

# The Mediation Effects of Customer Satisfaction on the Relations Between Product Price, Service Quality and Purchasing Decision

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## ABSTRACT

This research has two main objectives: (1) to examine the effect of price, service quality and customer satisfaction on customer's purchasing decision, (2) to test the mediation effects of the customer satisfaction on the relations between product price and service quality on purchasing decision. Data was collected from 82 insurance company's customers using questionnaire, and hypothesis was tested using Smart-PLS 3.0. The findings reveal that (1) price, service quality and customer satisfaction have direct and significant effect on customer purchasing decision, (2) customer satisfaction has an indirect and significant effect on the relationship between service quality and customer's purchasing decision, and (3) customer satisfaction has no significant effect on the relationship between product price and customer's purchasing decision. The study enriches the existing empirical studies on product price, service quality, customer satisfaction and purchasing decision in emerging market. The study also provides practical implications to service industry managers to enhance customer satisfaction and purchasing decision, ultimately increasing market share and organization profits by considering service quality and product price.

**Keywords:** Price, Service Quality, Customer Satisfaction and Purchase Decision.

## 1. Introduction

In recent competitive business environment, companies are trying to retain their customers; therefore, they offer products/services according to the customer demands (Slater and Narver, 1994; Annamdevula and Bellamkonda, 2016). Furthermore, companies are continually monitoring the level of customer satisfaction (Ginon et al., 2014) in order to keep offering high value creation of products/services to meet customer demand and loyalty (Koutsothanassi, Bouranta, and Psomas, 2017; Sangpikul 2018).

Customer satisfaction is a customer's feelings about the quality of the product/service in accord with their expectation (Parasuraman et al., 1994; Rahman et al., 2017). Therefore, customer satisfaction is an important indicator to determine the success of product/service in the market (Famiyehet et al., 2018), leading to enhance customer loyalty (Martín-Consuegra et al., 2007). Customer satisfaction is influenced by the price of the product/service (Steinhauser et al., 2019) and service quality (Chandra et al., 2019). To enhance customer satisfaction and loyalty, companies have to place great emphasis on the service quality (Boonlertvanich, 2019). Price is the amount of money that is offered to customer in order to get a product/ service (Djatkiko and Pradana, 2016). Price determines the success of product/ service in marketplace, therefore, it should be determined based on customer economic situation which enable them to make decision to purchase (Boniface et al., 2012). The higher the price, likely the less customers to take decision to buy product/service (Kukar-Kinney et al., 2012). A company

can continue to exist when a customer decides to purchase a product/service due to a positive sentiment related to that product/service (Akhter, 2009).

Price, quality and image (Cakici et al., 2019), perceive values and quality have great impact on customer purchasing decisions (Weissstein et al., 2017) and customer satisfaction (Martín-Consuegra et al., 2007; Kotler and Keller, 2018). This has been confirmed by numerous empirical studies that purchasing decisions were significantly influenced by price (Kukar-Kinney et al., 2012; Maslowska et al., 2017; Song et al., 2019), service quality, brand loyalty, organization ability to retain brand switching and customer commitment (Papafotikas et al., 2014). However, some empirical studies also revealed that perceived price is negatively influence by consumer intention to buy a product/service (Son and Jin, 2019).

Many empirical studies had been done on the mediation effect of customer satisfaction on service quality and loyalty (Goyal et al., 2013; Boonlertvanich, 2019; Özkan et al., 2019), but there are still limited studies on the effect of service quality, product price on customer purchasing decision through customer satisfaction in service industry in emerging countries. Therefore, it is fruitful to undertake research in these well-known variables in marketing literature in the context of emerging markets. This study aims to: (1) to examine the effect of price, service quality and customer satisfaction on customer's purchasing decision, (2) to test the mediation effects of the customer satisfaction on the relations between product price and service quality on purchasing decision.

## 2. Theoretical Conceptual Frameworks and Hypothesis

### 2.1. Theoretical Frameworks

#### 2.1.1. Price

Price is the amount of money that customers pay to use a product or service (Anderson et al., 2000; Kukar- Kinney et al., 2012; Foster, 2016; Djatmiko and Pradana, 2017). Customers make a payment in return for the product or service that they get (Cakici et al., 2019), therefore, price is an important factor which contributes to the consumers' purchasing decision processes (Son and Jin, 2019).

In general price is divided into two types namely objective price and perceived price. The objective price is the actual price of the product or service, while the perceived price involves the consumer encoding the price and making meaning of it (Beneke and Zimmerman, 2014; Cakici et al., 2019).

According to the equity theory, there is justice between parties (buyers and sellers) who undertake transactions with fair price (Beneke and Zimmerman, 2014). In this regard, buyers evaluating equity or inequity based on a comparison between their own profits or costs and those of other buyers who are in an exchange relationship with the same selling organization for the same product or service (Zietsman et al., 2019). The unfair price may lead to negative implications for companies, including stimulation of buyers' dissatisfactions, which may lead to damaging the exchange relationship. From this, customers may pass negative information to the other customers (Nguyen and Meng, 2016).

Generally Price is influenced by brand name (Chen, Chang, and Chang 2005) and product quality. Perceived quality and customer value will drive up a product or service price (Beneke et al., 2013). Researchers have various views on measuring items for product price. (Cockrill and Goode 2010) suggested using fair and relative price to measure price. In this research, we use fair, price relative to the product, reasonable price, and acceptable price to measure price.

#### 2.1.2. Service quality

Service quality is an important factor to create customers value in service industry because it is related to the evaluation of the customer towards a product or service (Zeithaml, 2012). Service quality is the level of difference between a customer's normative expectation about a service and their perception about the actual service delivery by an organization (Parasuraman et al., 1988, 1994). The ultimate measure of quality is whether or not the service lives up to expectations of the customers (Chui et al., 2016). A good service quality will lead customers who have prior experience to generate a positive image of company, resulting in positive preferences (Chien and Chi,

2019), and key source for competitive advantages (Mannan et al., 2019).

Numerous researchers have developed several research scales to measure service quality by combining tangible and intangible dimensions (Carranza et al., 2018). Parasuraman et al. (1988, 1994) proposed five dimensions of service quality namely: (1) tangibility (physical facilities, equipment, and appearance of personnel); (2) reliability (ability to perform the promised service dependably and accurately); (3) responsiveness (willingness to help customers and provide prompt service); (4) assurance (knowledge and courtesy of employees and their ability to inspire trust and confidence); and, (5) empathy (caring and individualized attention the firm provides to its customers). However, the dimensions of PZB (1994) have been criticized by Cronin and Taylor (1994) that the service quality (SERVQUAL) only focus on expectation-based component compared to performance-based component. Therefore, the authors proposed service performance (SERVPERF) as reliable scale to measure service quality than SERVQUAL (Ju et al., 2019). Despite this criticism, SERVQUAL is the more widely used in both empirical studies and industrial organization practices in a wide range of industries (Meesala and Paul, 2018).

#### 2.1.3. Customer satisfaction

Consumer's satisfaction is the key factor that drives when the performance of the product or service exceeds expectations (Meesala and Paul, 2018). Customer satisfaction is a feeling of pleasure that comes about after comparing the result of a product with the desired performance (Ong et al., 2017; Pedro et al., 2018). Satisfaction is comparison of buyers on rewards and costs of the purchase in relation to the anticipated implications (Delcourt et al., 2013).

For customer-oriented companies, customer satisfaction is the objective and the marketing aim; therefore, companies are willing to pay special attention in satisfying and retaining customers (Cakici et al., 2019). Satisfaction is influenced by service quality, product quality, price, and contextual and personal factors (Chien and Chi, 2019). Satisfaction is considered a descendant of perceived quality and a better predictor of customer loyalty (Boonlertvanich, 2019), and purchasing decision.

#### 2.1.4. Purchasing decision

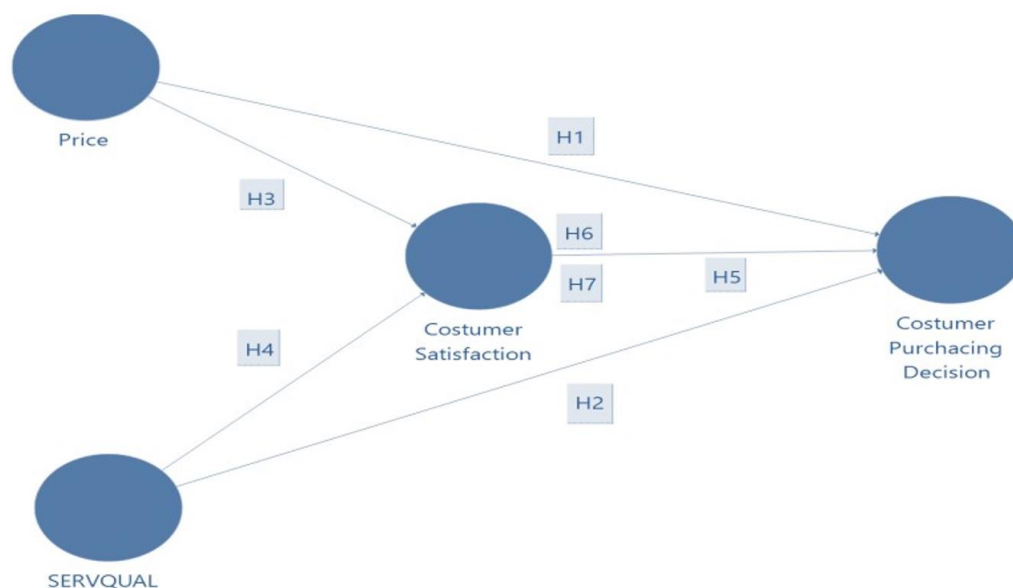
The consumer comes to the decision based upon the place for purchase, the brand that h/she wants, model, quantity, when to buy, how much they are prepared to spend, and other factors. These decisions are given to the market by sharing information about products and service to consumers to make an evaluation (Hanaysha, 2018). Schiffman and Kanuk (2007) says that consumers often seek relevant information that is linked to their needs based

upon past experience, before seeking sources of information from other people or external sources. In other words, the experience of purchase in the past is considered to be a font of internal information that is used before making a decision. Aside from this, some consumer decisions have a high possibility to integrate the experience of purchase in the past with marketing programs and sources of non-commercial information (Schiffman and Kanuk, 2007).

Numerous empirical studies suggest that consumers try their best to minimize risks in the decisions that they make (Chaipradernsak, 2007). The decision to purchase is the action of a customer to decide to purchase a product or not, based on a range of factors (Kotler and Keller, 2012: 166-173). The five stages of making a decision are; identifying the problem, seeking information, evaluating performance alternatives, purchasing, then evaluating performance. According to Kotler and Keller (2012: 188) there are seven types of people that make the decision to purchase, as follows: Inventor or initiator, consumer, influencer, terminator, the person who approves, the person who buys and the gatekeeper.

## 2.2. Conceptual Framework

The conceptual framework of this research was developed from Parasuraman et al. (1994) and Chien and Chi (2019) for service quality and customer satisfaction, price from Kukar-Kinney et al. (2012), Maslowska et al. (2017), Song et al. (2019), Zietsman et al. (2019), and purchasing decision from Huang and Benyoucef (2017) and Hanaysha (2018). From theories and previous empirical studies, we frame our study in the following order: price, service quality, and customer satisfaction are the key factors to improve customer's purchasing decision in a service industry, while customer satisfaction is a better mediator for the relationship between price, service quality and customer purchasing decision. We use deductive and positivism approach to test multivariable relationship based on this conceptual framework by using Smart-PLS 3.0.



**Figure 2.1. Conceptual Research Model and Hypothesis**

## 2.3. Hypothesis

Price is a determining factor in customer decisions because customers are sensitive to the product price. When customers are sensitive to quality, then price does not affect their decision (Jung and Yoon, 2012; Ramadan, Farah, and Kassab, 2019; Tata, Prashar, and Gupta, 2020). Numerous empirical studies show that price has positive and significant influence on customer decision to buy (Azzadina et al., 2012; Djatmiko and Pradana, 2016).

Therefore, we propose the following hypothesis:

**H1:** Price has a positive and insignificant influence on customer's purchasing decision.

Service quality has a positive and significant influence on a customer decision. When service is good, customers feel good and they decide to purchase the goods (Maslowska et al., 2017). Some empirical studies show that fair, acceptable, and reasonable price will have a

positive and significant influence on the customer decision to buy (Djatkiko and Pradana, 2017). Therefore, we propose the following hypothesis:

H2: The service quality has a positive and significant influence on the decision to purchase.

Price is an important factor for customers because a good price can make a customer satisfied enough for them to purchase product or service from that company (Moser, 2016). Price is a determining factor for a customer in making a decision (Steinhauser et al., 2019). Price has positive and direct impact on customer satisfaction (Razak et al., 2017). For this reason, in this study, the hypothesis has been formed as follows:

H3: Price has a positive and significant influence on customer satisfaction.

Service quality is a competitive advantage of a company. A company that has resources and capacity will develop good quality of product and service that is innovative and has value for the customer. Service quality also influences customer satisfaction (Parasuraman et al., 1988; Annamdevula and Bellamkonda, 2016). For this reason, in this study, the study hypothesis can be developed as follows:

H4: The service quality has a positive and significant influence on customer satisfaction.

A customer who is satisfied with a product or service of a company has a strong connection with that company. A customer who is satisfied with a product or service can influence the decisions of other customers who purchase a product or service. Many empirical studies show that the service quality has a positive and significant influence on customer satisfaction (Aliman and Mohamad, 2016; Annamdevula and Bellamkonda, 2016; Chien and Chi, 2019). Therefore, we propose the following hypothesis:

H5: Customer satisfaction has a positive and significant influence on the decision to purchase.

Satisfaction is a positive sentiment from a customer towards a product or service of a company. When a customer is satisfied with a product or service, they will purchase that product or service (von Helversen et al., 2018). A satisfied customer also helps in purchasing a product with a reasonable price (Ramadan, Farah, and Kassab, 2019). For this reason, this study proposes the following hypothesis:

H6: Satisfaction has a positive and significant effect on the relationship between price and the decision to purchase.

Satisfaction has an influence on the relationship between service quality and the decision to buy (Weisstein et al., 2017). Service quality helps customers to be satisfied, ultimately making the decision to purchase a product (Anderson, Thomson, and Wynstra, 2000). For this reason, in this study the hypothesis can be formulated as follows:

H7: Satisfaction has a positive and significant effect on the relationship between service quality and the decision to buy.

### 3. Research Methods

The population of this study is customers from insurance company namely Federal Insurance Timor S.A in Dili, Timor-Leste. Data was collected from 82 respondents selected based on the accidental randomized method from the insurance company's listed customers. All measurement items for the constructs of price, service quality, customer satisfaction, and customer purchasing decision were developed using a five-point Likert-type scale for all items in this study, ranging from 1 = "Strongly Disagree" to 5 = "Strongly Agree".

Data analysis was carried out using SMART-PLS 3.0 which has been proved to be good for testing multivariate model, small sample size, formative/reflective indicators (Hair et al., 2014) and a rich statistical tool for research in management and strategy areas (Valaei, 2017). We began with designing a conceptual model derived from theoretical and previous empirical studies linking to the research constructs such as product price, service quality, customer satisfaction and customer purchasing decision.

After designing conceptual model, we tested the validity and reliability of the model following the rule of Hair et al. (2014). We used cronbath alpha (CA) and composite reliability (CR) for outer model reliability test, and outer loading (OL) and average variance extracted (AVE) for convergent validity test, and Fornell-Larcker Criterion (FLC) and heterotrait-monotrait (HTMT) for discriminate validity as recommended by Hair et al. (2017) and Henseler et al. (2015) respectively.

The hypothesis test used path coefficient using T and P values. The positive and significant relationships of variables were occurred, when the T values were greater than 1.96, and P values were lower than the threshold values of 0.05 (Hair et al., 2017).

### 4. Results

#### 4.1. Reliability and Validity

Reliability tests usually use Cronbach's alpha (CA) and composite reliability (CR). According to Hair et al. (2014) the items are reliable when the value of CA is greater than 0.7 and CR is also greater than 0.7. Even so, in exploratory studies, the value of

CA and CR can be greater than 0.6. Table 4.3.1 shows the results of reliability teste in which CA and CR values are greater than the minimum threshold

value of 0.7, therefore the indicators of all variables are reliable to be used in this model.

**Table 4.3.1. Reliability and Validity Test**

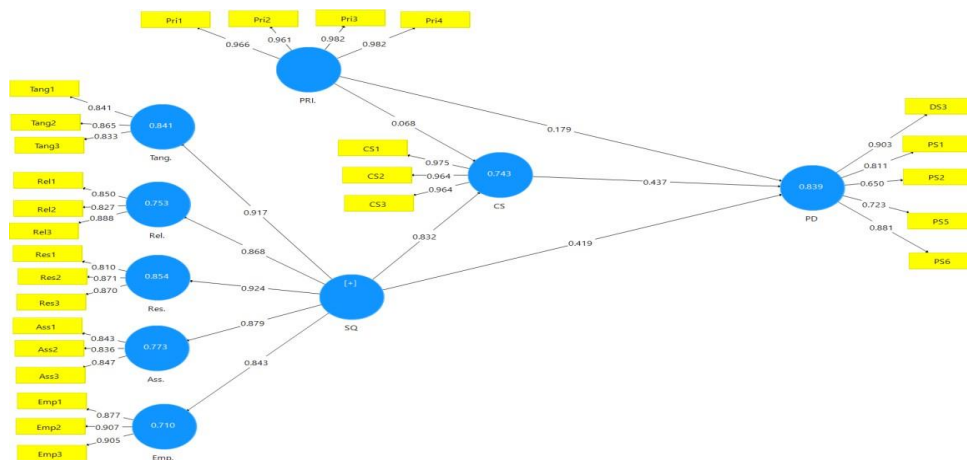
| Item         | CA    | CR    | AVE   |
|--------------|-------|-------|-------|
| <b>Tang.</b> | 0.802 | 0.883 | 0.716 |
| <b>Rel.</b>  | 0.816 | 0.891 | 0.731 |
| <b>Emp.</b>  | 0.878 | 0.925 | 0.804 |
| <b>Res.</b>  | 0.809 | 0.887 | 0.724 |
| <b>Ass.</b>  | 0.797 | 0.880 | 0.709 |
| <b>Pri.</b>  | 0.981 | 0.986 | 0.946 |
| <b>CS</b>    | 0.966 | 0.978 | 0.936 |
| <b>PD</b>    | 0.855 | 0.897 | 0.639 |

There are two types of validity tests namely convergent validity (CV) and discriminant validity (DV). Convergent validity (CV) uses two parameters such as outer loading (OL) and average variance extracted (AVE) (Hair et al., 2017).

The items have a variable validity when the outer loading (OL) value is more than 0.7 and average variance extracted (AVE) value is more than 0.5. Looking at the outer loading (OL) like in Figure 4.1, the value of all the items is larger than 0.7, however the value of PS2 is lower than the

variance extracted (AVE) are larger than 0.5 (Table 4.3.1), therefore looking at convergent validity (CV), all the items are valid to use to test the relationship between the variables (inner model).

The discriminant validity (DV) test uses two parameters namely Farnell- Larcker Criterion (FLC) and heterotrait-monotrait (HTMT). According to Hair et al., (2014), the item is valid when the root value average variance extracted (AVE) from the item towards its own item is greater than the root value of other AVE items in the Table. Table 4.3.2 shows that the root value of average



**Figure 4.1. Outer Loading for Convergent Validity**

threshold value of 0.7. However, according to Hair et al. (2014), the value of outer loading (OL) can still be accepted when the research is categorized as an exploratory research, and the outer loadings does not influence on content validity.

Looking at the value of average variance extracted (AVE), the items in this model with the value of average

variance extracted (AVE) towards its own item is larger than the root value of other AVEs. So we can see from Fornell-Larcker Criterion (FLC), the indicators for all variables are valid based on discriminant validity (DV).

The discriminant validity (DV) is also tested using parameter heterotrait- monotrait (HTMT). According to Henseler et al. (2015), the item is valid when the value of heterotrait-monotrait (HTMT) is lower than 0.9. Table

4.3.3 shows the value of heterotrait-monotrait (HTMT) from all items are lower than 0.9. Therefore, all the

indicators are valid according to discriminant validity (DV).

**Table 4.3.2. Fornell-Larcker Criterion**

| Item  | Ass.  | CS    | Emp.  | PD    | PRI.  | Rel.  | Res.  | Tang. |
|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Ass.  | 0.842 |       |       |       |       |       |       |       |
| CS    | 0.740 | 0.967 |       |       |       |       |       |       |
| Emp.  | 0.676 | 0.670 | 0.896 |       |       |       |       |       |
| PD    | 0.756 | 0.871 | 0.642 | 0.799 |       |       |       |       |
| PRI.  | 0.280 | 0.410 | 0.310 | 0.530 | 0.973 |       |       |       |
| Rel.  | 0.728 | 0.714 | 0.731 | 0.679 | 0.355 | 0.855 |       |       |
| Res.  | 0.791 | 0.781 | 0.761 | 0.795 | 0.329 | 0.775 | 0.851 |       |
| Tang. | 0.725 | 0.826 | 0.724 | 0.860 | 0.455 | 0.726 | 0.783 | 0.846 |

**Table 4.3.3. Heterotrait-Monotrait (HTMT)**

| Item  | Ass.  | CS    | Emp.  | PD    | PRI.  | Rel.  | Res.  |
|-------|-------|-------|-------|-------|-------|-------|-------|
| CS    | 0.825 |       |       |       |       |       |       |
| Emp.  | 0.784 | 0.725 |       |       |       |       |       |
| PD    | 0.889 | 0.891 | 0.726 |       |       |       |       |
| PRI.  | 0.315 | 0.418 | 0.328 | 0.589 |       |       |       |
| Rel.  | 0.884 | 0.803 | 0.859 | 0.789 | 0.388 |       |       |
| Res.  | 0.890 | 0.881 | 0.900 | 0.873 | 0.363 | 0.885 |       |
| Tang. | 0.875 | 0.898 | 0.856 | 0.878 | 0.512 | 0.884 | 0.874 |

## 4.2. Hypothesis Test

Table 4.4.1 presenting the results of hypothesis test of direct and indirect effects using SMART-PLS 3.0. In regard to the relationship between price (Pri.) and customer purchasing decision (PD), the T value (2.543) and P value (0.011) which means that the P value is greater than the minimum allowable value of 1.96 and the P value is below than the threshold value of 0.05 (Hair et al., 2017 as cited by Saldanha et al., 2019). Therefore, price has a positive and significant influence on customer purchasing decision as hypothesized by H<sub>1</sub>. In regard to relations between service quality (SQ) and customer purchasing decision, the T value (5.001) and the P value (0.000), therefore, service quality has a positive and significant influence on customer purchasing decision (PD) which is in line with H<sub>2</sub>. In relationship to price (Pri.) and customer satisfaction (CS), the T value (1.085) and P value (0.275) which means the T value is lower than 1.96 and the P value is greater than 0.05. Therefore, price has a positive and insignificant influence on customer satisfaction (CS), so H<sub>3</sub> is rejected.

From the relationship between service quality (SQ)

and customer satisfaction (CS), the T value (14.381) and P value (0.000) which means that service quality has a positive and significant influence on customer satisfaction (CS) as hypothesized by H<sub>4</sub>. In relationship to customer satisfaction (CS) and purchasing decision (PD), the T value (5.563) and P value (0.000) which is greater than 1.96 and is lower than 0.05 respectively. Therefore, customer satisfaction has a positive and a significant influence on customer purchasing decision (PD) as hypothesized by H<sub>5</sub>.

This study also used SMART-PLS 3.0 to test the mediating effect of customer satisfaction in the relationship between price (Pri.), service quality (SQ) and purchasing decision (PD). Table 4.4 shows the results of specific indirect effect (the mediation effect) in regard to price, satisfaction and purchasing decision, the specific indirect T value (1.103) and the P value (0.271) which does not meet the minimum threshold values as suggested by Hair et al. (2014) as cited by Saldanha et al. (2019). Therefore, customer satisfaction has no significant effects on the relationship between price and purchasing decision which is not in line with H<sub>6</sub>. Table 4.4 also shows that the result of specific indirect effect of customer

satisfaction on service quality (SQ) and purchasing decision (PD), the T value (5.693) and P value (0.000) are greater than the threshold values of T and P respectively. Therefore, customer satisfaction has a

significant effect on the relationship between service quality (SQ) and purchasing decision (PD) as hypothesized by H7.

**Table 4.4.1. Test Result of Hypothesis (Direct Effect)**

|                              | Original<br>Sample<br>(O) | Sample<br>Mean<br>(M) | Standard<br>Deviation<br>(STDEV) | T Statistics<br>( O/STDEV ) | P<br>Values | Hypothesis  |
|------------------------------|---------------------------|-----------------------|----------------------------------|-----------------------------|-------------|-------------|
| <b>PRI. =&gt; PD</b>         | 0.179                     | 0.182                 | 0.071                            | 2.543                       | 0.011       | Support     |
| <b>SQ =&gt; PD</b>           | 0.419                     | 0.431                 | 0.084                            | 5.001                       | 0.000       | Support     |
| <b>PRI. =&gt; CS</b>         | 0.068                     | 0.064                 | 0.063                            | 1.085                       | 0.278       | Not support |
| <b>SQ =&gt; CS</b>           | 0.832                     | 0.829                 | 0.058                            | 14.381                      | 0.000       | Support     |
| <b>CS =&gt; PD</b>           | 0.437                     | 0.420                 | 0.079                            | 5.563                       | 0.000       | Support     |
| <b>PRI. =&gt; CS=&gt; PD</b> | 0.030                     | 0.026                 | 0.027                            | 1.103                       | 0.271       | Not support |
| <b>SQ =&gt; CS=&gt; PD</b>   | 0.364                     | 0.347                 | 0.064                            | 5.693                       | 0.000       | Support     |

## 5. Discussions

The first objective of this study was to test the influence of price on the customer purchasing decision. The results of the study show that price has a positive and significant influence on the customer purchasing decision. A fair, reasonable and acceptable price has great impact on customer purchasing decision reflected by quality, service quality, word of mouth, experience and reputation of the products/services. This result is in line with the previous arguments that if consumer get fair and reasonable price, they will decide to purchase the product/service and recommend to other people via word of mouth promotion (Kukar-Kinney et al., 2012; Ginon et al., 2014). The results of this study also confirms the previous empirical studies (Djatkiko and Pradana, 2017; Jain et al., 2018). Conversely, this study is not in line with the study of Son and Jin (2019) who found that perceived price has a negative impact on customer purchasing decision.

The second objective of this study was to test the influence of service quality on customer purchasing decision. The result of this study shows that service quality has a positive and significant influence on purchasing decision because good service quality can make customer feel comfortable, satisfy and purchase firm's products/services. If a company has good products/services, but poor service quality, it will then lead to discourage customers to purchase. In this study, the significance influence of service quality on the customer's purchasing decision is mainly contributed by company's intangible dimensions such as reliable, responsive and timely (assurance) product or service delivery.

The third objective of this study is to test the relationship between price and customer satisfaction. The

study shows that price does not have a significant influence on customer satisfaction because price is not the only determining factor in satisfying customer demand. Often, product/service price is cheap, but poor and unreliable quality can lead to customer satisfaction. A combined good product and service will lead to enhance customer satisfaction, although price is not in line with customer wants (Makanyeza and Chikazhe, 2017; Cakici et al., 2019). This is also enhances by the argument that product quality gains better costumer's perceived value, brand image, and reputation. Therefore, price is not the only factor dictate customer satisfaction (Vera, 2015; Özkan et al., 2019). Another explanation is that if there are limited product/services in the market, customers will have limited options, even though, they don't satisfy with price, but they still buy it. This study confirms previous studies that price is insignificant influenced on customer satisfaction (Papafotikas et al., 2014; Steinhauser et al., 2019). Conversely, this result is not in line with the study of Razak et al. (2017) that price has positive and significant effect on customer satisfaction.

The fourth objective of this study is to test the influence of service quality on customer satisfaction. The result of the study shows that service quality has a positive and significant influence on customer satisfaction because good product, reliable, responsible, safe and empathetic services will make customers feel comfortable and satisfied. If a product/service meets customer's expectations, they will feel satisfied, buy again, and recommend product/service to other customers (Parasuraman et al., 1988; Kaur and Soch, 2018; Correia et al., 2019). Therefore, service quality is the main driver for customer satisfaction (Lien, Cao, and Zhou 2017). This study confirms other studies carried out by Saldanha et al. (2018) in Timor-Leste that service quality had a positive

and significant influence on customer satisfaction. This study also confirms previous empirical studies (Aliman and Mohamad, 2016; Annamdevula and Bellamkonda, 2016; Chien and Chi, 2019).

The fifth objective of this study was to test the influence of customer satisfaction on the customer purchasing decision. The result of this study shows that customer satisfaction has a positive and significant effect on the purchasing decision. So when a customer is satisfied by product/services, they will decide to buy the products/services. This proves that customer purchasing decision relies heavily on the product/service value creation, and service quality offered by companies matching with customer demands (Huang and Benyoucef 2017; Steinhäuser, Janssen, and Hamm 2019). In addition, if customers have positive feeling about a product/service, they will purchase that product/service (Guo et al., 2020). Therefore, customer's positive feelings on a product/service will lead to improve customer purchasing decision (Tata, Prashar, and Gupta 2020).

The sixth objective of this study was to test the mediation effect of customer satisfaction on the relationship between price and customer's purchasing decision. The result of the study shows that customer satisfaction is not significantly mediating the relationship between price and customer's purchasing decision. This shows that customer satisfaction is not able to improve the relationship between price and customer's purchasing decision. This can be explained that customers are more caring on service quality, value creation, and product/service benefits rather than price (Razak, Nirwanto, and Triatmanto, 2017). If customers see the benefits, they will still buy the products/services, although they may not satisfy with the price. This is partly due to there is no similar product/service available in the market. In this regard, customers will buy products/services by ignoring price, their expectation and satisfaction as argued by Papafotikas et al. (2014).

The seventh objective of this study was to test the mediation effect of customer satisfaction on the relationship between service quality and customer purchasing decision. The result shows that customer satisfaction has a significant role to improve the relations between service quality and customer purchasing decision. This study can also confirm the study of von Helversen et al. (2018) who found that service quality is the main predictor for customer satisfaction and purchasing decision. Often customers purchase a product based on good service quality, although product price and quality do not meet their expectation (Taghavi and Seyedsalehi, 2015).

## 6. Conclusions and Implications

Price, service quality, customer satisfaction and

purchasing decision are key factors for modern marketing strategy to extend company's market share and business profitability. Therefore, many empirical studies have done to adjust these constructs and their measured items in different industrial setting, types, size and environment in order to support sustainable business operation. Previous empirical studies show that there are no uniformed results on the linkages between these constructs, and this can also be confirmed by this study. As can be seen that price, service quality and customer satisfaction have direct and significant impacts on customers' purchasing decision in service industry. In addition, customer satisfaction is triggered by service quality, but not the product price. In terms of mediation effects, customer satisfaction plays important role to improve the relationship between service quality and customer purchasing decision, but poor contribution to the relationship between price and customer's purchasing decision.

The study enriches the existing empirical studies on product price, service quality, customer satisfaction and purchasing decision in emerging market. The study also provides practical implications to service industry managers to enhance customer satisfaction and purchasing decision, ultimately increasing market share and organization profits by considering service quality and product price.

## 7. Limitations and Future Research

This study was carried out to test the mediating effect of customer satisfaction on the relationship between price, quality of service, and a customer's purchasing decision, as well as to test the influence of price, service quality and customer satisfaction on customers' decisions. Nonetheless, it is recognized that this study has numerous limitations

(1). The study was only used questionnaire for the data collection adopted fully from previous authors. The questionnaire for data collection instrument which may not fully represent the real data because it relies entirely from the perceived response from the respondents which might provide bias answers. To overcome this limitation, future studies could also use observation, in-depth interviews and focus group discussions to get more information in order to draw comprehensive conclusions. (2). This research was done in insurance company, so, it cannot be generalized to other types of industries. Therefore, further studies need to be carried out in other types of industries leading to make better data generalization. (3). This study only used customer satisfaction as mediating variable, therefore, future researches also need to employ innovation, differentiation strategy, entrepreneurship orientation and market orientation as mediating variables in order to understand customer's behavioral views in regard to their purchasing decision. (4) This study used periodical data

that has not been able to observe the significance linkages between variables over time. Therefore, longitudinal approaches need to be considered in the future researches.

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### Appendix: Data Collection Instrumen

1= Strongly Disagree; 2= Disagree; 3= Netral; 4= Agree; 5=Strongly Agree

| 1     | Price  | 1 | 2 | 3 | 4 | 5 |
|-------|--|---|---|---|---|---|
| Pri1  | I paid a fair price for the insurance policy   |   |   |   |   |   |
| Pri2  | I consider the insurance pricing policy relative   |   |   |   |   |   |
| Pri3  | I consider the insurance pricing policy is reasonable                                      |   |   |   |   |   |
| Pri4  | I consider the insurance pricing policy as acceptable                                      |   |   |   |   |   |
| 2     | Service Quality  | 1 | 2 | 3 | 4 | 5 |
| 2.1   | <b>Tangibility</b>   |   |   |   |   |   |
| Tanj1 | When customers have problems, the company is sympathetic and reassuring                    |   |   |   |   |   |
| Tang2 | The facilities offered by the company are usually appealing                                |   |   |   |   |   |
| Tang3 | Employees at the company are always well dressed and look tidy                             |   |   |   |   |   |
| 2.2.  | <b>Reliability</b>   | 1 | 2 | 3 | 4 | 5 |
| Rel1  | Employees of the company are always willing to help customers when customers have problems |   |   |   |   |   |
| Rel2  | Employees of the company provide their services at the time they promised to do            |   |   |   |   |   |
| Rel3  | The company provides accurate information and services as they promised                    |   |   |   |   |   |
| 2.3.  | <b>Responsiveness</b>  | 1 | 2 | 3 | 4 | 5 |
| Res1  | Employees in the company tell customers exactly when services will be performed            |   |   |   |   |   |
| Res2  | Employees of the company always willing to help the customers                              |   |   |   |   |   |
| Res3  | The employees in the company give prompt service to customers                              |   |   |   |   |   |
| 2.4.  | <b>Assurance</b>   | 1 | 2 | 3 | 4 | 5 |

|      |   |          |          |          |          |          |
|------|---|----------|----------|----------|----------|----------|
| Ass1 | Employees in the knowledge to answer customers' questions       |          |          |          |          |          |
| Ass2 | Employees of the company are courteous with the customers       |          |          |          |          |          |
| Ass3 | Customers feel safe when dealing with the company               |          |          |          |          |          |
| 2.5. | <b>Empathy</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| Emp1 | Company staff give customer personal attention                  |          |          |          |          |          |
| Emp2 | The company places the customers best interest at heart         |          |          |          |          |          |
| Emp3 | Employees in the company value respect and individual attention |          |          |          |          |          |

|         |   |          |          |          |          |          |
|---------|---|----------|----------|----------|----------|----------|
| 3       | <b>Customer Satisfaction</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| CS1     | I am satisfied with the overall services provided by the company                          |          |          |          |          |          |
| CS2     | I am satisfied with the way I treat in by the company employees                           |          |          |          |          |          |
| CS3     | I am satisfied with the information and services provided by the employees of the company |          |          |          |          |          |
| 4       | <b>Purchase Decision</b>  | <b>1</b> | <b>2</b> | <b>3</b> | <b>4</b> | <b>5</b> |
| PS1     | I decided to buy a policy from Federal Insurance Timor based on product                   |          |          |          |          |          |
| PS2     | I decided to buy a policy from Federal Insurance Timor based on premium.                  |          |          |          |          |          |
| PS3/DS3 | I decided to buy a policy from Federal Insurance Timor based on service quality           |          |          |          |          |          |
| PS4     | I decided to buy a policy from Federal Insurance Timor based on word of mouth             |          |          |          |          |          |
| PS5     | I decided to buy a policy from Federal Insurance Timor based on experience                |          |          |          |          |          |
| PS6     | I decided to buy a policy from Federal Insurance Timor based on Reputation                |          |          |          |          |          |