can be concluded that this research model has good predictive ability on the endogenous *variables of Trust* and *Customer Loyalty*. This means that the model proposed in the study, namely the influence of *Service Quality* on *Customer Loyalty* with *Trust* as a mediating variable, is suitable for use in explaining empirical phenomena in Generation Z in the creative industry MSME sector (screen printing and convection).

Hypothesis Testing

Table 3. Hypothesis Testing

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Service Quality -> Customer Loyalty	0,334	0,320	0,141	2,373	0,018
Service Quality -> Trust	0,946	0,946	0,011	84,242	0,000
Trust -> Customer Loyalty	0,579	0,593	0,137	4,214	0,000
Service Quality -> Trust -> Customer Loyalty	0,548	0,562	0,133	4,134	0,000

Source: Author's work, 2025

Based on the results of statistical analysis using SmartPLS, it was found that *Service Quality* has a positive and significant influence on *Trust* and *Customer Loyalty*. The results of the statistical test showed that the influence *of Service Quality* on *Customer Loyalty* had a coefficient value of 0.334 with a *t-statistical* value of 2.373 and *a p-value* of 0.018 ($p < 0.05$), so that the influence was declared significant. Meanwhile, the effect of *Service Quality* on *Trust* showed stronger results, with a coefficient value of 0.946, *t-statistic* of 84.242 and *p-value* of 0.000. Furthermore, the influence of *Trust* on *Customer Loyalty* is also significant with a coefficient value of 0.579, *t-statistic* of 4.214 and *p-value* of 0.000. In addition, the indirect effect of *Service Quality* on *Customer Loyalty* through *Trust* is also significant, with a coefficient value of 0.548, *t-statistic* of 4.134 and *p-value* of 0.000. These findings show that *Trust* is able to significantly mediate the relationship between *Service Quality* and *Customer Loyalty* .

The Positive Influence of Service Quality on Trust and Customer Loyalty

This study found that *Service Quality* has a positive effect on *Trust* and *Customer Loyalty*. This finding is in line with the service quality theory put forward by Danarkusuma et al., (2024) which states that high service quality will increase customer confidence in the ability of service providers to provide services according to expectations. In the context of screen

printing and convection MSMEs, service quality includes response speed, accuracy of design and production results, clear communication related to orders, and consistency of work completion. According to Dewi, (2024)The results of the study show that *Service Quality* has a positive and significant effect on *Customer Loyalty*. This indicates that the better the quality of service received by customers,. When Generation Z receives consistent services from MSMEs, trust is formed and this trust becomes the psychological foundation that encourages the formation of long-term loyalty.

Trust as Mediation

The role *of Trust* as a mediating variable is also statistically proven in this study. Significant indirect effects indicate that *Trust* transmits the influence of *Service Quality* into loyalty behavior. These results support the research of Firmansyah et al., (2024) has been proven to mediate the influence of service quality on customer loyalty. Within creative MSMEs like screen printing and convection, the nature of customized work, advance payment requirements, and waiting time for production frequently generate uncertainty among consumers. However, once trust is developed, Generation Z tends to be more confident, more likely to make repeat purchases, and more inclined to promote the service through recommendations.

CONCLUSION

Based on the results of research on the influence of *service quality* on *Generation Z customer loyalty* in MSMEs in the screen printing and convection creative industry sectors, it can be concluded that improving service quality has been proven to make a significant contribution in shaping customer loyalty. However, the formation of loyalty does not only happen directly, but through the formation of *trust* first. The findings of the study show that *service quality* not only strengthens consumer trust in service providers, but that *trust* acts as a psychological mechanism that transforms the service experience into a long-term loyalty commitment. Thus, *trust* has been proven to significantly mediate the relationship between *service quality* and *customer loyalty*.

The main implications of this research for the development of science, especially in marketing and consumer behavior, is the importance of understanding that loyalty in Generation Z cannot only be built through transactional improvement of service performance, but must be accompanied by a consistent strategy in building trust. For MSMEs in the creative industry, especially screen printing and convection services, the results of this study indicate that increasing responsiveness, accuracy of order completion, open communication, and production reliability are strategic aspects that not only improve service quality, but also strengthen trust which ultimately results in sustainable customer loyalty. This research emphasizes that effective service quality management must be positioned as a relational investment, because the trust formed becomes the main bridge to stable and sustainable loyalty.

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