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The Effect of Service Quality and Product Quality on Customer Loyalty with Customer Satisfaction as an Intervening Variable At PT Permodalan Nasional Madani Jakarta Branch

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A R T I C L E I N F O

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A B S T R A C T

This study aims to analyze the effect of service quality and product quality on customer loyalty through customer satisfaction as an intervening variable at PT Permodalan Nasional Madani (PNM) Jakarta Branch. The research is motivated by a significant drop in the customer retention rate at the Jakarta Branch in 2025, falling down to 45% despite a substantial increase in active customer accumulation. This situation signals an underlying operational issue in maintaining sustainable customer relationships. The data used in this study includes primary data collected through structured questionnaires from a sample of 200 active customers selected via purposive sampling. Data analysis was performed using the Structural Equation Modeling (SEM) approach based on Partial Least Squares (PLS) via SmartPLS 4 software. The results demonstrate that service quality and product quality establish a solid foundation for customer loyalty when driven through customer satisfaction. These findings provide empirical support and practical insights for the branch management to carefully manage field staff workloads and balance rapid market expansion with quality customer relationship marketing to restore and maintain long-term retention

INTRODUCTION

The microfinance industry in Indonesia is growing rapidly along with the community's high demand for fast, easy, and affordable access to financing. PT Permodalan Nasional Madani (PNM), through its PNM Mekaar program, plays a strategic role in providing capital and empowerment for underprivileged women micro-entrepreneurs. Facing increasingly fierce competition from microfinance institutions, each branch office is required not only to aggressively acquire markets but also to be able to maintain sustainable partnership relationships with customers. The main factor driving customer loyalty in this service industry relies heavily on the service quality provided by field staff and the functional reliability of the product quality offered.

However, the operational phenomenon occurring at PT Permodalan Nasional Madani Jakarta Branch indicates contradictory business conditions. Based on internal organizational data for the 2023–2025 period, there was a massive expansion of the portfolio where the number of active customers soared sharply from 37,762 customers to 141,668 customers. In line with this growth, the value of smooth financing ceilings increased rapidly, reaching IDR 773.182 billion in 2025, along with the successful control of payment risks through a decrease in the number of Portfolio at Risk (PAR) customers. Unfortunately, this aggressive quantitative market expansion has not been followed by the ability to retain customers in the long term. The customer retention rate of the Jakarta Branch experienced a drastic decline from 84% in 2023 to only 45% in 2025. The number of customers who chose not to continue financing increased exponentially, reaching 77,451 customers in 2025.

This operational gap is strongly suspected to be triggered by the field staff's workload, which increased drastically along with the explosion in the number of customers, thereby potentially reducing communication intensity, interaction quality, and customer mentoring. In addition to this business phenomenon, there is inconsistency in the results of previous studies (research gap) regarding the effect of service quality on customer loyalty. Studies conducted by Safriani and Siregar (2024) and Ester et al. (2025) concluded that service quality and product quality have a significant direct positive effect on loyalty. Conversely, Ferre et al. (2023) and Saputra and Wahyuni (2025) found that service quality does not have a significant direct effect on customer loyalty partially. This inconsistency opens up an academic space to examine the role of customer satisfaction as a mediating variable. Therefore, this article aims to analyze the effect of service quality and product quality on customer loyalty through customer satisfaction as an intervening variable at PT Permodalan Nasional Madani Jakarta Branch.

LITERATURE REVIEW

Grand Theory & Middle-Range Theory

The Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB) are established as the main framework to explain that human behavior is controlled by behavioral intention. This intention is formed by the integration of an individual's attitude toward the behavior, subjective norms from the social environment, and perceived behavioral control (PBC) regarding the perceived ease or difficulty of performing the action. In modern marketing, customer

loyalty is a concrete manifestation of long-term behavioral intention to continue using services and recommend them to external parties.

Conceptual Framework of Variables

Service Quality (X1) is defined as the gap between customer expectations before receiving a service and their actual perception after experiencing it. Its measurement is operationalized through the RATER model: Reliability, Assurance, Tangibles, Empathy, and Responsiveness.

Product Quality (X2) reflects the inherent capability of a product or service to perform its core functions to meet customer specifications. The quality characteristics of microfinance services are embedded in the entire operational procedures experienced by customers across Garvin's dimensions.

Customer Satisfaction (Z) is a behavioral emotional response that arises after comparing the actual performance experienced with the initial expectations. Key indicators include fulfillment of expectations, intention to reuse, and willingness to recommend.

Customer Loyalty (Y) is a deep commitment to maintain long-term relationships and consistently reuse financing products in the future. It is measured through behavioral intentions: saying positive things, recommending to others, and continuing usage.

METHODS

This study is designed using a quantitative approach with a causal-explanatory research design. The unit of analysis is active customers at PT Permodalan Nasional Madani Jakarta Branch. The study population covers all active customers in the branch region, with the sample size determined to be 200 respondents. The sampling technique employs a non-probability sampling method with a purposive sampling approach based on criteria of active customer involvement in the financing program.

Primary data collection was carried out through structured questionnaires measured using a 5-point Likert Scale method (1-5). Data analysis and structural model testing were executed using Structural Equation Modeling based on Partial Least Squares (SEM-PLS) with the assistance of SmartPLS 4 software. The operationalized variables examine the causal relationships of Service Quality (X1) and Product Quality (X2) as independent variables, Customer Satisfaction (Z) as an intervening variable, and Customer Loyalty (Y) as the dependent variable.

RESULTS

The measurement model evaluation (outer model) confirmed that all indicator constructs of the variables (Service Quality, Product Quality, Customer Satisfaction, and Customer Loyalty) meet the requirements of convergent validity with loading factor values above 0.7 and Average Variance Extracted (AVE) values above 0.5. Discriminant validity through cross-loading evaluation and reliability tests via Cronbach's Alpha and Composite Reliability scores also

demonstrated values well above the required thresholds, proving that the research instruments are entirely reliable and consistent.

The structural model evaluation (inner model) and hypothesis testing were conducted using the bootstrapping method to assess the significance of path coefficients between variables. This structural relationship path yielded the following substantive findings:

Service Quality -> Customer Satisfaction (H1): Shows a positive and significant effect. The quality of interaction and field staff care significantly boosts customer satisfaction.

Product Quality -> Customer Satisfaction (H2): Shows a positive and significant effect. The suitability of the microfinance scheme contributes greatly to generating customer satisfaction.

Service Quality -> Customer Loyalty (H3): Has a significant direct positive effect.

Product Quality -> Customer Loyalty (H4): Has a significant direct positive effect.

Customer Satisfaction -> Customer Loyalty (H5): Exerts a strong positive and significant direct effect on loyalty.

Service Quality -> Customer Satisfaction -> Customer Loyalty (H6): Customer satisfaction is proven to act significantly as a mediating or intervening variable.

Product Quality -> Customer Satisfaction -> Customer Loyalty (H7): Customer satisfaction is proven to significantly mediate the effect of product quality on customer loyalty.

DISCUSSION

Based on the structural testing results, it is found that service quality performance and product reliability provide a positive linear contribution to customer satisfaction, which in turn acts as the primary catalyst in raising long-term customer loyalty. This finding successfully dissects the operational anomaly faced by PT PNM Jakarta Branch. Although quantitatively market expansion and financing distribution grew very massively, the accumulation of active customers will not automatically transform into sustainable loyalty commitments if the company neglects the aspect of customers' emotional satisfaction.

Through testing the mediation effects, customer satisfaction is proven to hold a crucial role as a bridge forming loyalty. When the field staff's workload spikes due to the explosion of new customers, it threatens to reduce the intensity of empathy, responsiveness, and accuracy of field services. This decline in interaction service quality directly erodes customer satisfaction, serving as the logical reason why the retention rate plummeted sharply to 45% and the number of customers not continuing partnerships swelled significantly in 2025. This causal relationship reinforces the integration of the Theory of Planned Behavior concepts, where customer attitudes formed through the accumulation of positive experiences with services and products will drive their strong intention to remain in the micro-financing partnership program.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

This study concludes that service quality and product quality have a positive and significant effect on customer loyalty, both directly and indirectly through the role of customer satisfaction as an intervening variable at PT Permodalan Nasional Madani Jakarta Branch. Customer satisfaction is proven to be a highly vital mediating variable. The failure to manage satisfaction due to a decline in service interaction quality in the field is the main driver of the anomalous sharp decline in the customer retention rate amidst the branch's massive financing expansion.

Recommendations

- Field Workload Optimization: The management of the Jakarta Branch is advised to evaluate the ratio of the number of customers per field staff to ensure that the intensity of communication, mentoring, and interaction service quality (RATER) remains optimally and consistently maintained.
- Balancing Business Strategy: Shift the strategic focus from merely fulfilling quantitative new customer acquisition targets toward strengthening customer relationship marketing to improve satisfaction levels and restore the stability of the customer retention rate.

FURTHER STUDY

This study has limitations in the scope of primary data which focuses on a single branch office with the urban customer characteristics of Jakarta. Future research is highly recommended to expand the structural observation on a multi-branch scale (comparing urban and rural branches) and integrate external variables such as the financial literacy level of ultra-micro customers and digitalized financial service variables.

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