



## Factors that Influence and Maintain the Market-Leading Position of PT. Pegadaian (Persero)

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### ARTICLE HISTORY

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### ABSTRACT

This study aims to examine the extent to which Quality of Care, Emotional Closeness, and Product Diversification create Customer Loyalty and maintain the position of market leader. PT. Pegadaian (Persero) is a financial services company. In this study, path analysis was used to process the data. Applications 20.0 for Windows was used to process the data. The results of this study indicate that there is a positive and significant correlation between service quality, emotional closeness, product diversification, no customer loyalty, and market leadership. The direct influence of service quality on customer loyalty was 24%. The amount of emotional closeness directly influences customer loyalty. The amount of direct influence was 59.9%. The number of emotional closeness variables that directly influence the market leader is equal to 37.5%. The amount of direct influence on the product diversification variable market leader is equal to 39.8%. The indirect effect of the variable "quality of service" on the market leader through customer loyalty is equal to 5.54%. The indirect effect of the product diversification variable, market leader/market leader, on customer loyalty is 4.62%.

### KEYWORDS

customer loyalty; emotional closeness; market leader; product diversification; service quality

## 1. Introduction

In an increasingly competitive business environment, firms can no longer rely solely on longevity, brand familiarity, or historical market dominance to maintain their position. Liberalization, changing customer preferences, and the rapid expansion of competitors have fundamentally altered the strategic landscape across service industries, including the pawnbroking and consumer finance sectors. Companies that once operated in relatively protected markets are now required to continuously improve their value propositions, strengthen customer relationships, and innovate in response to intensifying competition. This situation is particularly relevant for PT Pegadaian (Persero), a long-established state-owned enterprise in Indonesia, whose core business has historically centered on pawn-based financial services for middle- and lower-income communities. Pegadaian has long held a strong position in the domestic market as an institution with more than a century of service experience and an extensive national branch network. However, maintaining that position in a more open and

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competitive market now requires more than institutional legacy; it requires strategic adaptation grounded in customer-oriented performance and market responsiveness (Day, 2024; Kotler, 2024).

PT Pegadaian (Persero) has articulated a vision of becoming an integrated business solution provider, especially in pawn-based services, while remaining a market leader and the best provider of microfinance-based fiduciary services for lower-middle-income communities. Its mission emphasizes fast, easy, safe, and supportive financing services, broad service accessibility, infrastructure development, and contributions to public welfare. These strategic ambitions show that the company is not only concerned with operational continuity but also with leadership in an increasingly dynamic industry. In practice, Pegadaian has undertaken various initiatives to support this vision, including integrated marketing, service quality improvement, infrastructure enhancement, branch restructuring, service expansion into potentially profitable areas, and employee training programs designed to improve customer service. These efforts reflect a recognition that sustainable market leadership depends on the quality of customer interaction, the relevance of products, and the ability of the company to preserve long-term customer commitment (Kumar, 2024; Sheth, 2024).

This issue becomes more critical because Pegadaian no longer operates in a monopolistic environment. Historically, prior to the implementation of anti-monopoly regulations, Pegadaian was the principal formal institution engaged in pawn services in Indonesia. However, the enactment of Law No. 5 of 1999 on the prohibition of monopolistic practices and unfair business competition opened space for the emergence of both private and public competitors in the same sector. Consequently, the market that Pegadaian once dominated has become increasingly fragmented. The manuscript notes that Pegadaian's market share, which was previously near total dominance, declined to around 72 percent as competitors entered the industry with aggressive promotional strategies, broader service alternatives, and expanding branch accessibility. In particular, banks and private pawn institutions have increasingly offered similar financing products, thereby providing consumers with more options for addressing short-term liquidity needs. This change means that Pegadaian must compete not only on tradition or institutional trust but also on service excellence, emotional attachment, product relevance, and customer retention (Kotler, 2024; Day, 2024; Nurmartiani, 2024).

Although the company still demonstrates positive financial growth in several indicators, the trend data presented in the manuscript suggest a relative slowdown in growth rates for some key variables, including loans disbursed, operating revenue, and total assets across the 2008–2012 periods. While these figures do not necessarily indicate a decline in absolute performance, they do raise strategic concerns regarding the sustainability of growth and the company's ability to maintain dominance over time. In highly contested markets, declining growth momentum can signal the need for a deeper examination of the competitive factors affecting customer decisions and firm positioning. In this context, market leadership should not be treated merely as a descriptive label based on current market share but as a dynamic outcome shaped by the company's capacity to retain customer loyalty, enhance service quality, sustain meaningful customer relationships, and develop products that remain relevant to changing market demands.

Among the many strategic factors that may influence a firm's ability to remain a market leader, this study focuses on four core constructs: service quality, emotional closeness, product diversification, and loyalty. These variables are particularly relevant in the context of service-based financial institutions. First, service quality is central because Pegadaian operates in a sector where customer satisfaction depends heavily on speed, trust, convenience, empathy, and perceived reliability of service encounters. Since customers often seek immediate financial assistance under urgent conditions, the quality of their interactions with front-line employees can strongly shape their perceptions of the firm. Good service can strengthen satisfaction and encourage repeat transactions, whereas poor service may quickly push customers toward competitors (Sujana & Yusni, 2024; Novitasari et al., 2024; Sann et al., 2024).

Second, emotional closeness is an important but often underexplored factor in customer retention. Unlike many formal banking relationships, customer interactions at Pegadaian

often involve direct, familiar, and repeated personal contact. This study suggests that many Pegadaian customers develop a close emotional relationship with the service staff because of the simplicity of the procedures and the familiarity built through repeated transactions. This emotional connection may be important because loyal customers are not always retained only through economic calculations; they may also remain because they feel understood, respected, and personally connected to the institution. In service industries where trust and comfort are significant, emotional closeness can become a relational asset that competitors may find difficult to replicate (Ganaie & Bhat, 2024; Herning & Sholahudin, 2024; Sheth, 2024).

Third, product diversification is strategically significant because market leaders cannot rely on a single core product indefinitely. Pegadaian's traditional pawn services have been complemented by a growing range of financing products, including installment-based fiduciary loans, Sharia-based services, and other product developments intended to meet broader customer needs. Product diversification allows a company to widen its revenue sources, reduce its dependence on a single service line, and serve customers with different financial profiles and preferences. In a competitive market, diversification can also function as a defensive strategy by making the company more relevant across multiple customer segments and reducing the likelihood that customers will shift to competitors who offer more varied solutions (Rianty & Sari, 2024; Jefri et al., 2024; Pandiangan & Nisa, 2024).

Fourth, customer loyalty is positioned as both an outcome and a strategic bridge to market leadership. Loyal customers generate repeat transactions, recommend the company to others, resist competitor attraction, and contribute to revenue stability. In other words, customer loyalty is not merely a post-purchase attitude; it is a strategic asset that supports profitability, reputation, and market share. For a company seeking to maintain a leadership position, loyalty becomes a crucial mechanism through which service quality, emotional bonding, and product diversification are translated into sustainable competitive advantages (Castaldo, 2024; Ramadhan & Fikriah, 2024; Rohayati & Gunawan, 2024).

The importance of these relationships is clear; however, the manuscript also reveals a need for further research. Much of the discussion in the original material is conceptual and thesis-oriented, with broad explanations of the variables and their possible relationships. However, a journal-style inquiry requires a sharper analytical focus on how these variables interact within a specific institutional setting. In the case of PT Pegadaian (Persero), the central issue is not simply whether the company has strong products or a long history, but whether service quality, emotional closeness, and product diversification can strengthen customer loyalty and, through it, support the firm's position as a market leader. The conceptual model in this study suggests that service quality, emotional closeness, and product diversification influence customer loyalty, while customer loyalty affects market leadership. It also proposes indirect effects of service quality and product diversification on market leadership through consumer loyalty. This framework is meaningful because it places customer loyalty at the center of competitive sustainability, rather than treating market leadership as an isolated market outcome.

From an academic perspective, this study contributes to the strategic marketing and relationship management literature by integrating internal service factors and customer relationship variables into a single model of market leadership. From a practical perspective, this study is relevant to Pegadaian and similar service institutions because it can provide evidence on which strategic levers matter most in preserving their competitive position. If market leadership depends not only on scale and promotion but also on relational quality and product relevance, then managerial focus should shift toward systematically strengthening those dimensions. This is particularly important in the Indonesian financial services sector, where customers increasingly compare providers based on convenience, relational trust, flexibility, and perceived value (Kotler, 2024; Day, 2024; Castaldo, 2024).

Accordingly, this study aims to analyze the effects of service quality, emotional closeness, and product diversification on customer loyalty and examine the role of customer loyalty in shaping PT Pegadaian's market leadership. Specifically, it seeks to evaluate the direct influence of service quality, emotional closeness, and product diversification on customer loyalty; the direct influence of customer loyalty on market leadership; and the indirect influence of service

quality and product diversification on market leadership through customer loyalty. Through this approach, the study is expected to produce a more integrated explanation of how customer-facing strategic factors contribute to sustaining market leadership in a competitive service industry (Rajagukguk et al., 2024; Kumar, 2024).

In summary, the transformation of Indonesia's pawn-service market has made customer retention and strategic differentiation more important than ever. For PT Pegadaian (Persero), remaining a market leader cannot rest solely on its historical position or its extensive branch network. Instead, it must be continuously reinforced through excellent service, emotionally meaningful customer relationships, relevant product diversification, and strong loyalty outcomes. These are not peripheral variables but fundamental determinants of competitive endurance. Therefore, examining their interrelationship is essential for understanding how an established service institution can defend and strengthen its leadership in a market that history alone no longer guarantees.

## **2. Literature Review**

### **2.1. Service Quality**

Service quality refers to the degree to which a service can meet or exceed customer expectations. In service-based organizations, quality is commonly understood not only in terms of technical output but also in the process through which the service is delivered. This study draws extensively from the service quality tradition associated with Parasuraman and related scholars, emphasizing five key dimensions: tangibles, reliability, responsiveness, assurance, and empathy. Tangibles refer to the visible aspects of service delivery, such as facilities, equipment, employee appearance, and communication materials. Reliability concerns the ability to perform promised services dependably and accurately. Responsiveness reflects employees' willingness to help customers and provide prompt service. Assurance relates to competence, courtesy, trustworthiness, and the ability to create a sense of security in patients. Empathy captures individualized attention, care, and understanding of customers' needs. In highly interactive service contexts, these dimensions shape customers' evaluations of the firm and influence their future behavioral intentions. The literature summarized in this manuscript also indicates that better service quality tends to strengthen satisfaction and can directly or indirectly support customer loyalty (Sujana & Yusni, 2024; Beanning & Zulkarnain, 2024; Hakim et al., 2024).

### **2.2. Emotional Closeness**

Emotional closeness describes the affective bond that develops between customers and a company and its service representatives. This concept goes beyond transactional satisfaction because it concerns attachment, comfort, trust, familiarity, and relational warmth. This study highlights that genuine loyalty is difficult to establish without some degree of emotional connection. Customers who feel emotionally close to a company are more likely to continue the relationship, recommend the company to others, and resist competing offers. The discussion in this manuscript points to several relational dimensions, including trust, closeness, and reciprocity. Trust reflects the belief in the reliability and integrity of the service provider. Closeness reflects an emotional sense of affinity and personal connection. Reciprocity reflects the perception that the relationship is beneficial and meaningful for both parties. In service industries, especially those involving repeated face-to-face transactions, emotional closeness can become a strong basis for relationship continuity. Thus, emotional closeness is theoretically relevant as an antecedent of customer loyalty (Sheth, 2024; Pranaditya et al., 2024; Ganaie & Bhat, 2024).

### **2.3. Product Diversification**

Product diversification refers to a company's efforts to develop or market additional products to expand growth opportunities, respond to varying customer needs, reduce dependence on a single offering, and strengthen competitiveness. The manuscript explains diversification as the expansion of business activities into new or varied products, either

related or unrelated to the existing products. It also notes several forms of diversification, including concentric, horizontal, and conglomerate diversification. In marketing terms, diversification enables firms to broaden their customer reach, improve their flexibility, and create new profit opportunities. In the context of PT Pegadaian (Persero), diversification is particularly important because the company operates in a market where financial needs are heterogeneous, and competitors increasingly offer multiple service options. A firm that diversifies effectively can better serve different customer segments, reduce the appeal of competitors, and create stronger reasons for customers to remain in the company's service ecosystem. Therefore, product diversification is conceptually linked to customer loyalty and may also contribute indirectly to market leadership (Jefri et al., 2024; Rianty & Sari, 2024; Sahid & Abadi, 2024).

#### **2.4. Customer Loyalty and Market Leadership**

Customer loyalty is generally defined as a strong commitment to consistently continue using a company's products or services over time. This manuscript presents loyalty through indicators such as repeat purchases, recommendations, continuity of relationships, and commitment. Loyal customers do not merely repurchase; they also promote the company through positive word-of-mouth and show resistance to competing offers. In strategic terms, loyalty reduces acquisition costs, stabilizes revenue, and strengthens the market position. Market leadership refers to the position of a firm that holds the largest market share and becomes the central reference point in its industry. Market leaders are typically superior in terms of product introduction, pricing response, distribution reach, and promotional intensity. The literature reviewed in this study suggests that customer loyalty can be a key driver of market leadership because loyal customers sustain demand, enhance reputation, and provide a buffer against competitive encroachment. In this sense, market leadership is not only a function of scale but also an outcome of how effectively a company creates lasting customer commitment (Castaldo, 2024; Rendiansyah & Putra, 2024; Rahayu & Ruswanti, 2024).

### **3. Methods**

This study employed a quantitative approach using a descriptive survey design to examine the relationships among service quality, emotional closeness, product diversification, customer loyalty, and market leadership at PT Pegadaian (Persero), particularly in the Petamburan branch area. The research focused on customers who held a Surat Bukti Kredit (SBK) and had conducted transactions at PT Pegadaian (Persero) Cabang Petamburan and its associated branch service units, namely Lontar, Kota Bambu Utara, Kebon Kacang, Slipi Jaya, and Kali Grogol. These respondents were selected because they represented active service users and were therefore considered capable of providing relevant evaluations of service experience, relational attachment, product perception, and loyalty behavior. Fieldwork was conducted over approximately two months, from May to June 2013 (Kumar, 2024; Rajagukguk et al., 2024).

The study involved three independent variables, one intervening variable, and one dependent variable. The independent variables were service quality, emotional closeness, and diversification. Customer loyalty was treated as an intervening variable, and market leadership served as the dependent variable. Service quality was operationalized through five dimensions: tangibility, reliability, responsiveness, assurance, and empathy. Emotional closeness was measured through trust, closeness, and reciprocal relationships. Product diversification was represented by indicators related to brand, price, quality, and guarantee. Customer loyalty was measured using transaction habits, repeat purchases, recommendations, and commitment. Market leadership was assessed using indicators reflecting market share dominance, relative superiority, and centrality as a point of reference for competitors. These variables were translated into questionnaire items to capture respondents' perceptions in a structured and measurable form (Nurmartiani, 2024; Castaldo, 2024).

The population in this study consisted of customers who had become Pegadaian clients and possessed a valid Surat Bukti Kredit (SBK) within the Petamburan branch network and

surrounding service units. Sampling was conducted using probability sampling and a simple random sampling technique. This technique was chosen because the study assumed that members of the population were relatively homogeneous in terms of their status as Pegadaian customers; therefore, each member of the population had an equal opportunity to be selected as a respondent. The manuscript states that the study used 100 customers as respondents, while the Slovin formula was used as the basis for sample determination with 5% error tolerance. The calculation presented in the manuscript produced a minimum sample estimate of 80 respondents, although the actual number used in the study was 100, thereby exceeding the minimum threshold and strengthening the adequacy of the sample for the analysis.

Data were collected from both primary and secondary sources. Primary data were obtained mainly through questionnaires distributed to the respondents. The questionnaire used a Likert scale with five response categories: strongly agree, agree, neutral, disagree, and strongly disagree, scored 5 to 1, respectively. This scaling approach enabled the researchers to convert subjective perceptions into quantitative data suitable for statistical analysis. In addition to the questionnaires, structured interviews were conducted with selected customers to support and clarify the questionnaire findings. Observation was also used to examine the research setting directly and to compare field conditions with the responses obtained from the questionnaires and interviews. Secondary data were gathered through library research, including books, journals, papers, and other written sources relevant to the variables under study (Beanning & Zulkarnain, 2024; Efdison et al., 2024).

Data analysis was performed in several stages. First, descriptive analysis was used to summarize and present the characteristics of the data using tables, frequency distributions, and cross-tabulations. Second, instrument testing was conducted through a validity and reliability analysis. Validity testing was used to determine whether each questionnaire item accurately measured the intended construct. The manuscript states that item validity was assessed using the product-moment correlation technique, with item significance judged at the 5% level by comparing the calculated correlation values with the relevant table values. Reliability testing was performed to assess the internal consistency of the instrument using Cronbach's alpha. A coefficient greater than 0.600 was used as the benchmark for an acceptable reliability. Statistical processing was performed using SPSS (Rendiansyah & Putra, 2024; Hakim et al., 2024).

Path analysis was used to test the hypothesized relationships among the variables. This technique was chosen because the conceptual model involved both direct and indirect effects, particularly the mediating role of customer loyalty in the relationship between independent variables and market leadership. Path analysis was used to estimate the magnitude of causal influence among exogenous and endogenous variables and to identify both partial and mediated effects within the proposed framework. The manuscript notes several assumptions underlying path analysis, including linear and additive relationships, non-correlation among residual variables, and at least interval-level measurements.

In addition, several classical assumption tests were applied before conducting the inferential analysis. Normality testing was performed to assess whether the distribution of data approximated a normal distribution, including the examination of diagonal plots and point dispersion. Linearity testing was used to verify whether the relationships between the independent and dependent variables were linear. Regression analysis was employed to estimate the predictive relationships between variables, while correlation analysis was used to examine the strength and direction of the association between variables. Finally, the significance of the relationships was tested using the t-test, with decisions made by comparing the calculated t-value to the table value at a 5% significance level. Through this combination of descriptive, diagnostic, and inferential techniques, this study sought to produce statistically grounded findings regarding the factors influencing customer loyalty and market leadership at PT Pegadaian (Persero).

#### **4. Results and Discussion**

This study examines the relationships among service quality, emotional closeness, product diversification, customer loyalty, and market leadership at PT Pegadaian (Persero) in Indonesia. The empirical setting is highly relevant because Pegadaian operates in a service industry that has shifted from a historically protected position to a more competitive market structure. In this context, the ability to maintain market leadership is determined not only by historical legacy, branch reach, or institutional recognition but also by how customers perceive service interactions, relational attachment, and product offerings. Therefore, the results of this study need to be interpreted not only statistically but also strategically, because the variables under examination reflect the dimensions of service management, customer relationship strength, and competitive positioning (Rajagukguk et al., 2024; Day, 2024).

Before testing the relationships among the variables, this study first established that the measurement instrument was sufficiently valid and reliable. This step is important because the credibility of further regression and path analyses depends on whether the questionnaire items adequately capture the intended constructs. The validity test showed that most items across all variables met the required thresholds. For the service quality variable, all 14 items were valid, with correlation coefficients exceeding the table value of 0.3061. For emotional closeness, one item initially failed the validity threshold, namely, the item stating that the respondent had emotional closeness with Pegadaian. After the item was removed and the test was repeated, all remaining emotional closeness items became valid. A similar pattern was observed for product diversification, where one item regarding repair or correction in the case of damage did not meet the validity requirement and was subsequently excluded. After retesting, all remaining items were valid. All items for customer loyalty and market leadership were valid from the outset. These findings indicate that the constructs used in the study were empirically measurable and that problematic items were appropriately screened out before the full analysis.

The reliability test further confirmed the instrument's consistency. Cronbach's alpha values were 0.934 for service quality, 0.905 for emotional closeness, 0.848 for product diversification, 0.880 for customer loyalty, and 0.812 for the market leadership. All values exceeded the accepted minimum, indicating strong internal consistency for the scales used in this study. This indicates that the responses across items within each variable tended to move coherently, thereby supporting the reliability of the questionnaire as an instrument for measuring customer perceptions. Taken together, the validity and reliability results justify the use of these data for a deeper inferential analysis.

The descriptive findings show that the respondents generally perceived Pegadaian positively across all major variables. For service quality, the dominant responses were "agree" and "strongly agree," which together accounted for more than 94 percent of the responses. This indicates that, in general, customers perceive the quality of service at Pegadaian as good. Particularly strong items were the ability of employees to provide complete information and willingness to serve customers well, as well as the ability of service staff to resolve customer issues. These findings suggest that frontline service behavior is one of Pegadaian's strengths in the eyes of customers. Simultaneously, the descriptive table also revealed a weaker area, namely the item concerning whether the transaction time matched the promised service time of 15 minutes. Compared with other service quality items, this item received the largest proportion of neutral or less-favorable responses. This means that although customers were generally satisfied with employee attitude and competence, speed consistency was not perceived as being equally strong. In a transactional service institution such as Pegadaian, this point matters because the promise of quick service is central to customer expectations (Sann et al., 2024; Sujana & Yusni, 2024).

The descriptive analysis of emotional closeness was even more favorable. The overwhelming majority of responses fell into the categories of "agree" and "strongly agree," reaching approximately 97 percent. Customers largely believe that Pegadaian employees provide honest information, treat them fairly, and represent a company with a good moral image. This pattern indicates that trust was a major strength in Pegadaian's relationship with

its customers. The comparatively weaker item within this variable concerned the statement that the relationship with Pegadaian was highly meaningful and mutually needed for the bank. Although the responses were still largely positive, this item received the largest proportion of neutral responses on the emotional closeness scale. This suggests that while trust and positive feelings were strong, the sense of deeper reciprocal attachment was somewhat less intense. In other words, customers seemed comfortable and trusting, but not all necessarily viewed the relationship as strongly interdependent in a broader relational sense (Kusuma Herning & Sholahudin, 2024; Pranaditya et al., 2024).

For product diversification, responses were generally positive, although the pattern was less strong than that for service quality and emotional closeness. The combined “agree” and “strongly agree” responses reached approximately 77 percent, indicating that customers had a moderately positive view of Pegadaian’s diversified product offerings. The strongest items were related to Pegadaian’s guarantee that pledged goods would be compensated if lost and the competence of appraisal services. These results imply that diversification was perceived positively when it addressed concrete customer concerns, such as security and technical capability. However, the weakest item was customer awareness of Pegadaian products such as Krasida, Kreasi, and Mulia. A sizable proportion of respondents were neutral or less favorable on this item, indicating that knowledge of diversified products was not evenly distributed among customers. This is an important strategic signal. Product diversification may exist at the institutional level; however, if customers are not sufficiently aware of those products, the competitive value of diversification can be reduced. Diversification requires not only product development but also effective communication and market education (Jefri et al., 2024; Rianty & Sari, 2024).

The customer loyalty variable was also rated positively, with roughly 91 percent of responses falling under “agree” and “strongly agree.” Respondents generally stated that they would continue to use Pegadaian when quick funds were needed, that they often came to Pegadaian for urgent financial needs, and that they tended to return for similar transactions. These results indicate that Pegadaian retained an important behavioral advantage: repeated use in response to recurring financial needs. However, the relatively weaker loyalty items were those concerning positive word-of-mouth and recommendation to others. Although still favorable overall, these items attracted more neutral responses than other loyalty indicators. This implies that customers were more inclined to continue using Pegadaian themselves than to actively advocate for it in their social circles. Such a distinction matters because true loyalty is often stronger when customers return and become voluntary promoters of the firm. Pegadaian seems to have secured repeat patronage more effectively than active advocacy (Rohayati & Gunawan, 2024; Rahayu & Ruswanti, 2024).

Respondents also perceived market leadership positively. About 89 percent of responses fell into the categories of “agree” and “strongly agree.” The strongest item was Pegadaian’s wide branch and service unit distribution across Indonesia, which received positive responses. Therefore, customers clearly associated Pegadaian’s leadership with physical reach and visibility. Other favorable indicators included the perception that Pegadaian had many outlets and that competitors imitated its methods and products. The comparatively weaker item concerned whether Pegadaian held a market share of at least 60 percent. A notable proportion of respondents answered neutrally on this point, likely because such a statement is more abstract and data-based than direct service experience. Customers may easily observe branch presence or transaction processes, but not all customers possess accurate knowledge of the actual market share. This suggests that perceived market leadership is built more strongly on everyday observable dominance than on formal industry statistics (Kotler, 2024; Day, 2024).

After establishing the descriptive profile of each variable, the study tested the first structural relationship: the effects of service quality, emotional closeness, and product diversification on customer loyalty. The ANOVA results showed that the model was statistically significant, with an F-value of 16.842, and a significance value of 0.000. The R-squared value was 0.660, meaning that 66 percent of the variation in customer loyalty could be explained jointly by service quality, emotional closeness, and product diversification. This is a substantial proportion and suggests that the three predictors form a strong explanatory

model for loyalty in the Pegadaian context. Only 34 percent of the variance remained unexplained by factors outside the model. Substantively, this means that loyalty among Pegadaian customers is strongly shaped by their evaluation of service encounters, emotional relationships, and the company's product range.

However, different patterns emerged when the variables were examined individually. Service quality had a positive and statistically significant effect on customer loyalty, with a standardized beta of 0.240, t-value of 2.062, and significance value of 0.049. This result indicates that better perceived service quality contributes to increased customer loyalty. Although its effect was not the largest, it was still significant. This is consistent with service management theory, which holds that reliable, responsive, and empathetic service can encourage repeat patronage and increase customer attachment. In the Pegadaian setting, customers often arrive with urgent liquidity needs and high sensitivity to convenience and trust issues. Under such conditions, service quality is important because it reduces transaction anxiety, strengthens confidence, and makes repeated use more likely. The descriptive findings reinforce this interpretation: customers value the ability of employees to provide information and solve problems, both of which are likely to support the continued use of Pegadaian (Sujana & Yusni, 2024; Novitasari et al., 2024; Ramadhan & Fikriah, 2024).

Emotional closeness had the strongest effect on customer loyalty, with a standardized beta of 0.599, t-value of 4.046, and significance value of 0.000. This is the most dominant predictor in the first substructure and suggests that customer loyalty at Pegadaian is driven more strongly by relational-emotional factors than by service quality. In practical terms, this means that customers remain loyal not only because they are served efficiently but also because they trust the institution, feel comfortable with it, and perceive the relationship as fair and beneficial. This result is highly plausible in the context of Pegadaian, where customer interactions are often more personal and repeated than in more impersonal financial channels. Emotional closeness appears to create relational stickiness: customers continue transacting not only because Pegadaian is functionally useful but also because it feels familiar, dependable, and psychologically safe. This is especially important in lower- and middle-income market segments, where trust and interpersonal treatment often weigh heavily in service choices (Kusuma Herning & Sholahudin, 2024; Ganaie & Bhat, 2024; Pranaditya et al., 2024).

In contrast, product diversification did not have a statistically significant direct effect on customer loyalty. Its standardized beta was 0.200, but the t-value of 1.340 and significance value of 0.192 indicated that the effect was not statistically significant. This result is interesting because it suggests that although customers may view diversified products positively, such diversification does not automatically translate into loyalty. One likely explanation is that loyalty in Pegadaian is still anchored more in core service relationships and immediate transactional trust than in the breadth of its product offerings. Another explanation is the lower visibility of diversified products among customers, as shown in the descriptive results. If customers are not sufficiently aware of products such as Krasida, Kreasi, or Mulia, then the existence of those offerings may not yet shape their loyalty behavior strongly. In short, diversification may enhance a company's strategic portfolio, but it does not necessarily deepen customer loyalty unless those products are well understood, relevant, and actively used by customers (Jefri et al., 2024; Sahid & Abadi, 2024).

The correlation analysis of the first substructure supports these interpretations. The correlation between service quality and emotional closeness was positive but very weak and insignificant, as was the correlation between service quality and product diversification. However, emotional closeness and product diversification showed a stronger positive correlation of 0.635, significant at the 0.01 level. This suggests that customers who feel more emotionally attached to Pegadaian tend to evaluate its product diversification more favorably. Customers with stronger trust and familiarity may be more open to noticing or appreciating additional products. This relationship also implies that product diversification may be more effective when relational foundations are already strong. In other words, diversified offerings may be strategically valuable, but their customer impact may partly depend on the relational climate in which they are introduced.

The second structural relationship focuses on market leadership as the dependent

variable. Service quality, emotional closeness, product diversification, and customer loyalty were entered jointly into the model. The overall model was significant, with an F-value of 30.950 and a significance level of 0.000. The R-squared value reached 0.832, meaning that 83.2 percent of the variance in perceived market leadership could be explained by the four predictors together. This is a very high explanatory value and indicates that the model captures the major drivers of market leadership perception in this study's context. Only 16.8 percent of the variance was left for factors outside the model. Substantively, this suggests that customers' perception of Pegadaian as a market leader is closely linked to the combined effects of service performance, emotional relationships, product strategy, and loyalty outcomes (Kotler, 2024; Rajagukguk et al., 2024).

When tested individually, service quality did not have a significant direct effect on the market leadership. The standardized beta was only 0.091, with a t-value of 1.008 and a significance level of 0.323. This means that although service quality mattered for loyalty, it did not independently shape customers' perception of Pegadaian's market leadership. This is a significant result. This suggests that customers may interpret service quality as a basic operational requirement rather than a direct marker of market dominance. Good service helps retain customers, but it does not necessarily convince them that a company is a market leader. In competitive markets, market leadership may be judged more by broader signals, such as reach, product variation, visibility, and comparative advantage, than by service experience alone. Thus, service quality may function as a necessary but insufficient condition for perceived leadership.

Emotional closeness, however, had a significant direct effect on market leadership, with a standardized beta of 0.375, a t-value of 2.765, and a significance level of 0.011. This finding suggests that customers who feel a stronger emotional connection with Pegadaian are more likely to perceive it as a market leader. This is a notable result because it shows that market leadership is not only about structural dominance; it is also a matter of relational perception. A company may appear dominant not only because it has branches everywhere but also because customers feel secure, trust its integrity, and regard it as the natural first choice. Emotional closeness may amplify the company's symbolic legitimacy in the minds of customers, making Pegadaian feel like a reference institution in its sector. In this sense, emotional attachment contributes directly to leadership perception by reinforcing the company's image as the most dependable and central player in the market (Castaldo, 2024; Sheth, 2024).

Product diversification also had a significant direct effect on market leadership, with the largest beta in the second model (0.398), a t-value of 3.597, and a significance value of 0.001. This indicates that product diversification was the strongest direct predictor of market leadership. The implication is clear: customers associate a diversified product portfolio with strategic strength and market leadership. A firm that offers more varied solutions appears to be more capable, adaptive, and competitive. In Pegadaian's case, diversification seems to signal that the company is not static or dependent on one legacy product but is expanding and innovating in response to customer needs. Although diversification did not significantly increase loyalty directly, it enhanced the perception that Pegadaian is a leading company. This distinction is important. Diversification may matter less for personal attachment but more for strategic image and competitive standing (Rianty & Sari, 2024; Pandiangan & Nisa, 2024).

Surprisingly, customer loyalty had no significant direct effect on market leadership. Its standardized beta was 0.231, but the t-value of 1.644 and significance value of 0.113 failed to meet the threshold for significance. This means that, within this model, loyal customers were not necessarily the main reason customers perceived Pegadaian as a market leader. One possible interpretation is that loyalty in this setting is more private and behavioral than it is symbolic. Customers may return to Pegadaian repeatedly because it is convenient, trustworthy, or familiar, but that does not automatically mean they use loyalty as the basis for assessing its leadership in the industry. Market leadership may be inferred from comparative market signals, such as product breadth, branch visibility, and organizational reputation. Another possibility is multicollinearity in practical terms of customer perception: emotional closeness and diversification may already capture much of the variance that loyalty would

otherwise explain. In other words, once trust and product strength are accounted for, loyalty no longer adds much unique explanatory power to perceived market leadership (Castaldo, 2024; Rahayu & Ruswanti, 2024).

The second correlation matrix reinforces this interpretation. Emotional closeness was strongly correlated with loyalty (0.755), whereas product diversification was strongly correlated with loyalty (0.624). These relationships are both strong and significant. In contrast, service quality had only a modest positive correlation with loyalty and no significant relationship with the other predictors. This pattern suggests that relational and strategic factors are more central than purely operational service evaluations when customers form broader judgments about Pegadaian. Emotional closeness emerges as a bridge between loyalty and leadership perception, while diversification emerges as the most visible strategic signal of corporate strength.

Path analysis also estimated indirect effects. Service quality had an indirect effect on market leadership through customer loyalty of 5.54 percent. Emotional closeness had an indirect effect through loyalty of 13.84 percent, and product diversification had an indirect effect through loyalty of 4.62 percent. These figures suggest that the mediating role of customer loyalty exists, but it is not equally strong across all predictors. The strongest mediated effect belonged to emotional closeness, which is logical given that emotional closeness was the strongest predictor of loyalty in the first model. This indicates that one of the ways emotional closeness contributes to market leadership by strengthening customer loyalty. Although loyalty itself did not show a significant direct path to market leadership in the second model, the indirect calculations suggest that loyalty still carries part of the influence of the upstream variables. Therefore, the role of loyalty may be partial and supportive rather than dominant.

Therefore, the overall findings of this study can be summarized in a strategically meaningful way. First, service quality is important for customer loyalty but not directly for market leadership. Pegadaian must maintain service excellence because it strengthens customer retention and transactional continuity. However, service quality alone is insufficient to shape a strong leadership image. Second, emotional closeness is the most powerful driver of customer loyalty and has a significant direct effect on market leadership. This makes relational trust and emotional attachment central strategic assets for the company. Third, product diversification does not significantly deepen loyalty but significantly strengthens perceived market leadership. This implies that Pegadaian's product strategy contributes more to its competitive image than to direct customer attachment. Fourth, customer loyalty, although descriptively high, does not independently predict market leadership in the full model, suggesting that leadership perception is formed more by broader strategic and relational cues than by repeated use alone (Day, 2024; Kumar, 2024).

These findings have several implications for future research. From a managerial perspective, Pegadaian should not assume that improving operational services alone will secure leadership perception. Service quality must be preserved, especially in terms of accuracy, employee competence, and complaint handling; however, a stronger emphasis should also be placed on relationship building. Training employees to communicate honestly, fairly, and empathetically is especially important because customers interpret these behaviors as signals of trustworthiness and institutional strength. Simultaneously, Pegadaian should improve communication regarding its diversified products. The relatively low awareness of product names indicates a gap between product development and customer comprehension. Diversification can strengthen market leadership more effectively when customers clearly recognize and comprehend the additional offerings available to them (Nurmartiani, 2024; Rajagukguk et al., 2024).

From a theoretical perspective, the results show that customer loyalty cannot always be assumed to mediate market leadership straightforwardly. In this study, emotional closeness and product diversification were more powerful direct signals of leadership than loyalty. This nuance is significant. In some service contexts, especially those involving repeated small-scale financial transactions, customers may remain behaviorally loyal without converting their loyalty into a broad assessment of industry dominance. Leadership perception may instead be

based on trust, breadth, visibility, and comparative advantage. Thus, future studies may benefit from distinguishing between behavioral loyalty, attitudinal loyalty, and brand advocacy more clearly, as these may have different pathways to leadership outcomes (Castaldo, 2024; Ganaie & Bhat, 2024).

The findings also need to be interpreted with an awareness of the methodological constraints. The sample size in the statistical analysis was relatively small, and the results were rooted in a single branch network context. This means that the conclusions are analytically useful but should be generalized with caution. In addition, some indicators were measured using customer perception rather than objective company performance data. Perceived and actual market leadership may overlap, but they are not identical. Nevertheless, customer perception remains critically important because it directly influences choice behavior, recommendations, and resistance to competitor offerings.

Overall, the results indicate that Pegadaian's strength lies not only in its operational service but, more importantly, in the emotional trust it has built with customers and the strategic breadth reflected in its diversified products. If the company wants to preserve and strengthen its position as a market leader, it should continue improving service quality but should place even greater emphasis on deepening relational trust and making product diversification more visible and meaningful to customers. In a competitive pawn and microfinance market, leadership is sustained not merely by being present but by being trusted, relevant, and strategically adaptive. This is the central empirical message emerging from this study (Kotler, 2024; Sheth, 2024; Rianty & Sari, 2024).

## **5. Conclusion**

This study examines the relationships among service quality, emotional closeness, product diversification, customer loyalty, and market leadership at PT Pegadaian (Persero). Overall, the findings show that Pegadaian is generally perceived positively by its customers across all major dimensions. The descriptive results indicate that the respondents evaluated the service quality favorably, with most customers agreeing that Pegadaian provides comfortable facilities, clear information, responsive service, and problem-solving support. Emotional closeness was also rated highly, particularly in terms of customer trust in Pegadaian employees, perceptions of fairness in service delivery, and confidence in the company's moral image. Product diversification was perceived positively, although not as strongly as service quality and emotional closeness, whereas customer loyalty and market leadership were evaluated as good by the majority of respondents. These descriptive findings suggest that Pegadaian still possesses strong relational and reputational capital in the eyes of its customers (Day, 2024; Kotler, 2024).

More specifically, this study confirms that service quality has a direct positive effect on customer loyalty. This implies that better service delivery contributes to stronger repeat use, continued patronage, and customer attachment. In the context of Pegadaian, where speed, convenience, and trust are highly relevant to customers' financial needs, service quality remains an important foundation for building customer loyalty. However, the effect of service quality on market leadership was not significant. This suggests that although good service is essential for maintaining customer satisfaction and loyalty, it is not sufficient to shape customers' perception of Pegadaian as the market leader. In other words, operational excellence supports loyalty, but market leadership appears to depend on broader strategic factors beyond service performance (Sujana & Yusni, 2024; Hakim et al., 2024).

The most striking result of this study was the strong role of emotional closeness. Emotional closeness had the largest direct effect on customer loyalty and a significant direct effect on market leadership. This indicates that customers' trust, emotional comfort, and perceived closeness to Pegadaian are not merely supplementary relational elements but key drivers of both loyalty and leadership perception. Pegadaian customers appear to remain attached not only because the company provides a useful financial service but also because they feel they can trust the institution and the people who represent it. This finding implies that in service sectors involving repeated direct interactions, emotional connections can be

more decisive than functional service attributes alone. Emotional closeness also indirectly affects market leadership through customer loyalty, reinforcing its role as the most influential relational variable in the model (Kusuma Herning & Sholahudin, 2024; Ganaie & Bhat, 2024).

Product diversification has produced a more mixed pattern. However, it did not show a statistically significant direct effect on customer loyalty. This implies that the existence of multiple products does not automatically increase customer loyalty. Many customers may continue using Pegadaian primarily because of their trust in the company and the usefulness of its core services rather than because of awareness or use of a broader product portfolio. In contrast, product diversification has a significant direct effect on market leadership. This indicates that customers perceive Pegadaian's diversified offerings as important signals of strength, adaptability, and competitiveness. In short, product diversification appears to contribute more to a company's image as a market leader than to the direct formation of customer loyalty. This distinction is important because it shows that diversified products have strategic branding value, even when their direct impact on loyalty is limited (Jefri et al., 2024; Rianty & Sari, 2024).

Another notable finding is that customer loyalty did not have a statistically significant direct effect on market leadership, even though customers descriptively reported high levels of loyalty toward Pegadaian. This suggests that repeated transactions and commitment to continue using the company are not the only basis upon which customers judge whether Pegadaian is a market leader. Instead, market leadership appears to be shaped more strongly by emotional trust and strategic product breadth than by loyalty behavior. Nevertheless, loyalty still played a mediating role in carrying part of the effect of service quality, emotional closeness, and product diversification on market leadership, even if that role was not dominant in direct terms (Castaldo, 2024; Ramadhan & Fikriah, 2024).

Taken together, the results of this study lead to a broader conclusion that Pegadaian's strength in sustaining its leadership position lies in a combination of service performance, emotional relationship quality, and strategic product development, with emotional closeness emerging as the most influential variable. Service quality remains essential for retaining customers, but the company's leadership image is more strongly supported by relational trust and diversified offerings that signal institutional capability. Therefore, Pegadaian's long-term competitiveness will depend not only on improving operational speed and consistency but also on deepening customer relationships and strengthening public awareness of its diversified products. In an increasingly competitive market, historical legacy alone is insufficient. Market leadership must be continuously reinforced by trust, relevance, and strategic responsiveness. This is the central conclusion of this study (Day, 2024; Sheth, 2024; Kumar, 2024).

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