


## Effect of product innovation on purchase decisions mediated by brand image at PT Pegadaian

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Article Info	ABSTRACT
<b>Keywords:</b> Product Innovation, Purchase Decision, Brand Image	This study investigates the influence of product innovation on purchasing decisions at PT Pegadaian, with brand image as the mediating variable. The study utilized a causal associative research design, and data was collected through the distribution of questionnaires using the Google Forms application. This study's population comprises PT Pegadaian customers who have previously conducted transactions with the company. A total of 235 respondents were chosen for the study utilizing non-probability sampling, namely the purposive sampling method. The collected data were subsequently analyzed using SEM AMOS 24. This study's primary conclusions suggest that product innovation and brand image positively and significantly influence purchase decisions at PT Pegadaian. Product innovation exerts a positive and significant influence on the brand image of PT Pegadaian. Meanwhile, brand image successfully mediates the effect of product innovation on purchase decisions at PT Pegadaian.
This is an open access article under the <a href="https://creativecommons.org/licenses/by-nc/4.0/">CC BY-NC</a> license 	<b>Corresponding Author:</b> Alfan Fajar Department of Management, Faculty of Economics and Business, Universitas Tanjungpura, Indonesia <a href="mailto:alfanfajarr@gmail.com">alfanfajarr@gmail.com</a>

### INTRODUCTION

In Indonesia, financial institutions include Commercial Banks and People's Credit Banks (BPR), which function in both traditional and Sharia forms. Their primary function is to serve as entities for gathering public funds and channeling them back into loans. Meanwhile, non-bank financial institutions include leasing companies, insurance providers, pawnshops, credit card issuers, capital markets, and others, all of which are pivotal in providing public credit [1]. Financial institutions in Indonesia display a rich diversity, with numerous institutions offering a wide array of services to assist the public in achieving economic sustainability. One company that actively plays a role in aiding the community is PT Pegadaian, a company that has been in existence since April 1, 1901 [1]. PT Pegadaian is a government-owned company that operates in the business of providing funds through a pawnshop system. It possesses unique characteristics, as it offers services for the benefit of the public while still adhering to fundamental business management principles to achieve profitability [2].

Since its establishment, PT Pegadaian has been a reliable partner for the community, offering pawn services that allow individuals to obtain funds with valuable collateral, such as jewelry and precious metals. In 2022, PT Pegadaian achieved a commendable performance by recording a net profit of IDR 3.29 trillion. This accomplishment represented a remarkable growth of 36.17% compared to the previous year, which stood at IDR 2.42 trillion in 2021. The growth in profit was supported by an increase in operating revenue, which rose by 18.83% from IDR 20.63 trillion in 2021 to IDR 22.87 trillion in 2022 [3]. The Outstanding Loan (OSL Gross) for the first semester of 2023 experienced a growth of 14.05%, increasing from IDR 55.11 trillion to IDR 62.85 trillion. This growth was underpinned by the performance of the Pawning product, which increased by 9.7% from IDR 48.8 trillion in June 2022 to IDR 53.6 trillion in June 2023. Meanwhile, the performance of non-Pawning products was recorded at IDR 9.2 trillion, marking a significant increase of 48.35% compared to the same period in 2022 when it was IDR 6.2 trillion [4]. PT Pegadaian has been awarded the Indonesia Best BUMN Awards 2023 in the category of Best SOE 2023 for its exceptional financial performance and contribution to community-based economic development [5].

However, in the current situation, the public perceives PT Pegadaian as not catering to the younger generation or millennials due to its outdated system. This situation has led people to believe that their products primarily aim at older people. For a considerable time, many individuals have felt embarrassed and uncomfortable when coming to the nearest Pegadaian office. This sentiment is intricately linked to the historical development of PT Pegadaian, which initially served as an alternative resource for economically disadvantaged communities to secure loans in a safe and convenient manner by utilizing their valuable possessions as collateral. Therefore, it is unsurprising that those who typically visit Pegadaian offices are individuals with a disheveled appearance and a visibly distressed countenance [6]. The public tends to view Pegadaian as a place frequently visited by individuals coming from middle to lower-income groups [7]. Furthermore, this perception is also influenced by the common understanding within society that Pegadaian primarily provides pawn services without considering the other products and services they offer [8]. This presents a challenge for PT Pegadaian, which has currently transformed by leveraging digital technology advancements to reach new consumers, including the youth, through various marketing strategies aligned with contemporary societal behaviors.

Additionally, they have focused on product innovation catering to the community's needs. Therefore, Pegadaian strives to transform in line with the changing times and adapt to the pace of economic growth and evolving societal needs. As a result, Pegadaian's product offerings are no longer limited solely to pawn services, and it is anticipated that the public's perception and attitude towards PT Pegadaian's products will shift towards a more positive direction. PT Pegadaian's product innovations have earned them the prestigious title of Winner of The Best Marketing for the Chief Marketing Officer at the BUMN Branding & Marketing Award 2018. This award is a token of appreciation for Pegadaian's performance in consistently demonstrating significant change by creating groundbreaking

products and services [9]. The product innovations introduced by Pegadaian have also led PT Pegadaian to attain the Indonesia Innovation Award in the Sustainability category at the IDX Channel Indonesia Innovation Awards (ICAI) 2020 [10]. In 2022, PT Pegadaian received an award in the same event in the External Relations category, specifically for its innovative product, Pegadaian Gold Saving, and its innovative Integrated Business to Business Channeling [11].

Currently, Pegadaian offers a wide range of products and services that include Gold/Jewelry/Vehicle/Electronic Pawn, Gold Installment, Vehicle Installment, Business Capital Loans, Multipurpose Loans, Appraisal Services, Gold Savings, Securities Pawn, Religious Tourism Financing, Sharia Micro Business Loans, Top-Up for Mobile Credit/Electricity/Water/Internet/E-money/Gaming, BPJS Payments, and Money Transfer Services. With this diverse range of products, PT Pegadaian continues to strive towards providing innovative and affordable financial solutions for the public, providing support to individuals in attaining their financial objectives and effectively improving their overall standard of living in a sustainable manner. Leveraging the current digital era, Pegadaian is actively engaged in digital transformation to meet the demands of the present era. Pegadaian consistently demonstrates outstanding performance by formulating business strategies that are seamlessly integrated with digitalization. There are at least three primary objectives of Pegadaian's digital transformation. First, it aims to maintain Pegadaian's relevance by enhancing services and developing products to align with current needs, ensuring that Pegadaian remains in tune with societal demands. Second, Pegadaian seeks to become more efficient and cost-effective through digitalization. Third, it aims to create new opportunities, revenue streams, and innovative products, thereby fostering long-term sustainability, particularly in generating new digital revenue streams for Pegadaian's future [12].

This research will examine to what extent product innovation influences purchase decisions, mediated by brand image, for PT Pegadaian. Financial companies like PT Pegadaian must continue innovating their products to compete effectively in this era of significant changes in customer preferences. There have been some research studies on purchase decisions at PT Pegadaian, but they have yet to focus specifically on the national scope of PT Pegadaian. This research introduces novelty to the research scope as the respondents in this study come from various locations. Furthermore, there is not much research available on PT Pegadaian's product innovation. However, this study will concentrate on assessing the impact of PT Pegadaian's product innovation.

## METHOD

This research is a quantitative study, which is an endeavor to carefully and systematically examine a phenomenon or issue using objective measurements with the aim of obtaining facts or truths and testing emerging theories related to a particular phenomenon or issue [58]. This research is classified as a survey study, as it utilizes a data collection strategy centered around survey instruments. According to Alsa (2004) [59], survey research is a

method in which researchers carry out surveys, distribute questionnaires, or employ scales to collect information from a sample in order to depict the attitudes, opinions, behaviors, or traits of the research participants. From the results of this survey, claims are made about trends within the population. The data collection method in this research involves using questionnaires distributed to respondents who are customers of PT Pegadaian. The questionnaires are handed out to individuals who fulfill the specified criteria. The respondent criteria in this research include the following: respondents are Indonesian citizens, respondents are at least 17 years old, respondents reside in areas with Pegadaian outlets, and respondents have conducted transactions at Pegadaian at least two times in the last year. The questionnaires were spread via an internet platform, specifically Google Form, to a sample size of 235 individuals. The selection of participants was done using a non-probability sampling technique known as purposive sampling. In this study, the questionnaire is prepared with structured questions that use closed-ended questions with a Likert scale rating from 1-5. In this regard, respondents are asked to answer the questionnaire statements through Google Forms, where the answer choices have been divided into five categories, and the rating score is assigned to each category using a scale ranging from 1 to 5: The rating "Strongly Agree" corresponds to a score of 5, while "Agree" corresponds to a score of 4. "Somewhat Agree" corresponds to a score of 3, "Disagree" corresponds to a score of 2, and "Strongly Disagree" corresponds to a score of 1. This study utilizes the Structural Equation Modeling (SEM) technique, employing the statistical program AMOS 24, to examine and assess the measurement and structural models developed within this research.

Using the theoretical studies provided to create a research construct, the research paradigm can be illustrated as shown in Figure 2. The seven items for Product Innovation in this study refer to previous research by Mitrega et al. (2017) [60], Jajja et al. (2017) [61], and Rayi and Aras (2021) [38]. Brand Image with five items refers to Narteh and Braimah (2020) [62], Sasmita and Mohd Suki (2015) [63], and Agmeka et al. (2019) [64], while Purchase Decision refers to Cuong (2021) [65], Amron et al. (2018) [66], and Hanaysha (2018) [67] with six items.

## RESULT AND DISCUSSION

### Respondent Characteristics

Analysis of the respondents' profile in this survey relies on the subsequent demographic categories:

**Table 1:** Characteristics of Respondents

Category	Item	f	%
Gender	Male	99	42,1
	Female	136	57,9
	Total	235	100
Age	17-25 y.o.	132	56,2
	26-42 y.o.	90	38,3

	43-58 y.o.	13	5,5
	>56 y.o.	-	-
	Total	235	100
Educational Background	Elementary School	3	1,3
	Middle School	3	1,3
	High School	102	43,4
	Associate's Degree	47	20
	Bachelor's Degree	78	33,2
	Master's Degree	2	0,9
	Doctorate Degree	-	-
	Total	235	100
Domicile	Sumatra	33	14
	Jawa	100	42,6
	Bali & Nusra	16	6,8
	Kalimantan	69	29,4
	Sulawesi	17	7,2
	Maluku & Papua	-	-
	Total	235	100
Pegadaian's products that have been purchased	Gadai	104	26,74
	Emas/Perhiasan/Kendaraan/Elektronik	63	16,2
	Cicil Emas	64	16,45
	Cicil Kendaraan	92	23,65
	Pinjaman Modal Usaha	46	11,83
	Pinjaman Serbaguna	20	5,14
	Jasa Taksiran	389	100
	Total	389	100
Pegadaian's innovative products that have been purchased	Tabungan Emas	114	27,8
	Gadai Efek	48	11,7
	Pembiayaan Wisata Religi	23	5,6
	KUR Syariah	57	13,9
	Top Up Pulsa/Listrik/Air/Internet/E-money/Game	86	21
	Pembayaran BPJS	61	14,9
	Jasa Pengiriman Uang	21	5,1
	Total	410	100
Number of transactions carried out at Pegadaian in the last 1 year	2	83	35,5
	3	73	31,1
	4	36	15,3
	5 to 10	31	13,2
	More than 10	12	5,1
	Total	235	100

	< Rp. 1.000.000	14	6
	> Rp. 1.000.000 - Rp. 3.000.000	69	29,4
Monthly Income	> Rp. 3.000.000 - Rp. 5.000.000	103	43,8
	> Rp. 5.000.000 - Rp. 10.000.000	40	17
	> Rp. 10.000.000 - Rp. 30.000.000	9	3,8
	> Rp. 30.000.000	-	-
	Total	235	100

### Measurement Models

The conformance, validity, and reliability test results are as follows.

**Table 2:** Value of Standardized Loading Factor, Construct Reliability (CR), and Average Variance Extracted (AVE) in Overall Model Fit

	Items	SLF	CR	AVE
<i>Product Innovation</i>	Pegadaian continuously introduces new products	0,905	0,98	0,854
	Products of Pegadaian have newness and uniqueness	0,957		
	New products of Pegadaian is customer orientated	0,936		
	The product innovation of Pegadaian is a modification of an existing product	0,897		
	Pegadaian always enhances the caliber of its products	0,941		
	Pegadaian places significant importance on the latest advancements in technology in their products	0,933		
	Pegadaian is at the forefront of creating and expanding new markets	0,901		
<i>Brand Image</i>	Pegadaian's brand has a good image	0,951	0,972	0,869
	Pegadaian's products possess a distinct image when compared to other products or brands	0,93		
	Pegadaian arouses my sympathy to purchase the products	0,932		
	Being a customer of Pegadaian is considered prestigious	0,916		
	Pegadaian is dedicated to promoting sustainable development	0,933		
<i>Purchase Decisions</i>	I purchase the products/make transactions at Pegadaian a couple of times	0,95	0,976	0,869
	I tend to purchase products/make transactions at Pegadaian promptly	0,94		
	I have a tendency to repurchase the identical products in subsequent instances	0,939		

Items	SLF	CR	AVE
I think my decision to purchase products from Pegadaian is a right decision	0,939		
Despite the presence of promotional offers from other companies/brands, I would remain inclined to make purchases from Pegadaian	0,922		
I highly endorse Pegadaian to others	0,905		

Based on Table 2, the results of validity and reliability tests show that the indicators of the constructed model meet valid and reliable criteria. Existing indicators have standardized loading factor (SLF) values above 0.50. This indicates that all metrics are valid and adequate to measure the composition of the entire model produced. The Construct Reliability (CR) test score is over 0.70, and the Average Variance Extracted (AVE) value of all instruments obtained a value that is over 0.50. This finding suggests that all instruments exhibit a high level of reliability and are capable of consistently measuring the structural characteristics of the created model.

**Table 3:** Goodness of Fit Index

Goodness of Fit Index	Cut off Value	Results	Interpretation
$\chi^2$	Expected to be low	838.38	
Df		132	
$\chi^2$ - Significance Probability	$\geq 0.05$	0.000	
CMIN/DF	$\leq 3.00$	6.351	Bad Fit
RMSEA	$\leq 0.08$	0.151	Bad Fit
RMR	$< 0,05$	0.021	Good Fit
NFI	$\geq 0.90$	0.887	Bad Fit
IFI	$\geq 0.90$	0.903	Good Fit
TLI	$\geq 0.90$	0.887	Bad Fit
CFI	$\geq 0.90$	0.902	Good Fit

The model conformance test presented in Table 3 demonstrates that the model meets the standards for conformity and can be declared as such. Three measures show a high level of conformity. If there are 3-4 measurements with a good level of agreement or above the cut-off value, the study model configuration can be declared adequate and accepted.

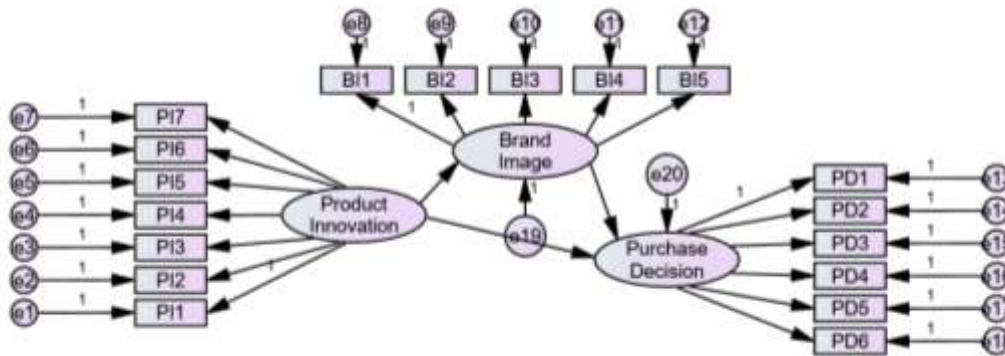


Figure 3: Full Model Testing

### Hypotheses Testing

The findings about the impact of the relationships between variables in the study configuration used in this research may be conveyed as follows.

Table 4: Hypotheses testing

Hypothesis	Path	Estimate	S.E.	C.R.	P
H <sub>1</sub>	Product_Innovation → Purchase_Decisions	0,852	0,051	16,625	***
H <sub>2</sub>	Product_Innovation → Brand_Image	0,803	0,058	13,906	***
H <sub>3</sub>	Brand_Image → Purchase_Decisions	0,253	0,039	6,487	***

Hypotheses are based on existing knowledge. Product Innovation positively impacts purchase decisions. The t-value and p-value support hypothesis proof. The t-count for variable product innovation and purchase decisions is 16.625, indicating a greater number than the t-table value, which is 1.96. Similarly, the result of p-value is less than 0.05 ( $\alpha = 0.05$ ). The results of the second hypothesis are also accepted. Product innovation has successfully impacted brand image of PT Pegadaian positively and significantly. The t-count for the product innovation variable for brand image is 13.906, indicating a greater number than the t-table value of 1.96. Similarly, the p-value indicates a number less than 0.05. The third hypothesis is also valid. Brand image of PT Pegadaian significantly impacts purchase decisions. The brand image and purchase decisions variables t-counts reached multiples of 6,487. This indicates that the obtained value exceeds the t-table value of 1.96. Similarly, the p-value is less than 0.05 ( $\alpha = 0.05$ ). To ascertain the indirect influence of the built-in mediation variables, we show Table 5, which displays the outcomes of the Sobel test.

Table 5: Sobel Test - Significance of Mediation

	Sobel test statistic	Two- tailed probability
Product_Innovation → Brand_Image → Purchase_Decisions	5,87	0,000



Based on the results of the Sobel test as shown in Table 5, the Sobel test statistic is calculated to be 5.87 with a p-value of 0. The Sobel test result exceeds the key t-table value of 1.96, indicating statistical significance. Additionally, the p-value is found to be lower than the predetermined significance limit of 0.05 ( $\alpha = 0.05$ ). The results indicate that there is a significant indirect impact of product innovation on consumer purchase decision, mediated by the brand image.

## CONCLUSION

In this ever-evolving era, consumer needs are continuously changing in parallel with the progression of time. This includes consumer needs in finance, which financial institutions address. Financial institutions consistently strive to innovate their products, anticipating that these innovations will stimulate their company performance and market value [68]. Therefore, the existence of product innovation is crucial as it has the capability to enhance customer purchase decisions [43]. Customers tend to decide to purchase a new product from a company because of its newness and uniqueness [69]. The product innovation at PT Pegadaian has led the company to achieve a higher level of corporate performance, primarily driven by the increased customer purchase decisions resulting from these product innovations. When a company is capable of innovating its products effectively, it is more likely to develop a strong brand image [70]. This can occur because product innovation brings a fresh perspective to a company, making it appear to have a positive image due to its active efforts in improving and innovating its products. Introducing innovative products can foster the perception of a company as forward-looking and inventive, ultimately elevating its brand image and increasing its appeal to consumers [46]. The product innovation at PT Pegadaian has brought about a substantial transformation in the company's brand image. Society no longer perceives PT Pegadaian as a company solely engaged in providing pawnshop services but as something more than that. A strong brand image can make customers more loyal to a brand. Customers are inclined to purchase a product from a specific brand due to its favorable reputation [71]. A good brand image additionally convinces buyers to make a purchase of the product [72]. Consumers will take into consideration a strong and assured brand image before making a purchase, as it fosters greater trustworthiness. The brand image can aid a company in assessing the effectiveness of its marketing strategies, and a positive brand image can serve as an added asset for the company [73]. The brand image of PT Pegadaian has been effective in influencing customers to be inclined towards purchasing PT Pegadaian's products.

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