

## ANALYZING THE INFLUENCE OF STRATEGIC AGILITY, INNOVATION CAPABILITY AND ORGANIZATIONAL READINESS ON THE PERFORMANCE OF PT PEGADAIAN

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### Abstract

*With global economic growth and environmental changes occurring, there are challenges and opportunities for business growth. Increasing competitiveness is a requirement to maximize opportunities and be better prepared for business competition. The right strategy will make the company superior. In most cases, superior business strategies based on superior resources and capabilities are considered obsolete and irrelevant in the face of environmental changes. Companies must increase their competitiveness by building business models through Strategic Agility and Innovation Capability as well as Organizational Readiness. Data was collected from 240 Branch Heads of PT. Pegadaian throughout Indonesia. Data collection was carried out through questionnaires. Data analysis was carried out through structural equation modeling using Smart-PLS. A deeper understanding of the interactions and dynamics between the Strategic Agility, Innovation Capability and Organizational Readiness variables on PT Performance. The pawnshop, as well as policy implications, emphasize crucial aspects that organizations need to pay attention to in improving their performance. This research can be the basis for developing a more comprehensive theory about how Strategic Agility, Innovation Capability and Organizational Readiness are interrelated and influence PT Performance. Pawnshop. This can enrich our understanding of the internal dynamics of organizations in the face of innovation and change. This research can provide valuable guidance for organizational leaders in making strategic decisions regarding innovation development, change management, and performance improvement. As well as implementing changes necessary to improve organizational readiness and performance, this can help in directing organizational resources and strategies more effectively.*

*Keywords: Strategic Agility, Innovation Capability, Organizational Readiness, Pegadaian, Organizational Performance*

### Abstrak

*Dengan terjadinya pertumbuhan ekonomi global dan perubahan lingkungan, terdapat tantangan dan peluang bagi pertumbuhan bisnis. Peningkatan daya saing merupakan syarat untuk memaksimalkan peluang dan lebih siap menghadapi persaingan usaha. Strategi yang tepat akan menjadikan perusahaan unggul. Dalam kebanyakan kasus, strategi bisnis unggul yang didasarkan pada sumber daya dan kemampuan unggul dianggap ketinggalan jaman dan tidak relevan dalam menghadapi perubahan lingkungan. Perusahaan harus meningkatkan daya saingnya dengan membangun model bisnis melalui Strategic Agility dan Innovation Capability serta Organizational Readiness. Data dikumpulkan dari 240 Kepala Cabang PT. Pegadaian seluruh Indonesia. Pengumpulan data dilakukan melalui kuesioner. Analisis data dilakukan melalui pemodelan persamaan struktural menggunakan Smart-PLS. Pemahaman lebih dalam mengenai interaksi dan dinamika variabel Strategic Agility, Innovation Capability dan Organizational Readiness terhadap Kinerja PT. Pegadaian, serta implikasi kebijakannya, menekankan aspek krusial yang perlu diperhatikan organisasi dalam meningkatkan kinerjanya. Penelitian ini dapat menjadi landasan untuk mengembangkan teori yang lebih komprehensif tentang bagaimana Strategic Agility, Innovation Capability dan Organizational*

*Readiness saling terkait dan mempengaruhi Kinerja PT. Pegadaian. Hal ini dapat memperkaya pemahaman kita mengenai dinamika internal organisasi dalam menghadapi inovasi dan perubahan. Penelitian ini dapat memberikan panduan berharga bagi para pemimpin organisasi dalam membuat keputusan strategis mengenai pengembangan inovasi, manajemen perubahan, dan peningkatan kinerja. Selain menerapkan perubahan yang diperlukan untuk meningkatkan kesiapan dan kinerja organisasi, hal ini dapat membantu mengarahkan sumber daya dan strategi organisasi secara lebih efektif.*

*Kata Kunci: Kelincahan Strategis, Kemampuan Inovasi, Kesiapan Organisasi, Pegadaian, Kinerja Organisasi*



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## INTRODUCTION

PT Pegadaian's business growth tends to be stagnant with a compound annual growth rate (CAGR) in the 2015 - 2017 period of only 4% compared to other similar competitors such as Bank Syariah Mandiri, BRI Syariah, and BNI Syariah which are above 10%. Before the transformation, the number of Pegadaian's customer base, especially in the pawn business, experienced growth of 2% per year from 2015 - 2017, while on the other hand the number of new Pegadaian customers decreased by 12% per year from 2015 - 2017. This indicates that PT. Pegadaian is not yet actively increasing the number of new customers but only serving existing customers. Apart from that, the previous pawn business was still traditional (manual / paper based), loan interest was less flexible, single channel (outlet), technology was not yet up-to-date, and the culture was still very passive or waiting.

Since the transformation in 2018 until now, PT. Pegadaian continues to strive to make improvements/improvements in all its business processes so that it can continue to adapt to the dynamics of current developments. However, in the process there are still several things that become obstacles, including; 1) changing the digitalization mindset and culture in the company where this requires time to facilitate digital culture in following new work patterns including preparing tools that adopt new work patterns for future needs, 2) there are several innovations that have not provided an optimal contribution in improving Pegadaian performance.

Bearing in mind that in the future the level of competition in the pawn industry is expected to become increasingly fierce, which is supported by the fact that the growth rate of Pegadaian's competitors has relatively increased significantly in the last few years, which is also influenced by changes in current trends or conditions, as well as regulations issued by the Government. Related to the pawnshop business in Indonesia. Responding to these conditions, PT. Pegadaian must continue to transform by innovating products, business processes and increasing resource capabilities so that it can be more productive, competitive, have flexibility in facing dynamic and risky global challenges, and can provide the best service to consumers.

In line with the implementation of regulatory changes in the pawn industry through Financial Services Authority Regulation (POJK) Number 31 of 2016 concerning Pawn Shop Business, where the pawn shop market is becoming more open and competitive so as to increase business competition in the pawn business, which is marked by the presence of private pawn companies, sharia banking, multi-finance companies to P2P lending financial technology. Other factors that are currently challenging PT. Pegadaian include changes in macro conditions which are full of uncertainty (such as inflation, interest rates, exchange rates, the COVID-19 pandemic, etc.), increasingly sophisticated technological advances, developments in digitalization of business processes and products. increasingly rapid changes in people's living behavior that are increasingly intelligent and critical, expensive technology investment costs, many substitute services offered by banks and finance companies in the market such as government programs which are alternative financing solutions for the community, namely People's Business Credit (KUR) and Assistance. Direct Cash (BLT), and in line with Pegadaian joining Ultra Micro Holding, this is a challenge for PT. Pegadaian to serve more Micro, Small and Medium Enterprises (MSMEs).

The existence of these challenges requires Pegadaian to be committed to continuing to make improvements and be more adaptive in responding to existing developments and changes in the company's dynamic environment so that apart from increasing competitiveness in the financial industry, providing convenience and added value to customers can also maintain the sustainability of the company. . One of the strategies that Pegadaian has implemented to answer these challenges is by carrying out a complete transformation in 2018 of the business from a conventional company to a modern, digital-based company starting from operations to business support.

In carrying out innovation, PT Pegadaian must have innovation capability. Innovation Capability is an aspect that influences an organization's ability to manage innovation.<sup>1</sup> Apart from that, innovation also has a positive effect on company performance. The concept of Strategic Agility is also needed in organizations undergoing transformation.<sup>2</sup> According to Doz & Kosonen, Strategic Agility is an important capability that organizations must have to formulate and modify business models so that organizations become more interactive.<sup>3</sup> This research wants to see how Innovation Capability and Strategic Agility influence PT Pegadaian so that it can ultimately improve company performance.

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<sup>1</sup> Minna Saunila, "Innovation Capability for SME Success: Perspectives of Financial and Operational Performance," *Journal of Advances in Management Research* 11, no. 2 (January 1, 2014), <https://doi.org/10.1108/JAMR-11-2013-0063>.

<sup>2</sup> James A. O'Brien, *Introduction to Information Systems* (New York: McGraw-Hill, 2005).

<sup>3</sup> Yves L. Doz and Mikko Kosonen, "Embedding Strategic Agility: A Leadership Agenda for Accelerating Business Model Renewal," *Long Range Planning*, Business Models, 43, no. 2 (April 1, 2010): 370–82, <https://doi.org/10.1016/j.lrp.2009.07.006>.

## LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

### *Strategic Agility dan Innovation Capability*

Strategic agility refers to a set of activities implemented by organizations to add value in a volatile and unpredictable business environment.<sup>4,5</sup> Many positive outcomes of strategic agility have been recognized in the literature, such as increasing organizational ambidexterity, improving performance, increasing long-term effectiveness, and increasing the organization's ability to gain competitive advantage.<sup>6,7</sup> Additionally, organizations are required to provide compatible products to meet reformed customer needs through developing innovation capabilities.<sup>8</sup> Doz emphasized that strategic agility helps organizations avoid "rigidity traps" and focus too much on external attachments by avoiding organizational recession and orienting towards operational flexibility.<sup>9</sup>

Organizational activities aimed at developing innovation capability can be supported by adopting work methods based on strategic agility.<sup>10,11</sup> Farhana and Swietlicki emphasize that strategic agility by following up and evaluating changes in work environment conditions allows organizations to provide added value to customers through prospects from untapped markets that contribute to increasing customer satisfaction. Kohtamaki et al. conceptualize strategic agility in innovation through three main practices related to proactive idea generation, value-based product development, and product commercialization based on market-oriented strategies. Olaleye et al. said that innovation capability as evaluated by product and process innovation is positively related to strategic agility. Cai et al. argue that innovation capability requires sufficient flexibility in organizational resources that can be allocated or reallocated to support initiatives aimed at exploiting new opportunities. On the other hand, Brand et al. shows that strategic agility supports an organization's ability to create innovative business models through organizational restructuring,

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<sup>4</sup> Allan Afuah and Christopher L. Tucci, *Internet Business Models and Strategies: Text and Cases*, 2nd edition (Boston: McGraw-Hill, 2003).

<sup>5</sup> Thomas L. Wheelen and J. David Hunger, *Strategic Management and Business Policy: Achieving Sustainability*, Terjemahan Salemba Empat Jakarta (Pearson, 2010).

<sup>6</sup> A Gunasekaran, "Agile Manufacturing: A Framework for Research and Development," *International Journal of Production Economics* 62, no. 1–2 (May 1999), [https://doi.org/10.1016/S0925-5273\(98\)00222-9](https://doi.org/10.1016/S0925-5273(98)00222-9).

<sup>7</sup> Cevahir Uz Kurt, Rachna Kumar, and Nurcan Ensari, "Assessing Organizational Readiness For Innovation: An Exploratory Study On Organizational Characteristics Of Innovativeness," *International Journal of Innovation and Technology Management* 10, no. 04 (August 2013), <https://doi.org/10.1142/S0219877013500181>.

<sup>8</sup> Jonathan Webber, "Sartre's Theory of Character," *European Journal of Philosophy* 14, no. 1 (2006), <https://doi.org/10.1111/j.1468-0378.2006.00245.x>.

<sup>9</sup> Doz and Kosonen, "Embedding Strategic Agility."

<sup>10</sup> Daniel T. Holt et al., "Readiness for Organizational Change: The Systematic Development of a Scale," *The Journal of Applied Behavioral Science* 43, no. 2 (June 2007), <https://doi.org/10.1177/0021886306295295>.

<sup>11</sup> Angela Abbott and Dave Collins, "Eliminating the Dichotomy between Theory and Practice in Talent Identification and Development: Considering the Role of Psychology," *Journal of Sports Sciences* 22, no. 5 (May 1, 2004), <https://doi.org/10.1080/02640410410001675324>.

improving team performance, and reducing the impact of internal organizational policy problems and organizational conflict. Therefore I tested the following hypothesis:

**H1. strategic agility has a positive influence on innovation capability**

***Strategic Agility and Organizational Readiness***

Readiness to change refers to the shared commitment of organizational members to implement change and shared belief in collective capabilities.<sup>12,13</sup> So, it can be concluded that readiness to change is an individual's beliefs, attitudes and intentions in implementing and managing change. It refers to the shared commitment of organizational members as a critical success factor based on a shared belief in the collective ability to adapt to change.

Meanwhile, strategic agility also has a big impact on the survival of organizations in deciding which business systems they implement according to the needs of the times.<sup>14</sup> These needs are digital business and human collaboration which are important values in the progress of an organization. The strategic agility component in a company will increase stability and also produce organizational agility rigidity.<sup>15</sup> Based on previous research, this research will support the application of strategic agility which will influence organizational readiness for change and transformation. Therefore the hypothesis that I tested is as follows:

**H2: Strategic agility has a positive influence on organizational readiness**

***Strategic Agility and Organizational Performance***

Strategic agility is critical to the survival and sustainability of any organization operating in a dynamic environment.<sup>16,17</sup> Many researchers argue that the flexible ability to adapt to technological disruption and implement strategies quickly, has a positive impact on organizational performance. Strategic agility enables an organization's ability to organize efficiently and also implement the right strategic direction at the right time to improve overall organizational

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<sup>12</sup> Shaker A. Zahra, Harry J. Sapienza, and Per Davidsson, "Entrepreneurship and Dynamic Capabilities: A Review, Model and Research Agenda," *Journal of Management Studies* 43, no. 4 (2006), <https://doi.org/10.1111/j.1467-6486.2006.00616.x>.

<sup>13</sup> Constance E. Helfat and Margaret A. Peteraf, "Managerial Cognitive Capabilities and the Microfoundations of Dynamic Capabilities," *Strategic Management Journal* 36, no. 6 (2015), <https://doi.org/10.1002/smj.2247>.

<sup>14</sup> Naresh K. Malhotra, Daniel Nunan, and David F. Birks, *Marketing Research: An Applied Approach*, 5th ed. (Pearson, 2017).

<sup>15</sup> Doz and Kosonen, "Embedding Strategic Agility."

<sup>16</sup> Jeff K. Stratman and Aleda V. Roth, "Enterprise Resource Planning (ERP) Competence Constructs: Two-Stage Multi-Item Scale Development and Validation\*," *Decision Sciences* 33, no. 4 (2002), <https://doi.org/10.1111/j.1540-5915.2002.tb01658.x>.

<sup>17</sup> Philip M. Podsakoff et al., "Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies," *The Journal of Applied Psychology* 88, no. 5 (October 2003), <https://doi.org/10.1037/0021-9010.88.5.879>.

performance. The performance of an organization depends on the company's ability to align flexibility with its stakeholders such as competitors, customers, suppliers, partners and government policies. Therefore, the hypothesis can be developed as follows:

### **H3. Strategic Agility has a positive influence on Organizational Performance**

#### ***Innovation Capability and Organizational Readiness***

Innovation capability is the ability of an organization, individual, or entity to generate new ideas, develop new products or services, or improve existing processes to create added value. Innovation capability includes a number of factors and aspects that enable a person or organization to innovate effectively. However, multidimensional innovation capability, according to some experts, means that innovation involves the development of the company as a whole, not just new products and services.<sup>18</sup>

Innovation capability directs organizations to develop innovation continuously which ultimately influences the organization's readiness in response to change. Environmental changes that occur continuously also have a big influence on innovation capability which encourages organizations to differentiate the value of existing products and services. Therefore, innovation capability is one of the competencies that a company or corporation must have to increase its organizational readiness for change. From the explanation above, I tested the following hypothesis:

### **H4. Innovation Capability has a positive influence on Organizational Readiness**

#### ***Innovation Capability and Organizational Performance***

Organizational performance is the actual result or output of an organization as measured against the organization's desired output.<sup>19,20</sup> Research conducted by Selvam, Gayathri, Vasanth, Lingaraja, & Marxiaoli stated that company performance is one of the most relevant constructs in the field of strategic management where company performance is part of organizational effectiveness which includes operational and financial results.

Liao & Li define innovation capability as the ability not only to identify and create new value but also to assimilate initiatives back into existing processes and operations. Apart from influencing the supply chain, innovation capabilities can also directly influence company

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<sup>18</sup> Minna Saunila, Sanna Pekkola, and Juhani Ukko, "The Relationship between Innovation Capability and Performance : The Moderating Effect of Measurement," *International Journal of Productivity and Performance Management* 63, no. 2 (January 1, 2014), <https://doi.org/10.1108/IJPPM-04-2013-0065>.

<sup>19</sup> Feng Zhu and Xiaoquan (Michael) Zhang, "Impact of Online Consumer Reviews on Sales: The Moderating Role of Product and Consumer Characteristics," *Journal of Marketing* 74, no. 2 (2010), <https://doi.org/10.1509/jmkg.74.2.133>.

<sup>20</sup> Oliver Schilke, "On the Contingent Value of Dynamic Capabilities for Competitive Advantage: The Nonlinear Moderating Effect of Environmental Dynamism," *Strategic Management Journal* 35, no. 2 (2014), <https://doi.org/10.1002/smj.2099>.

performance. The relationship between innovation capability and company performance is supported by Lim, Darley, & Marion; Tsai & Wang; Zou, Guo & Song therefore this research proposes the following hypothesis:

**H5: Innovation capability has a positive influence on organizational performance**

### ***Organizational Readiness and Organizational Performance***

Recent literature studies on innovation show that organizational innovation plays a key role in organizational performance and company competitiveness (Baker and Sinkula; Damanpour; Farley et al.). Apart from that, several researchers also emphasize the relationship between organizational readiness and innovation (Baker and Sinkula; del Campo and Skerlavaj; Hage; Jimenez-Jimenez and Sanz-Valle; Nonaka and Takeuchi; Sajeve and Jucevicius) and organizational culture and innovation (Yang). These studies show that organizational readiness is an important component for an organization to improve performance. Readiness of an organization plays a key role in organizational innovation, as it is considered the basis of innovation to provide competitive advantage and superior business performance (Chen et al.; Darroch; Sajeve and Jucevicius; Yang). Therefore I tested the hypothesis:

**H6. Organizational Readiness has a positive influence on Organizational Performance**

Based on the problem, literature review, and previous related research, the conceptual framework of this research can be shown in the following figure:

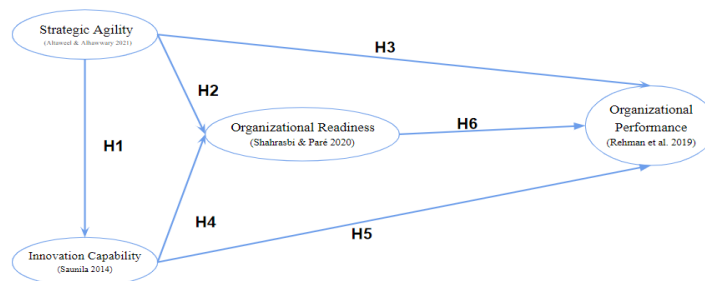


Figure 1. Conceptual framework

## **RESEARCH METHOD**

This research uses a quantitative approach. The unit of analysis is the level of data collection analyzed during the research as the research subject, "Rules of thumb" in determining the number of samples.<sup>21</sup> The procedure is based on the guidelines above to determine the number of samples. The sampling used was a purposive sampling technique. In this research, the unit of analysis

<sup>21</sup> Uma Sekaran and Roger Bougie, *Research Methods For Business: A Skill Building Approach*, 7th Edition (West Sussex: John Wiley & Sons, 2016).

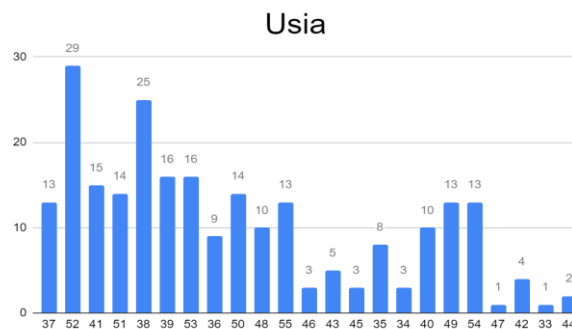
observed is PT Pegadaian which is the market leader with the largest share in the pawn industry in Indonesia. Then the respondent of this research was the Branch Head of PT. Pawn shops throughout Indonesia with 240 branch offices.

Data collection was carried out by distributing questionnaires. The questionnaire consists of four parts. Each section represents each variable, including the application of Strategic Agility, Innovation Capability and Organizational Readiness to Company Performance. The profile shows that 55.8% of respondents are men, while almost 44.2% are women. Apart from that, as many as 71 respondents or 29.6% had worked >15 years, so it could be said that most of the respondents were in the 52-55 year age range. Apart from that, most of the respondents with the position of Branch Head, had grade 12 as many as 110 people with a percentage of 47.4%, as seen in the picture below. in Table 1.

**Table 1. The Respondents' Profiles.**

Characteristics	Classification	Total	Percentage
<b>Gender</b>	Male	134	55.8%
	Female	106	44.2%

Characteristics	Classification	Total	Percentage
<b>Work Period</b>	1 – 4 Years	69	28.8%
	5 – 10 Years	43	17.9%
	11 – 15 Years	57	23.8%
	> 15 Years	71	29.6%



Characteristics	Classification	Total	Percentage
<b>Grade</b>	10	12	4.3%
	11	96	38.0%
	12	110	47.4%
	13	22	10.3%



All items were measured using a 6-point Likert scale. Strategic Agility: The ability to continuously adjust the company's strategy by considering emerging conditions and situations.<sup>22</sup> The scale consists of three dimensions (Strategic Sensitivity, Resource Fluidity and Leadership Unity), which consists of fifteen items. Innovation Capability: Aspects that influence an organization's ability to manage innovation are measured through a scale consisting of seven dimensions (Participatory Leadership Culture, Ideazing and Organizing Structure, Work Climate and Wellbeing, Know How Development, Regeneration, External Knowledge and Individual Activity), which consists of twenty-nine items.<sup>23</sup> Organization Readiness: Organizational readiness refers to the attributes or structural factors necessary for change to occur. This scale consists of six dimensions (Process and Operation Readiness, Financial Readiness, Technological Readiness, Staff Readiness, Cultural Readiness and Business Readiness) with a total of twenty-seven scale items. Performance: Is an important indicator of organizational success or failure which is measured through a scale consisting of 2 dimensions (Financial and Non-Financial), which consists of nine items. Research hypotheses were validated using partial least squares path modeling (PLS-PM). PLS-SM testing was analyzed with SmartPLS software version 3.29. The use of PLS includes (1) the assessment of the measurement model (essentially confirmatory factor analysis) and then (2) the assessment of the structural model.<sup>24</sup>

## RESULT AND DISCUSSION

### Measurement Model

To evaluate the adequacy of the measurement model, all the constructs used in the model were checked for validity and reliability. Convergent validity through item loadings. As shown in Table 2, all the constructs had item loadings of more than 0.7.<sup>25</sup> To establish convergent validity at the construct level, the average variance extracted (AVE) was gauged, more than the minimum acceptable value of 0.5 for all the constructs. Moreover, reliability is measured through inter-item consistency through Cronbach's alpha (Alpha) and composite reliability (CR). As shown in Table 3, all the constructs had their Alpha and CR more than 0.7, thus ensuring the reliability of the constructs.

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<sup>22</sup> Doz and Kosonen, "Embedding Strategic Agility."

<sup>23</sup> Saunila, "Innovation Capability for SME Success."

<sup>24</sup> Joseph F. Hair et al., *Multivariate Data Analysis*, 7th Edition (England: Pearson Education Limited, 2010).

<sup>25</sup> Hair et al.

**Table 2. Validity**

VARIABLE	DIMENSIONS	INDICATOR	LOADING FACTOR	AVE
<b>Strategic Agility (SA)</b> <i>ca= 0.873</i>	Strategic Sensitivity	SA1	0.808	0.784
		SA2	0.640	
		SA3	0.740	
		SA4	0.835	
		SA5	0.813	
	Resource Fluidity	SA6	0.859	0.860
		SA7	0.804	
		SA8	0.859	
		SA9	0.765	
		SA10	0.851	
	Leadership Unity	SA11	0.862	0.783
		SA12	0.784	
		SA13	0.830	
		SA14	0.697	
		SA15	0.873	
<b>Innovation Capability (IC)</b> <i>ca= 0.862</i>	Participatory Leadership Culture	IC1	0.825	0.823
		IC2	0.870	
		IC3	0.881	
	Ideation and Organizing Structures	IC4	0.900	0.851
		IC5	0.861	
		IC6	0.866	
		IC7	0.854	
		IC8	0.905	
		IC9	0.869	
		IC10	0.881	
		IC11	0.856	
		IC12	0.842	
	Work climate and Wellbeing	IC13	0.860	0.719
		IC14	0.789	
		IC15	0.866	
	Know How Development	IC16	0.880	0.832
		IC17	0.864	
		IC18	0.880	
	Regeneration	IC19	0.862	0.700
		IC20	0.827	
		IC21	0.883	
	External Knowledge	IC22	0.838	0.502
		IC23	0.888	
		IC24	0.867	
Individual Activity	IC25	0.795	0.628	
	IC26	0.880		
	IC27	0.884		
<b>Organization Readiness (OR)</b> <i>ca= 0.890</i>	Financial Readiness	IC28	0.839	0.578
		IC29	0.822	
		OR1	0.894	
	Technological Readiness	OR2	0.870	0.856
		OR3	0.723	
		OR4	0.788	
		OR5	0.842	
		OR6	0.808	
		OR7	0.890	
	OR8	0.819	0.841	
	OR9	0.883		

VARIABLE	DIMENSIONS	INDICATOR	LOADING FACTOR	AVE
<b>Performance (P)</b> <b>ca= 0.890</b>	Staff Readiness	OR10	0.868	0.942
		OR11	0.842	
		OR12	0.755	
		OR13	0.805	
		OR14	0.793	
		OR15	0.839	
	Process and Operation Readiness	OR16	0.798	
		OR17	0.851	
		OR18	0.806	
		OR19	0.878	
	Cultural Readiness	OR20	0.678	
		OR21	0.787	
		OR22	0.848	
		OR23	0.719	
	Business Readiness	OR24	0.801	
		OR25	0.858	
		OR26	0.848	
		OR27	0.820	
	Non-Financial Performance	P1	0.822	
		P2	0.765	
		P3	0.781	
		P4	0.856	
		P5	0.796	
	Financial Performance	P6	0.785	
		P7	0.880	
		P8	0.848	
		P9	0.860	

From the results of the re-estimation output in **Table 2**. Validity above, to test convergent validity, it can be seen that all dimensions have a value of >0.5 and the indicators have a Factor Loading value of >0.6 so they can be declared valid.

**Table 3. Reliability**

Variable	Dimensi	Cronbach's Alpha	rho_A	Composite Reliability	Remark
<b>Strategic Agility (SA)</b>	Strategic Sensitivity	<b>0.827</b>	<b>0.839</b>	<b>0.879</b>	<b>Reliable</b>
	Resource Fluidity	<b>0.885</b>	<b>0.890</b>	<b>0.916</b>	<b>Reliable</b>
<b>Innovation Capability (IC)</b>	Leadership Unity	<b>0.870</b>	<b>0.889</b>	<b>0.906</b>	<b>Reliable</b>
	Participatory	<b>0.934</b>	<b>0.935</b>	<b>0.948</b>	<b>Reliable</b>
	Leadership Culture	<b>0.935</b>	<b>0.935</b>	<b>0.948</b>	<b>Reliable</b>
	Ideation and Organizing Structures				
	Work climate and Wellbeing	<b>0.906</b>	<b>0.918</b>	<b>0.930</b>	<b>Reliable</b>
	Know How Development	<b>0.818</b>	<b>0.820</b>	<b>0.892</b>	<b>Reliable</b>
	Regeneration	<b>0.839</b>	<b>0.843</b>	<b>0.903</b>	<b>Reliable</b>
	External Knowledge	<b>0.805</b>	<b>0.818</b>	<b>0.885</b>	<b>Reliable</b>
	Individual Activity	<b>0.805</b>	<b>0.809</b>	<b>0.885</b>	<b>Reliable</b>
	Financial Readiness	<b>0.779</b>	<b>0.834</b>	<b>0.870</b>	<b>Reliable</b>

<b>Organization Readiness (OR)</b>	Technological Readiness	<b>0.887</b>	<b>0.892</b>	<b>0.917</b>	<b>Reliable</b>
	Staff Readiness	<b>0.906</b>	<b>0.909</b>	<b>0.927</b>	<b>Reliable</b>
	Process and Operation Readiness	<b>0.891</b>	<b>0.891</b>	<b>0.920</b>	<b>Reliable</b>
	Cultural Readiness	<b>0.826</b>	<b>0.834</b>	<b>0.878</b>	<b>Reliable</b>
<b>Performance (P)</b>	Business Readiness	<b>0.795</b>	<b>0.797</b>	<b>0.880</b>	<b>Reliable</b>
	Non-Financial Performance	<b>0.888</b>	<b>0.890</b>	<b>0.915</b>	<b>Reliable</b>
	Financial Performance	<b>0.828</b>	<b>0.830</b>	<b>0.897</b>	<b>Reliable</b>

All latent variables or constructs have an AVE (Average Variance Extracted) value above 0.5, which means all constructs are valid. Meanwhile, to test reliability, it is more advisable to use the Composite Reliability value because in PLS the Cronbach's Alpha value is underestimated. It can be seen that the Composite Reliability value for all constructs produces a value of >0.7. With this it can be said that all of these constructs meet the validity and reliability tests.

Cronbach's Alpha is used to measure internal reliability or consistency between the items that form a factor. The desired value is usually above 0.7, however, even values above 0.6 are considered good enough for initial research. The higher the Alpha value, the better the reliability. rho\_A is an alternative estimate of internal reliability that also measures consistency between items. Like Cronbach's Alpha, values above 0.7 are considered good. Composite Reliability is another method for measuring reliability, often used in factor analysis. Values above 0.7 to 0.9 are considered good for reliability testing.

Construct reliability and validity are important measures in assessing measurement instruments in factor analysis or structural models. In the table provided, there are three measures commonly used to assess reliability and validity: Cronbach's Alpha, rho\_A, and Composite Reliability. From the table presented, most of the factors have quite good values for these three reliability measures, indicating that these factors have high internal consistency and are reliable as measurement instruments.

### Structural Model

In carrying out hypothesis testing, there are several steps that need to be taken to test the significance of the path coefficients given in the table. In this case, the path coefficients are the numbers in the first column ("Original Sample (O)") of each relationship. The hypotheses tested are: Null Hypothesis (H0) where the path coefficient is equal to zero then Alternative Hypothesis (H1) where the path coefficient is not equal to zero. In this analysis, the T-statistics value ( $|O/STDEV|$ ) provides important information used to test the significance of the path coefficient. Steps that can be taken: 1) Determine the significance of T-Values where the T-statistics value ( $|O/STDEV|$ ) is greater than 1.96 (at a significance level of 0.05), then the path coefficient is

statistically significant. If the T-statistics value is smaller than 1.96, then the path coefficient is not statistically significant. 2) Evaluate P-Values where the P-values provide the level of statistical significance of the path coefficient. If the P-values are smaller than the specified significance level (usually 0.05), then the path coefficient is considered statistically significant. 3) Interpretation of results where path coefficients that have T-Values greater than 1.96 and P-Values smaller than 0.05 are considered statistically significant.

Thus, the results of the analysis show statistical significance in the relationship between Innovation Capability -> Organizational Readiness, Organizational Readiness -> Performance, Strategic Agility -> Innovation Capability, and Strategic Agility -> Organizational Readiness. Meanwhile, the relationship between Innovation Capability -> Performance and Strategic Agility -> Performance was not proven to be statistically significant.

**Table 4. Hipotesis**

		Original Sample	Sample Mean	Standard Deviation	T Statistics	P-Values
<b>Innovation Capability</b>	<b>-&gt;Organizational Readiness</b>	0.231	0.236	0.097	2.391	<b>0.018</b>
<b>Innovation Capability -&gt; Performance</b>		0.135	0.127	0.105	1.288	<b>0.199</b>
<b>Organizational Readiness</b>	<b>-&gt;Performance</b>	0.716	0.723	0.119	5.995	<b>0.000</b>
<b>Strategic Agility -&gt; Innovation Capability</b>		0.929	0.928	0.021	44.151	<b>0.000</b>
<b>Strategic Agility -&gt; Organizational Readiness</b>		0.725	0.719	0.095	7.598	<b>0.000</b>
<b>Strategic Agility -&gt; Performance</b>		0.109	0.111	0.117	0.928	<b>0.355</b>

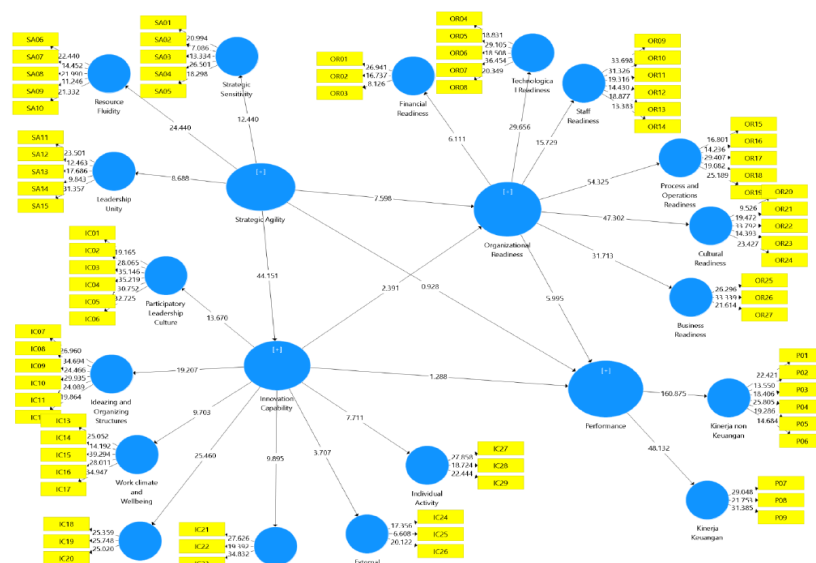


Figure 2. Inner Model

## **Discussion**

In this analysis, the T-statistics value ( $|O/STDEV|$ ) provides important information used to test the significance of the path coefficient.

Steps that can be taken:

1. Determining the Significance of T-Values:
  - a. If the T-statistics value ( $|O/STDEV|$ ) is greater than 1.96 (at the 0.05 significance level), then the path coefficient is statistically significant.
  - b. If the T-statistics value is smaller than 1.96, then the path coefficient is not statistically significant.
2. Evaluating P-Values:
  - a. P-values provide the level of statistical significance of the path coefficient. If the P-values are smaller than the specified significance level (usually 0.05), then the path coefficient is considered statistically significant.
3. Interpretation of Results:
  - a. Path coefficients that have T-Values greater than 1.96 and P-Values smaller than 0.05 are considered statistically significant.

### **Strategic Agility towards Innovation Capability**

From the results of strategic agility testing, it is statistically significant for innovation capability with T-statistics ( $|O/STDEV|$ ) of 44,151 and P-values of 0.000. In this case, the speed or strategic flexibility of an organization has a significant influence on the organization's innovation capability. Organizations that have the ability to adapt quickly to environmental changes tend to have higher innovation capabilities.

### **Strategic Agility towards Organizational Readiness**

From the results of strategic agility testing, it is statistically significant for organizational readiness with T-statistics ( $|O/STDEV|$ ) of 7.598 and P-values of 0.000. In this case, strategic flexibility also influences the organization's readiness to adopt innovation. Organizations that are more flexible tend to be better prepared to accept and implement change or innovation.

### **Strategic Agility towards Organizational Performance**

From the results of strategic agility testing, it is not statistically significant for organizational performance because the T-statistics value ( $|O/STDEV|$ ) is 0.928 and the P-value is 0.355, which is above the specified threshold. From this we can conclude that although strategic flexibility has an influence on innovation capabilities and organizational readiness, its relationship

with organizational performance was not proven to be statistically significant in this study. This could indicate that other factors beyond strategic flexibility have a greater impact on organizational performance.

### **Innovation Capability towards Organizational Readiness**

This path coefficient has T-statistics ( $|O/STDEV|$ ) of 2.391 and P-values of 0.018. Because the T-statistics values exceed 1.96 and the P-values are less than 0.05, this path coefficient is statistically significant. From the results of this test, it can be said that there is a statistically significant relationship between an organization's innovation capability and the organization's readiness to adopt innovation. This shows that the higher the innovation capability, the better prepared the organization is to accept and implement the innovation effectively.

### **Innovation Capability towards Organizational Performance**

From the results of the innovation capability test, it is not statistically significant for organizational performance because the T-statistics value ( $|O/STDEV|$ ) is 1.288 and the P-value is 0.199, which is below the specified threshold. From these results, the relationship between innovation capability and organizational performance does not show statistical significance in this analysis. This may indicate that even though an organization has high innovation capabilities, it does not always directly contribute to organizational performance.

### **Organizational Readiness towards Organizational Performance**

From the organizational readiness test results, it is statistically significant for organizational performance with T-statistics ( $|O/STDEV|$ ) of 5.995 and P-values of 0.000. From these results, the organization's readiness to adopt innovation also has a significant impact on organizational performance. Organizations that are better prepared internally to accept change or innovation tend to perform better.

## **CONCLUSION**

Based on the research results and discussion, it can be concluded that, thus, the results of the analysis show statistical significance in the relationship between Innovation Capability > Organizational Readiness, Organizational Readiness > Performance, Strategic Agility > Innovation Capability, and Strategic Agility > Organizational Readiness which is proven to be statistically significant. Meanwhile, the relationship between Innovation Capability > Performance and Strategic Agility > Performance was not proven to be statistically significant.

These findings provide insight into the importance of organizational readiness in adopting innovation, the influence of strategic flexibility on innovation capability and organizational readiness, as well as the complexity of the relationship between innovation capability and organizational performance which may be influenced by other factors that have not been considered in the analytical model used.

## **SUGGESTIONS AND RECOMMENDATIONS**

Based on the findings from hypothesis testing regarding the relationship between various factors in the organization, there are several policy implications that can be considered:

1. **Increasing Innovation Capabilities and Organizational Readiness:**
  - a. **Training and Development:** Policies that support employee training and development in terms of innovation and change can be a priority. This can help improve individual innovation capabilities, which then contribute to the organization's overall innovation capabilities.
  - b. **Change Management:** A focus on managing organizational change is also important. Policies that support effective change management strategies can help improve an organization's readiness to face innovation.
2. **Increased Strategic Flexibility**

**Adaptability Policy Development:** Organizations can consider policies that encourage adaptability and strategic flexibility. This could include reducing excessive bureaucracy, updating decision-making processes, and more adaptive structures to support rapid responses to market or environmental changes.
3. **Holistic Performance Assessment**

**Evaluation of Other Factors:** Organizations need to consider other factors that may influence performance besides innovation capabilities and strategic flexibility. This can include internal factors such as organizational culture, leadership, or external factors such as market competition.
4. **Integrating Innovation into Organizational Strategy**

**Innovation as a Strategic Priority:** Organizations need to integrate innovation into their overall strategy. This may involve reviewing business models, investing in research and development, and creating an environment that encourages and supports innovative ideas.
5. **Encourages Collaboration and Communication**

**Building Inter-Departmental Collaboration:** Encouraging collaboration between departments and teams within an organization can help in increasing an organization's readiness for change and facilitate the spread of innovative ideas.



Developing policies based on these findings can help organizations be better prepared for change, strengthen innovation capabilities, and improve overall performance. In implementing this policy, it is important to take into account the context and unique characteristics of the organization in question and take into account the changing dynamics of the business environment.

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