THE EFFECT OF DIGITAL CAPABILITY AND DIGITAL LITERACY ON BUSINESS PERFORMANCE WITH EMPLOYEE INNOVATION AS A MEDIATING VARIABLE AT PT PEGADAIAN

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ABSTRACT

The purpose of this research was to determine the effect of digital capability and digital literacy on PT Pegadaian's micro employees on business performance both directly and through employee innovation. PT Pegadaian has a mission to be able to provide service excellence with a customer focus through simpler and digital business processes to be able to continue to compete with competitors so as to improve the company's business performance. One of the efforts that can be made to achieve this mission is that PT Pegadaian employees are required to have innovation and be supported by digital capability and digital literacy. The research is a quantitative research with convenience sampling method and data analysis using Smart PLS. The results of the analysis in show that digital capability & digital literacy do not have a direct role in improving business performance. Digital capability & digital literacy must take advantage of employee innovation to improve business performance.

Keywords: Digital Capability; Digital Literacy; Business Performance; Employee Innovation

INTRODUCTION

At present, competition in the business environment is growing, where company employees not only maintain their business, but also must be able to develop the business. In the business environment, there are many activities carried out and these activities need to be considered so that the company's goals can be achieved, because these activities greatly affect a company's condition which can be influenced both internally and externally. All forms of activities in the company, the company is required to improve good development and achieve its main goal, namely to get the maximum profit or maximum profit. Not only that, every company must also have a competitive advantage, one of which is through ownership of resources that can create value for companies that are difficult to imitate, are rare, and are innovative.

Reporting from indotelko.com, as one of the financial companies in Indonesia, Pegadaian is also faced with cross-industry competition which continues to encourage the company to further improve competitiveness in the midst of an era of technological disruption by increasing the capacity and quality of digital services. According to the Director of Human Capital Legal and Compliance of PT Pegadaian, Ridwan Arbiansyah also added that to answer the challenges in the current era Pegadaian also builds qualified human resources capabilities in the field of technology, to help carry out digital transformation according to the times.

Researchers conducted a survey that was carried out regarding learning agility in employees of Kantor Wilayah XII Surabaya PT Pegadaian, the results show that 63.01% of employees have not implement one of the Talent Management System cycles (TMS). Researchers conducted a learning agility survey to measure it the ability or dexterity of an employee by the work environment (superiors/subordinates/colleagues) in aspects such as self-control, problem solving, as well the desire to learn (willingness to learn) which is a component talent mapping from employee digital literacy.

According (Az Zahra & Sudiana, 2022) Companies must adjust the digital capabilities of human resources in the company with the desired direction of digital technology development. The development of digital capabilities is also very important to produce innovation and to increase the profits of a company with the existence of qualified technological capabilities as an effort to improve company performance (Heredia et al., 2022). Similarly, according to (Khin & Ho, 2019) digital capability can complement the digital orientation of a company because only...
companies that have the skills or skills to manage new technology, so the company will be ready to adopt the new technology. In addition (Khin & Ho, 2019) also defines digital capability as the company’s skills, talents, and expertise to manage digital technology for product development. Examining deeper, PT Pegadaian also pays attention to one of the most important things in the company, namely making employee digital capability as one of the KPI components in the work unit and of course still under special attention. For example, based on data from the initial semester, namely 30 June 2023, the realization weight of the digital capability component of the Regional Office XII Surabaya was obtained 1.93 from the total target weight of 3. Likewise, the same is the case with regional offices, areas, branches, or outlets which are still very lacking.

One measure of the success of a company's business is also influenced by the level of profitability that is able to show the company to generate profits during a certain period (Priatna, 2017). Based on this, as reported by the PT Pegadaian website uploaded on February 10, 2023, PT Pegadaian recorded an encouraging performance in 2022 by printing a net profit of IDR 3.29 trillion. This achievement grew 36.17% compared to 2021 of IDR 2.42 trillion. It can be seen that PT Pegadaian is always trying to increase company profits through increased credit. However, the increase in the distribution of funds through credit is not always accompanied by an increase in profits, even the number of funds that do not return on the funds that have been channeled is also increasing. As illustrated in Figure 1, the development of PT Pegadaian’s NPL realization is as follows.

![Figure 1 Development of PT Pegadaian NPL Realization](source: MR PT Pegadaian)

If we look at the NPL report of PT Pegadaian, it is recorded that the realization of NPLs from year to year (YTD all products) has increased by 0.15%. Whereas Non-performing loans (NPLs) are one of the key indicators to assess the performance (business performance) of a credit distribution company, high NPLs are an indicator of the company's failure to manage business performance, including problems with liquidity (inability to pay third parties), profitability (debt cannot be collected), and solvency (reduced capital). Declining profits are one of the impacts because it will lose a source of income in addition to having to set aside reserves according to credit collectibility. According (Dwihandayani, 2017) NPL ratio is the ratio between the number of loans granted with a collectibility level that is non-performing loans compared to the total loans granted by the company. NPL also reflects credit risk, the higher the NPL level, the greater the credit risk borne by the company (Diyanti & Widyarti, 2012). The amount of NPL is one of the causes of the company's difficulty in extending credit and will affect the performance of the company's business performance.

Business performance is a measure of the performance of an activity business and that has some value to the company. Mark company can be influenced by one of the factors is profitability. Profitability has a definition as the performance of a company for generate profit or profit (Hanifah Pingkan et al., 2022). The purpose of the company’s operational activities in the financial sector is to obtain optimal profits by providing financial services to the public. This goal is met if the company has and is able to maintain its performance well. The overall performance of the company is a description of the achievements of the company in its operations, both regarding financial, marketing, collection and distribution of funds, technology and human resources (Abdullah, 2002). Therefore, one of the factors in credit management must be carried out by qualified human resources. The lack of HR capabilities in implementing digital capability, digital
literacy, and employee innovation is a contributing factor to the lack of strategies in credit control. Credit factors as researched by (Dewi, 2019) this study shows the factors that influence lending strategies and their impact on NPLs in BPRs in Central Java Province. The results showed that the lending strategy has a significant effect on NPL. The better the strategy used, the lower the NPL ratio.

According to (Fariyani et al., 2023) performance is the achievement of organizational goals that can be formed in the form of quantitative or qualitative output, creativity, flexibility, reliability or other things that can be desired by the organization. Performance can be short term or long term, also at the individual, group or organizational level. Meanwhile, according to (Loka et al., 2017), business is an activity that always deals with risk and profit. One measure of business success generally refers to the level of profitability. Profitability shows the company's ability to generate profits during a certain period (Priotna, 2017). In today's business competition, companies in addition to paying attention to the level of profitability, must also look at the internal perspective by examining their human resources. The winner of competition in the global market is a company that is able to respond quickly according to its capabilities and comes from employee innovation. Reinforced by research (Sudrajat, 2013), An effective organization is able to transform corporate entrepreneurial activities into its corporate strategy, which is fundamental in developing creative and innovative approaches designed to develop new ideas and ways of doing things.

If reviewed further, employee innovation from PT Pegadaian is also still very lacking. This is evident from the number of participants who participated in the PIA (Pegadaian Innovation Award) competency in 2023, only 2,316 innovators. Where PIA is an innovation competency event that provides opportunities for all employees to be able to contribute to the company through the distribution of creative and implementable innovation ideas, both new and improving or improving the quality of the company. Meanwhile, the total number of Pegadaian employees now reaches 31,098 people, consisting of 12,668 permanent workers, 1,643 contract workers, and 16,787 outsourced workers. So that only 7.44% of employees have the willingness to innovate. Until now, the challenges of the digital economy and digital transformation must still be ready to be faced. According to Aaker, (2015), most companies are struggling to make digital transformation, and they realize that digital is a powerful tool to build brands and strengthen relationships because it has a unique ability to engage human resources. So, companies need to be ready, and that's why we want to show how capabilities will help companies to overcome all these challenges of the digital economy.

According to Junior et. al., (2016), validation between models and cases analyzed to date shows digital capability can help companies develop digital business models to improve e-commerce and e-business as business performance. However, this is inversely proportional to the research written by (Haryanti, 2021) the results show that in Indonesia digital capability has no effect on MSME business performance, this result is in line with the OECD publication (2014). There are many factors that cause digital capability not to have a significant effect on MSME business performance, this result is evident from the number of participants who participated in the PIA (Pegadaian Innovation Award) competency in 2023, only 2,316 innovators. Where PIA is an innovation competency event that provides opportunities for all employees to be able to contribute to the company through the distribution of creative and implementable innovation ideas, both new and improving or improving the quality of the company. Meanwhile, the total number of Pegadaian employees now reaches 31,098 people, consisting of 12,668 permanent workers, 1,643 contract workers, and 16,787 outsourced workers. So that only 7.44% of employees have the willingness to innovate. Until now, the challenges of the digital economy and digital transformation must still be ready to be faced. According to Aaker, (2015), most companies are struggling to make digital transformation, and they realize that digital is a powerful tool to build brands and strengthen relationships because it has a unique ability to engage human resources. So, companies need to be ready, and that's why we want to show how capabilities will help companies to overcome all these challenges of the digital economy.

Behavior of using digital technology systems can be measured by the frequency of someone using the system, if you already have an interest in technology systems because the convenience and benefits obtained, it will continue use the system in everyday life or in work, so that it will improve performance (Pertiwi & Purwanto, 2022). Meanwhile, according to (Arifuddin et. al., 2022), digital literacy will help business owners to diversify their operations to conduct online and offline business activities. The results show that this research can be positively accepted the existence of digital literacy in the context of business performance as an innovation to improve company performance. Application of information technology that aims to win business competition in the company also needs to be considered business competence in the availability of professional information technology human resources who has an understanding of business.

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& information technology. Because on Currently, information technology is a device that is used to managing changes in business strategy and the process of achieving the vision & company mission Purwanto, (2011).

The difference between this research and previous research on digital capability and digital literacy uses the mediating variable (intervening) employee innovation to determine the business performance of the company and the research location is at PT Pegadaian. Therefore, the authors are very interested in conducting research with the title "Analysis of the Effect of Digital Capability & Digital Literacy on Business Performance with Employee Innovation as a Mediating Variable at PT Pegadaian".

RESEARCH METHOD

This type of research uses quantitative methods where the data taken using a questionnaire. According to (Sugiyono, 2019) survey technique is research that uses data collection methods through distributing questionnaires. The questionnaire used has a closed nature that is experienced by the respondent himself and with answers that have been provided. The respondent's task is simply to mark the answer he chooses. Therefore, this research is used to find out how to analyze the effect of digital capability & digital literacy on business performance with employee innovation as a mediating variable at PT Pegadaian. In this study, an interval scale was used Likert Scale weighting technique, which is a type of scale that can used as a scale measurement for research variables. Measurement via Likert Scale, namely based on the variables being measured so that they will be explained in indicators variable. Then these indicators are used as the basis for preparation the instrument is in the form of a statement.

This research was conducted in the PT Pegadaian environment. While the research time takes into account the research design and the availability of respondents to fill out the questionnaire, the overall time needed to complete this research is thirteen weeks. With the beginning of the estimated research implementation starting at the beginning of the week in May 2023 and will complete all processes in August 2023. In this study, the population that was the target studied by the researcher was the micro employees of PT Pegadaian consisting of Non Gadai Managers & Account Officers, with a population of 853 people.

Because of the population large and the amount is unknown then use the method convenience sampling based on (Ferdinand, 2006) stated amount sample is 5-10 times the amount of the indicator. In this study using as many as 14 indicators. So, the minimum number of samples in this study is 10 x 14 = 140 sample. From these calculations, the sample obtained is minimal as many as 140 employees of PT Pegadaian's micro team as respondents. The sampling method, is by questionnaire, and observation. Data analysis test, the data analysis technique in this study uses the component-based Structural Equation Modeling (SEM) method using Smart Partial Least Square (PLS) with the help of Smart PLS version 4.0 software which is useful when there is a complex model with many variables and indicators.

RESULT AND DISCUSSION

Research Results-Hypothesis Testing

This research model analysis uses the smart PLS method. The analysis carried out measurement model evaluation (outer model) and structural model evaluation (inner model). This section will present various interpretations of previously processed data in the form of analysis of each variable, namely the analysis of the digital capability variable (X1), digital literacy variable (X2), employee innovation (Z), and business performance (Y). Based on the research data collection, the following results were obtained:
1. **Outer Model Testing (Measurement Model)**

The outer model or measurement model used to assess the construct validity and reliability of instruments in research can be tested through validity and reliability tests. To test construct validity, two types of validity testing are carried out, namely convergent and discriminant validity. Meanwhile, the reliability test is obtained from the application of the composite reliability (CR) and Cronbach's alpha values. The validity and reliability tests in this study are described as follows:

**a. Validity Test**

1) **Convergent Validity**

Convergent validity relates to the principle that the measures of a construct should be highly correlated. This means that the higher the loading factor value, the more important the role of loading in interpreting the factor matrix. Convergent validity has a loading factor parameter and average variance extracted (AVE). Convergent validity has the weakest loading factor parameter that is acceptable for validity is 0.5, while the average variance extracted (AVE) parameter requires a value above 0.5. The following is data processing based on 4 (four) variables with a total of 14 (fourteen) statements.

**Table 1 Test Results for Outer Loadings of Questionnaire Indicators**

<table>
<thead>
<tr>
<th>Digital Capability (X1)</th>
<th>Digital Literacy (X2)</th>
<th>Employee Innovation (Z)</th>
<th>Business Performance (Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.846</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.898</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.875</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.886</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.840</td>
<td></td>
<td>0.910</td>
<td></td>
</tr>
<tr>
<td>0.873</td>
<td></td>
<td>0.906</td>
<td></td>
</tr>
<tr>
<td>0.786</td>
<td></td>
<td>0.890</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.914</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.915</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.897</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.859</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)
In table 1, it can be seen that the outer loading value is above 0.5, thus each variable is declared valid. It can be seen that all items on the questionnaire in this study can be extracted perfectly and have a loading factor value> 0.5. This shows that the items used in this study have a good ability to explain the variables.

Table 2 Convergent Validity Test Results AVE Value

<table>
<thead>
<tr>
<th>Variable</th>
<th>AVE</th>
<th>AVE Value Standard</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Capability (X1)</td>
<td>0.768</td>
<td>0.5</td>
<td>Valid</td>
</tr>
<tr>
<td>Digital Literacy (X2)</td>
<td>0.695</td>
<td>0.5</td>
<td>Valid</td>
</tr>
<tr>
<td>Employee Innovation (Z)</td>
<td>0.814</td>
<td>0.5</td>
<td>Valid</td>
</tr>
<tr>
<td>Business Performance (Y)</td>
<td>0.804</td>
<td>0.5</td>
<td>Valid</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)

Table 2 shows that the test results show the AVE value for constructs (variables), all variables have a value greater than 0.5 (above the required value) where the variable that has the highest AVE value is the employee innovation variable of 0.814 and the one with the lowest AVE value is the digital literacy variable of 0.695. Based on the data presented in table 4.12, the indicators in this study have met the requirements of convergent validity and are declared valid.

2) Discriminant Validity

Discriminant validity tests relate to measuring how far a construct is truly different from other constructs. To test discriminant validity, it can be done by examining cross loading, namely the correlation coefficient of the indicator against its associated construct (loading) compared to the correlation coefficient with other constructs (cross loading). A high discriminant validity value provides evidence that a construct is unique and able to capture the phenomenon being measured.

Table 3 Discriminant Validity Test Results (Cross Loadings)

<table>
<thead>
<tr>
<th>Digital Capability (X1)</th>
<th>Digital Literacy (X2)</th>
<th>Employee Innovation (Z)</th>
<th>Business Performance (Y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1.1 0.846</td>
<td>0.694</td>
<td>0.538</td>
<td>0.602</td>
</tr>
<tr>
<td>X1.2 0.898</td>
<td>0.717</td>
<td>0.632</td>
<td>0.573</td>
</tr>
<tr>
<td>X1.3 0.875</td>
<td>0.652</td>
<td>0.713</td>
<td>0.448</td>
</tr>
<tr>
<td>X1.4 0.886</td>
<td>0.649</td>
<td>0.791</td>
<td>0.543</td>
</tr>
<tr>
<td>X2.1 0.539</td>
<td>0.840</td>
<td>0.527</td>
<td>0.483</td>
</tr>
<tr>
<td>X2.2 0.669</td>
<td>0.873</td>
<td>0.547</td>
<td>0.549</td>
</tr>
<tr>
<td>X2.3 0.700</td>
<td>0.786</td>
<td>0.727</td>
<td>0.481</td>
</tr>
<tr>
<td>Z.1 0.701</td>
<td>0.695</td>
<td>0.910</td>
<td>0.539</td>
</tr>
<tr>
<td>Z.2 0.693</td>
<td>0.662</td>
<td>0.906</td>
<td>0.576</td>
</tr>
<tr>
<td>Z.3 0.686</td>
<td>0.620</td>
<td>0.890</td>
<td>0.574</td>
</tr>
<tr>
<td>Y.1 0.565</td>
<td>0.557</td>
<td>0.551</td>
<td>0.914</td>
</tr>
<tr>
<td>Y.2 0.553</td>
<td>0.555</td>
<td>0.545</td>
<td>0.915</td>
</tr>
<tr>
<td>Y.3 0.516</td>
<td>0.529</td>
<td>0.534</td>
<td>0.897</td>
</tr>
<tr>
<td>Y.4 0.573</td>
<td>0.531</td>
<td>0.605</td>
<td>0.859</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)

Based on the results of the discriminant validity test in the cross loading table above, it can be explained that a comparison of the correlation of indicators on variables with other variables is carried out. The cross loading value of each item of each latent variable formed (shaded) has the highest value compared to the cross loading value of items on other latent variables. In table
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3, the value of the cross loading test is shown, with the value of the correlation of all variable indicators on the variable itself having a higher value than the correlation on other variables, thus it can be said that discriminant has been fulfilled.

2. Reliability Test
Reliability test is conducted to prove the consistency, accuracy, and accuracy of the instrument in measuring constructs. Tests are measured using composite reliability and Cronbach’s alpha. The following are the results of the tests carried out.

Table 4 Reliability Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>CR &gt; 0.70</th>
<th>CA &gt; 0.60</th>
<th>Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Digital Capability (X1)</td>
<td>0.930</td>
<td>0.900</td>
<td>Reliable</td>
</tr>
<tr>
<td>Digital Literacy (X2)</td>
<td>0.872</td>
<td>0.780</td>
<td>Reliable</td>
</tr>
<tr>
<td>Employee Innovation (Z)</td>
<td>0.929</td>
<td>0.885</td>
<td>Reliable</td>
</tr>
<tr>
<td>Business Performance (Y)</td>
<td>0.943</td>
<td>0.918</td>
<td>Reliable</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)

The reliability of the measured construct will be declared reliable if it has a composite reliability value above 0.70 and Cronbach’s alpha above 0.60. From table 4, the test results show that the constructs (variables) of the digital capability, digital literacy, employee innovation, and business performance variables have a composite reliability value greater than 0.70 and Cronbach’s alpha greater than 0.60 so that the conclusion obtained is that all variables are declared reliable. The highest value of composite reliability is in the business performance variable, while the lowest value of composite reliability is in the digital literacy variable. The highest value of Cronbach's alpha is the business performance variable, while the lowest value of composite reliability is the digital literacy variable.

Inner Model Testing (Structural Model)

Inner or structural models describe the relationship between independent latent variables (exogenous) and dependent latent variables (endogenous). Structural model analysis is carried out to ensure that the structural model built is robust and accurate.

1. Test Coefficient of Determination or R-Square

The coefficient of determination or R-Square (R²) test is a very important test in regression. Whether or not the regression model used can be seen from the determination test. The R² value is used to explain how much influence the exogenous (independent / free) variables have on the endogenous (dependent / dependent) variables. The results of the coefficient of determination or R-Square (R²) test are shown in the following table:

Table 5 R-Square Test Results (R²)

<table>
<thead>
<tr>
<th>Variable</th>
<th>R-Square (R²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Performance (Y)</td>
<td>0.453</td>
</tr>
<tr>
<td>Employee Innovation (Z)</td>
<td>0.638</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)

Based on table 5 of the determination test results in the table above, the results obtained are as follows:

- The R Square value of the business performance variable of 0.453 is interpreted that the model is able to explain the phenomenon or problem of business performance by 45.30%. While the rest, which is 54.70%, is explained by other variables (other than digital capability, digital literacy, and employee innovation variables) that have not entered the model and errors. This means that business performance is influenced by the variables of
digital capability, digital literacy, and employee innovation by 45.30%, while 54.70% is influenced by variables other than digital capability, digital literacy, and employee innovation or explained by other variables outside those studied in this study.

- The R Square value of the employee innovation variable of 0.638 is interpreted that the model is able to explain the phenomenon or problem of business performance by 63.80%. While the rest, which is 36.20%, is explained by other variables besides the digital capability and digital literacy variables that have not entered the model and errors. This means that employee innovation is influenced by digital capability and digital literacy variables by 63.80%, while 36.20% is influenced by variables other than digital capability and digital literacy or explained by other variables outside those studied in this study.

2. Relevant Prediction Test (Q-Square Stone-Geisser)

The predictive relevance test is used to evaluate the model by looking at the predictive relevance (Q²) which measures how well the observed value is produced by the model and also the parameter estimate. A Q-Square (Q²) value greater than 0 indicates that the model has predictive relevance, on the other hand, if it is less than 0, it indicates that the model does not have predictive relevance. The Q-Square (Q²) value ranges from 0 to 1. A model with predictive validity must have a Q-Square (Q²) value greater than 0 and getting closer to the value of 1 indicates the observation value produces a better model. Conversely, approaching a value of 0 will produce a better model. Conversely, approaching a value of 0 will produce a model that is not good. The criteria for strong and weak models are measured based on the Q-Square (Q²) value, namely 0.35 is considered a strong model, 0.15 is considered a moderate model, 0.02 is considered a weak model. So that in this study the Q-Square (Q²) value was obtained, namely:

\[ Q^2 = 1 - (1 - R^2) \]
\[ Q^2 = 1 - (1 - 0,453)(1 - 0,638) \]
\[ Q^2 = 0,802 \]

Based on the results of the above calculations, the Q-Square value is 0.802. This shows that the predictive relevance model is 80.20% and the remaining 19.80% is explained by other variables outside the research model. And the value of 0.802 is categorized as a strong model so that this research model is suitable for hypothesis testing.

3. Model Goodness Test (Goodness of Fit / GoF)

Model goodness test used to validate the combined performance of the measurement model (outer model) and structural model (inner model). This criterion is used to evaluate the measurement and structural models as a whole against the predictions of the model that has been generated. In this study, the GoF value was obtained:

\[ GoF = \sqrt{\overline{AVE} \times \overline{R^2}} \]
\[ GoF = \sqrt{0,770 \times 0,545} \]
\[ GoF = 0,647 \]

Where is:

GoF = Goodness of fit  
\overline{AVE} = Average of AVE  
\overline{R^2} = Average of R²

Thus, from the above calculations, the GoF value is 0.647 or 64.70% so that it can be concluded that the feasibility level of the research model is in accordance with the model built and the research model is good.
Hypothesis Testing

Hypothesis testing is used to analyze whether the research hypothesis can be accepted or rejected by looking at t-statistics and p-value. If in hypothesis testing it is obtained t-statistics > t-table (1.96) then the hypothesis is accepted and vice versa and if a p-value ≤ 0.05 (α = 5%) is obtained, it can be concluded that it is significant or vice versa. Furthermore, the path coefficient test (path coefficient = original sample) can be used to analyze the relationship pattern between variables. A positive path coefficient test value indicates the tendency of the variable relationship in the same direction, on the other hand, if the value is negative, the tendency of the variable relationship is reversed.

1. Hypothesis Testing (Direct Effect)

Based on the hypothesis testing of the path coefficient, the following table can be seen the original sample value, p-value, and t-statistics which are used as a reference for making decisions on whether the hypothesis is accepted or rejected.

Table 6 Direct Effect Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Original Sample</th>
<th>T-Statistics</th>
<th>P-Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1 Digital Capability (X1) -&gt; Business Performance (Y)</td>
<td>0.220</td>
<td>1.577</td>
<td>0.115</td>
<td>Rejected</td>
</tr>
<tr>
<td>H2 Digital Literacy (X2) -&gt; Business Performance (Y)</td>
<td>0.223</td>
<td>1.601</td>
<td>0.110</td>
<td>Rejected</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)

Hypothesis 1 states that digital capability has a non-significant effect on business performance. The calculation results show a path coefficient value of 0.220, while the t-statistics value is below the t-table (1.577 < 1.96) and with a p-value greater than the α value (0.115 > 0.05), so it can be stated that hypothesis 1 is not significant or rejected. Meanwhile, the second hypothesis states that digital literacy has a non-significant effect on business performance. The calculation results show a path coefficient value of 0.223, a t-statistics value below the t-table (1.601 < 1.96) and with a p-value greater than the α value (0.110 > 0.05) so it can be stated that the second hypothesis is also not significant or rejected.

2. Hypothesis Testing (Indirect Effect)

Hypothesis testing with indirect effects to see whether digital capability and digital literacy are mediated by employee innovation on business performance. The relationship between the independent variable and the dependent variable through mediation in this study can be seen based on the table below:

Table 7 Indirect Effect Result

<table>
<thead>
<tr>
<th>Variable</th>
<th>Original Sample</th>
<th>T-Statistics</th>
<th>P-Value</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H3 Digital Capability (X1) -&gt; Employee Innovation (Z) -&gt; Business Performance (Y)</td>
<td>0.148</td>
<td>2.005</td>
<td>0.045</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4 Digital Literacy (X2) -&gt; Employee Innovation (Z) -&gt; Business Performance (Y)</td>
<td>0.100</td>
<td>2.004</td>
<td>0.047</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed (2023)

Based on the research results obtained in the table, the third hypothesis states that digital capability has a significant positive effect on business performance mediated by employee innovation. The calculation results show the original sample value of 0.148, with the t-statistics
value above the t-table (2.005 > 1.96) and the p-value obtained is smaller than the α value (0.045 < 0.05), so the third hypothesis is stated to have a significant effect. While the fourth hypothesis states that digital literacy has a significant positive effect on business performance mediated by employee innovation. The calculation results show the original sample value of 0.100, with the t-statistics value above the t-table (2.004 > 1.96) and the p-value obtained is smaller than the α value (0.047 < 0.05), so the fourth hypothesis is also stated to have a significant effect.

Discussion

This study has a goal, namely to determine the effect of digital capability and digital literacy on business performance mediated by employee innovation. A detailed discussion of each variable relationship to the objectives to be achieved in this study is as follows:

The Effect of Digital Capability on Business Performance

Based on the results of the research that has been done, the digital capability variable does not have a significant effect on business performance, meaning that the influence of digital capability has not been able to contribute to improving business performance. Although the value of digital capability is increasing, it does not affect business performance at PT Pegadaian.

The digital capability variable does not significantly affect the business performance variable due to the lack of maximum application of the e-learning module. The process of e-learning material provided is only through application media such as I-Leads or Study Science. With each employee having a minimum target of material completion. So it can be perceived that digital capability does not improve business performance because this e-learning module is only an employee's obligation.

This is in line with research conducted by (Haryanti, 2021) which shows that digital capability has no direct effect on business performance. There are many factors that cause digital capability to have no significant effect on business performance, including the incompatibility of business processes, limited managerial knowledge in terms of internet use, limited number of computers and internet connections, lack of trust and security in internet utilization and the high cost of computer development and maintenance.

This statement is also reinforced by the results of research and studies by George Westerman, et al, a book entitled Leading Digital issued by Harvard Business Review Press, leadership capabilities are also needed as a driver of the transformation of a company in order to be able to sustain in entering this digital era. The ability to sustain by adapting to the environment is what is then referred to as "digital mastery". Digital mastery requires 2 critical capabilities, namely digital capabilities and leadership capabilities. Sometimes a company feels enough with the digitalization that it has in carrying out the company’s operational activities, which means that the company feels enough with its digital capabilities. However, sometimes it forgets other critical capabilities, namely leadership capabilities. This is actually the main component to drive the company’s operations to transform into a digital master. Companies with leadership capabilities that have a strong vision & mission, innovation & creativity, engagement with employees and good corporate governance will produce good company business performance as well.

Based on the previous discussion and supported by research results that discuss digital capability has not been able to improve business performance directly, it is necessary to develop periodically so that employees are more aware of the e-learning module and are able to apply the learning material provided.

The Effect of Digital Literacy on Business Performance

From the results of testing digital literacy on business performance, there is a non-significant effect, meaning that even though the higher the value of digital literacy does not affect the level of business performance at PT Pegadaian. Digital literacy is closely related to a person's understanding of the importance of managing information and utilizing technological devices. Today, gender issues are one of the national issues that have received a lot of public attention lately. Gender is a social construction of the roles of women and men (WHO, 2017). These roles can vary depending on the culture/customs of the local environment. In the context of digital
media, gender inequality is present in the form of women's low penetration of technology compared to men. The digital divide that exists between women and men is not only related to access to devices. However, the gap can also be in the form of operational skills, the number of women working in companies (Robinson et al., 2015). This relates to this study that the number of genders in research respondents can influence. Based on the characteristics of the respondents, the majority were dominated by men, namely 65.7%. Where the respondent is a micro team that goes directly to the field. Men have a higher level of productivity because men are more responsible than women (Febianti et al., 2023). The mindset of employees is that the company's operational activities continue to run and their work tasks are completed so that productivity is achieved. So that the role of digital literacy in this study has no effect. Employees only utilize the available applications. Although employees have the ability and access to search for information or data through the Pegadaian MIS application, the main obstacle is that jobdesk activities are more in the field so there is no motivation to improve digital literacy skills.

This statement is also reinforced by the results (rofi rofaida, 2020) that there are driving and inhibiting factors in the success of business performance associated with digital literacy. Therefore, organizations must develop digital literacy improvement programs to deal with various obstacles that arise from mastering digital literacy materials (Julia Feerrar, University Libraries, Virginia Tech, Blacksburg, 2019)

In the application of digital literacy, PT Pegadaian is expected to strengthen understanding of business information processed and presented. As in the results of the study, the highest outer loading value was 0.873. As more employees are able to utilize and evaluate information by utilizing digital access, employees can access and absorb more information effectively. Companies need to focus on leveraging to maximize existing potential resources.

The Effect of Digital Capability on Business Performance through Employee Innovation

From the test results, there is a significant positive influence between digital capability on business performance through employee innovation, meaning that the higher the value of digital capability will affect the high business performance through employee innovation.

Seeing a significant influence on the influence of digital capability on business performance through employee innovation, this is closely related to the condition of PT Pegadaian through its mission, namely "Providing service excellence with customer focus through professional human resources with a culture of good performance". This is proven by the existence of internal influencers based on Board of Directors Decree Number 169/KD/2023 in order to increase employee engagement and increase the contribution of Pegadaian personnel in Pegadaian program campaigns and products that have been prepared in the program. Internal influencers are obliged to disseminate product promotion materials along with Pegadaian programs with creatively packaged content through digital platforms. With the aim to optimize Pegadaian's internal employees through social media owned so that it can be used as a tool to build public trust in Pegadaian's products and services. In addition, being able to hone digital skills with talents, knowledge, skills related to utilizing digital technology.

This is in line with research, (Zhou & Tse, 2005) which states that the importance of digital capabilities possessed by company resources. Basically, digital capability can be built from employee innovation in accordance with skills, talents, knowledge and experience related to managing digital technology. Therefore, companies need to achieve and attract expert digital capability keys to improve business performance.

Based on the previous discussion and supported by research results that digital capability can have a significant effect if supported by employee innovation. Proven by the holding of the Pegadaian Innovation Award (PIA) which is an innovation competency event that provides opportunities for all employees to be able to contribute to the company, through implementative and creative ideas, both new and improvements to improve the quality of the company's business. Not only that, there is also a Quality and Productivity Meeting (TKMPN) that can be followed by employees as a national-scale innovation competition to demonstrate and promote the success of innovation as well as a forum for exchanging experiences in improving company quality and
productivity. And Pegadaian also gives awards or appreciation to Pegadaian personnel who excel and are innovative based on the categories contested. The existence of a competition like this can have a big impact on PT Pegadaian's business performance. Of course, it also increases employee motivation to always innovate.

According to Chandra et al. (2019), this study aims to identify the effectiveness of entrepreneurial leadership on business performance mediated by employee innovation. The results obtained have a significant influence on the variable mediating employee innovation on business performance. Motivation often comes from upper or middle management to lower management to make more innovative in order to improve organizational performance. Based on the previous discussion and supported by research results, employee innovation within PT Pegadaian is very influential on business performance. This is closely related to the condition of PT Pegadaian through its mission, namely "Providing service excellence with customer focus through simpler and digital business processes". Proven by the existence of the Pegadaian Digital Service Application, which is one of the innovations from employees to make business processes easier to reach by serving digital gold savings, pawn online services, financing, and even online multipayment. Because of this innovation, in 2021 Pegadaian won an award at the Top Innovation Choice Awards 2021 with the innovation of Pegadaian Digital Service application with gold savings and online pawns. This prestigious award event gives Pegadaian for its success in creating innovations on products or services based on three aspects of assessment: innovation idea, innovation advantage, and innovation differentiation.

Until now, the Pegadaian Digital Service Application continues to be developed in order to be able to provide the best service to customers. The following is the performance of Pegadaian Digital:

![Figure 3 Pegadaian Digital Application Performance](image)

It is proven based on data.pegadaian.co.id as of June 30, 2023, it has a transaction YoY of 112.85%, with a fairly drastic increase of more than 100%. This is one form of the company in service excellence to customers through simpler and digital-based business processes. In addition to realizing the company's mission of "providing service excellence with customer focus through simpler and digital business processes", but also to realize "providing service excellence with customer focus through strong risk management practices", the innovation of employees is to create a data visualization system for marketing program budget preparation or used to monitor Pegadaian's product portfolio. If monitoring is carried out well, it will be useful in ensuring the running of the program, on the other hand it also provides information if there are obstacles and irregularities as input in conducting evaluations, so that the mission of "providing service excellence with customer focus through strong risk management practices" can be achieved.

This is in line with research by Yasa et al. (2019) that always increase digital capability to develop innovations, especially in the field of digitalization that have an impact on improving business performance. The purpose of holding an innovation competency event is not only for the advancement of company formation, but also as a Human Capital management system based on the concept of Talent Management System with a talent matrix consisting of nine boxes that use employee performance variables on the X axis and employee capacity variables on the Y axis. Here is a nine box talent chart By naming each box according to the following picture:
The Influence of Digital Literacy on Business Performance through Employee Innovation

From the test results, there is a significant positive influence between digital literacy on business performance through PT Pegadaian's employee innovation, which means that the higher the value of digital literacy will affect the high business performance with the support of employee innovation. According to (Qamari, 2022) With employee innovation, it can improve company performance. Researchers are also aware of the need for digital literacy to achieve business goals that improve business performance. This statement is also reinforced by (Raia, 2017) which states that good digital literacy will motivate employees to use new ways as innovation, because for companies it is one form of investment. This is in line with the statement (Dama & Ogi, 2018) Innovation has a positive effect on employee performance, meaning that the better the innovation made by employees, the better the performance of employees, it will also have an impact on company performance.

The intended innovation can be in the form of ideas, ways or objects that are perceived by someone as something new and think creatively looking at various possibilities for solving a problem. One of the problems faced is the lack of socialization of Amanah Products (vehicle installments) at Pegadaian, which the general public knows is identical to pawn or gold savings. So that an innovative idea emerged by Pegadaian employees to create an infographic on vehicle installment financing products that are easy to understand and attractive. By utilizing the latest applications explore creative ideas to create infographics. Here is one example of a Amanah Product infographic:

![Figure 5 Innovations related to Amanah Product Infographics](image-url)
Innovation is applied not only for business development, but also as monitoring and evaluating company performance. Currently, new innovations from employees such as data processing using power queries in Microsoft Excel emerge. This innovation is to facilitate the work unit in monitoring the evaluation of the company’s business performance both in the Area and the work units below as material for evaluating program achievements and performance. In addition, to prove and account for inventory of supporting and inhibiting factors as evaluation material so that further programs / activities can be more effective and successful. Several innovative things have been done by employees, such as monitoring the evaluation of the use of the Google Studio dashboard is also implemented. As monitoring of ongoing performance programs.

CONCLUSION

Based on the results and discussion of research on the Effect of Digital Capability & Digital Literacy on Business Performance with Employee Innovation as a Mediation Variable at PT Pegadaian, it can be concluded as follows: 1) Digital capability variable does not have a significant effect on business performance, meaning that the influence of digital capability has not been able to contribute to improving business performance. Although the value of digital capability is increasing, it does not affect business performance at PT Pegadaian; 2) Digital literacy does not have significant effect on business performance because of one of the scope factors. This research is only in one area, namely the micro team where based on the results of the characteristics of the respondents dominated by type male genital; 3) Digital capability must utilize employee innovation to improve business performance because it's basically digital capability can be built from employee innovation in accordance with skills, talents, knowledge and experience related to managing digital technology; 4) Digital literacy must utilize employee innovation to improve business performance One way that implemented through the emergence of new innovative ideas from employees such as making infographics or monitoring and performance evaluation using Power Query in Microsoft Excel.

REFERENCES


The Effect of Digital Capability and Digital Literacy on Business Performance with Employee Innovation as a Mediating Variable at PT Pegadaian


