

Reformulating Innovation Strategy for the Indonesian State-Owned Pawnshop in the Disruptive Era

Adhikara Joshua Sutisna, Eko Sakapurnama, Martani Huseini

Faculty of Administrative Science Universitas Indonesia, Center for Innovation and Governance Universitas Indonesia, Center for Innovation and Governance Universitas Indonesia

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Abstract:

PT. Pegadaian (Persero) as the Indonesian State-Owned Pawnshop is now facing the era of disruption that brings some new changes for business environment. This Phenomenon is causing various challenges and forces PT. Pegadaian (Persero) to exit from its status quo by reformulating a new innovation strategy in order to survive and not be disrupted. Based on that condition, this research aims to explain the challenges that emerged in the era of disruption and the innovation strategy carried out by PT. Pegadaian (Persero) in answering those challenges. This is a qualitative research by conducting some comprehensive literature studies and in-depth interviews. The results of this research will show both external and internal challenges that show up in this era of disruption for PT. Pegadaian (Persero) as a conventional State-Owned Enterprise and also the innovation strategy that have been implemented to answer those challenges. Therefore, the results of this research can become a solution and help other companies that are struggling to respond and adapt in this disruptive era.

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I. INTRODUCTION

Nowadays, most companies are faced with an era of disruption: where everything is digitalized that brings various changes and efficiency. This leads to some new challenges that need to be faced by many companies around the world, especially for those conventional companies in Indonesia that are established since many years ago and are holding firmly their conventional operational standard. This phenomenon is the reason why PT. Pegadaian (Persero) as the Indonesian State-Owned Pawnshop that has been established since 1901, becomes the object of this research. The disruptive era that occurred also brought some new challenges for PT. Pegadaian (Persero) and forces PT. Pegadaian (Persero) to innovate and make a shift in its system to survive and not be disrupted. For all this time, PT. Pegadaian (Persero) considered to be the leading company in the field of lending funds for society, and the top first choice that come to their mind when

an urgent loan is needed. One of the factor why most people tend to choose PT. Pegadaian (Persero) is because the easy process of getting a loan, they only have to deposit their valuable items as a guarantee of the loan. PT. Pegadaian (Persero) also has a good reputation and credibility; it is safe and trustworthy because PT. Pegadaian (Persero) is a State-Owned Enterprise. Though it can't be denied that the dynamic changes of the present era is inevitable. These changes can be called as a disruption. The disruptive era these days has taken a lot of tolls and collateral damages, particularly the conventional companies. It is predicted that PT. Pegadaian (Persero) will be one of the companies affected by this disruptive era, faced with new challenges that cannot be solved by the old ways.

This prediction is based on a research by a Public Accountant Firm, PriceWaterhouseCoopers, who delivered a report in a financial service sector that monitored an emergence in technology and its effect

for companies in financial service industry. By a survey, this report revealed 83% of traditional financial service institution were convinced that most part of their business scope will be taken over by the fin-tech companies. The report also included 544 opinions stated by business people with high position from 46 countries, all of them were involved in digital and technological transformation in all areas of financial service industry in their company. The traditional financial institution were also convinced that 23% of their business is threatened by the fin-tech companies development. Furthermore, fin-tech companies were also predicting that their business will take over at least 33% of business from the traditional financial institutions. This survey shows that banking and payment industry will get the most pressure from the fin-tech companies. Respondents from fund transfers & payments industry predicted that in five years ahead, they will lose 28% of their market share because of the fin-tech companies, meanwhile the bankers estimated that they will also lose 24% of their market share. Respondents from the asset management and wealth, and insurance will each lose their market share for 22% and 21%. This phenomenon is a solid base to conduct an analysis to the effect of disruptive era, primarily for the financial and funding service industry to prepare a strategy to respond accordingly, since these industries will lose the most of their market share: for 28%. To make an even more solid point, The Authority of Financial Service (OJK) stated that from 19 October 2018, there have been 73 fin-tech companies officially registered. That amount is not included those companies who are still undergo a registering process. If all of the categories combined, potentially there will be about 217 funding fin-tech companies registered in the Authority of Financial Service (OJK). Because the fin-tech companies able to provide such an easy and fast way for their funding/payment service, society nowadays prefer to opt to fin-tech, this means this kind of financial technology service will substitute the products from PT. Pegadaian (Persero). Data acquired from

Authority of Financial Service (OJK) shown significant raise amount of money being lent until October 2018, if compared to the data by the end of 2016. Data from 2016 shown the total amount of funds distributed as a loan from fin-tech companies is around 284 billion Rupiah, and by the end of October 2018, the amount became 15,99 trillion Rupiah. This data proved that conventional companies, in this case particularly PT. Pegadaian (Persero), need to observe this phenomenon deeply and to start some kind of innovation to overcome this challenges; what are innovation strategies can they do to survive in this era of disruption because in this era there are many alternative product substitutions that can be chosen by the public as consumers.

The data above shows that in this era of disruption, consumer preferences have changed following the times. This is also reflected in the data presented at the 2018 Annual Financial Report of PT. Pegadaian (Persero) which states that there is market dynamics, the shifts especially happen in the pattern of consumers or buyers, in which the report states that:

- A 12% decrease in new customer acquisitions during the year of 2018.
- Society began to shift toward digital.
- Competition from new competitors (including fin-tech) is increasing.
- 50% of customers in Indonesia are willing to start using internet-based financial service applications.

This proves that in this ongoing disruptive era, many new challenges arise and must be faced by PT. Pegadaian (Persero) if they do not want to be disrupted. Although PT. Pegadaian (Persero) is a State-Owned Enterprise, they cannot feel safe. PT. Pegadaian (Persero) inevitably has to be able to make innovations and changes in order to be able to respond and adapt to the times in the era of ongoing disruption. Based on the description above, the main issues that exist are divided into two questions as follows:

- What are the challenges encountered by PT.

Pegadaian (Persero) in this ongoing disruptive era?

- What are the innovation strategies that need to be carried out by PT. Pegadaian (Persero) in order to respond and adapt to the era of disruption?

The results of this study in addition for academic purposes, are also intended for practitioners. The results are expected to be a solution for conventional companies that are struggling to respond to new challenges that arise in this era of ongoing disruption. In the end, this research will describe any challenges encountered by the conventional companies, both external and internal, and what are the innovations that can be done to overcome those challenges.

II. METHODOLOGY

The research approach is established by the researcher as a way to answer the main issue. Therefore, the researcher has to choose what kind of research approach that is suitable to answer the main issue thoroughly. The approach chosen for this research is qualitative research. Bogdan and Taylor in Moleong (2006) defined qualitative research as a research procedure that acquire descriptive data in the form of written or verbal data, obtained from people or related parties observed. Qualitative research requires researchers to collect as much data as possible about something related to the subject matter that will later be used by researchers to look for patterns, laws, and principles that apply. So by the end of the research, the researcher will be able to gather a conclusion from the analysis conducted (Prasetya, 2006). The reason the researcher use a qualitative approach is because the main issue in this research centered in context that can be described and also form a comprehension from the things researched, then developed with the theories used in this research. The research instrument used when collecting the data is literature study technique. Literature study is a data collecting technique that is done by finding data by analyzing various sources of

information as a secondary data source. Thus, the researcher will conduct an analysis to the contents of books, scientific works, legislations or other documents that have information related to the topic or theme of this research. Literature studies can also help the researcher to form a relevant theoretical framework to the research subject as reference material in elaborating research results. Literature study is a way to solve problems by tracing the sources of writing that have been made before.

A research always requires data analyzing process. Sugiyono (2009) said that data analysis is the process of systematically searching and compiling data obtained from interviews, field notes, and documentation, by organizing datas into categories, break them down into units, synthesize, organize into patterns, filter which one(s) is important and need to be learned, and to draw conclusions that are easily understood by the researcher and others. The data analysis technique that will be used in this study is a qualitative data analysis technique. According to Moleong (2006), qualitative analysis techniques are carried out by presenting data that starts with analyzing all the data collected, compiling it in each of its unit then at the next stage categorized, and to be checked of its validity, then proceed to interpreting it by analyzing the data with the researcher's cognitive ability to establish research conclusions. In addition, there are several research instruments in data collection, among them are by conducting in-depth observations and interviews to obtain primary and secondary data regarding the condition of the funds and loan service market in this era of disruption. To answer the first research question, the analysis will be based on Porter's five forces theory and RPV Christensen theory to be able to identify challenges occur to PT. Pegadaian (Persero) in this era of disruption. After that, EASIER method from Hussey is used to analyze innovation strategy that PT. Pegadaian (Persero) is conducting to face the challenges. Existing theories will be strengthened by secondary data obtained from the PT. Pegadaian (Persero)'s 2018 Annual Financial Report, and other literatures owned by PT.

Pegadaian (Persero), and also primary data obtained from in-depth interviews with credible & relevant informants to support this research.

III. RESULTS AND DISCUSSION

In this recent era, companies are submerged in a new era called disruptive era, where there are changes and shifts in market conditions whose main characteristics are shown by the increasingly advanced use of digital technology. This disruptive era has proven that it is detrimental for many conventional companies because they cannot adjust themselves to new era and are not ready to face the new challenges that arise. This can only be anticipated if conventional companies are innovating to respond to new challenges appear in this disruptive era. The researcher is interested to do a an analysis particularly to PT. Pegadaian (persero), the reason why this research object is selected is based on the fact that PT. Pegadaian (Persero) is a State-Owned Enterprise and has been established since 1901. The journey of PT. Pegadaian (Persero) runs smoothly all this time because within around 100 years period PT. Pegadaian (Persero) has a business monopoly rights. However, at the era of disruption right now the situation is forcing PT. Pegadaian (Persero) to innovate and make shifts in their system. Many people assume that a State-Owned Enterprise that was established 100 years ago will remain safe and stable because it is supported by the government, and has been implementing a system and method of work that has proven successful in the past. But is the reality in accordance with the assumption? Let us look into the case of PT. Pos Indonesia. Eddi Santosa as the Finance Director of PT. Pos Indonesia said that the net profit of PT. Pos Indonesia within the year of 2018 was eroded by 70% if compared to the previous year. The competitors of PT. Pos Indonesia in this era has sprung up a lot, like JNE, J&T, Tiki, and many other private delivery or shipping service companies. These shipping companies are starting to integrate with online trading services that are rife nowadays since they are more popular in the society because

they adjust to new era situation. This case proves that even State-Owned Enterprises can be threatened with the ongoing era of disruption. If by the emergence of a fin-tech company can threaten the financial services industry, so PT. Pegadaian (Persero) is also included and PT. Pegadaian (Persero) needs to prepare themselves in entering this era. The ease and speed provided by fin-tech companies has proven to attract public interest to switch their preference from using product from PT. Pegadaian (Persero), to using financial technology services as its substitute. Therefore, it is important for conventional companies to be able to identify any challenges that arise in this era of disruption, and to create innovation strategies as a respond to answer those challenges. Both of these main issues are the main research object in this study as outlined in the existing research questions. To answer the first research question, the analysis will be based on Porter's five forces theory and Christensen's RPV theory in order to identify the challenges encountered by PT. Pegadaian (Persero) in this era of disruption. After that, by analyzing innovation strategy that is conducted by PT. Pegadaian (Persero) in answering the challenges, EASIER method from Hussey will be used.

In undergoing the disruptive era, PT. Pegadaian (Persero) is faced with both internal and external challenges. Porter's five forces theory stated that understanding the competitive forces and the overall industrial rivalry structure is essential for effective strategic decision making. The Five Forces Porter's Model stated that the core of a business is competitive rivalry. The benchmarks are the number of competitors and what kind of strength each competitor offers. Competitive rivalry will occur when there are several businesses that offer similar products or services that cause consumers to easily switch to competing companies that offer lower price. In Porter model, aspects that shape industrial competition are supplier strength, buyer power, threats from substitution product and potential entrants. After conducting analysis with Porter's five forces theory, external challenges in the rivalry

industry encountered by PT. Pegadaian (Persero) in the era of disruption was derived from some aspects such as the threat of substitute products and the power of the buyer. The aspects of supplier strength and potential entrants can still be handled by PT. Pegadaian (Persero). The real external challenges encountered by PT. Pegadaian (Persero) in handling the era of disruption, are:

1. Threats from substitute products: fin-tech;
2. Changes in consumer demographics and preferences.

After identifying the two main challenges of PT. Pegadaian (Persero) in handling the era of disruption, then this study will further identify the internal challenges encountered by PT. Pegadaian (Persero) within the era of disruption. In this section, to identify the internal challenges faced within PT. Pegadaian (Persero), researcher will use RPV theory (Resources, Process, Values) by Christensen. The RPV Christensen theory is a theory that can be used to consider a decision making process. If the company wants to make a decision, especially about innovation, it is wise for the company to look at these three dimensions namely its resources, existing business processes, and the values adopted by the company. After conducting analysis from the said theory above, the real internal challenges that PT. Pegadaian (Persero) meet when handling and entering the disruptive era are:

1. Human and knowledge resources;
2. Governance;
3. Product differentiation.

These challenges will be classified into three innovation pillars: new business model, new business process, and new product. These three pillars can not be separated from the leadership role that is applied to a company, in this case PT. Pegadaian (Persero). After seeing these challenges, PT. Pegadaian (Persero) responded by implementing an innovation strategy by using the EASIER Hussey method. The stages of applying the EASIER method in preparing the innovation strategy of PT.

Pegadaian (Persero) in order to answer the challenges that emerged in the era of disruption are:

1. Envisioning by establishing a company vision or goals that must be cohered to all individual within PT. Pegadaian (Persero);
2. Activating by formulating a new company culture that able to support a predetermined vision or goal;
3. Supporting by forming a Transformation Office whose job is to optimize the innovations that will be carried out;
4. Installing by formulating the G-5Star innovation strategy to answer the challenges that have been identified. The contents of the G-5Star concept are as follows:

- **Grow Core**
To grow pawnshop business through feature diversification and digitalization process.
- **Grab New**
To Develop potential new businesses with the support of big data analysis and strengthening risk management.
- **Groom Talent**
To hire potential employees and improve competency according to what the company needs.
- **Gen Z-Tech**
To use the latest technology systems to support business processes and data analysis.
- **Great Culture**
To change the mindset and work culture of the employees which is more encouraging to improve company performance.

To answer the pillars of the challenges of the new business model, PT. Pegadaian (Persero) implements the Gen Z-Tech and Grow Core strategy. The form of outcome is the Pegadaian Digital Service application that facilitates the needs of consumers by online and integrated. To answer the pillars of the challenges of the new business process, PT. Pegadaian (Persero) implements a groom talent strategy with the real outcome of a 30 under 30 employee recruitment method where there must be a

minimum of 30% of employees under 30 years old within the company, and also a great culture strategy with a real outcome of gradually reducing company hierarchy, and the application of The Gade Share & Learn that changes the interactions system in the company to become more casual and transparent. Then, to answer the pillars of new product challenges, PT. Pegadaian (Persero) implements a grab new strategy. The real outcome obtained from the implementation of this new grab strategy is the launching of new products that are considered to be up to date with the present era or the ongoing era, which is preferred by its consumers. The new products include Pawn on Demand, gold savings, and The Gade Coffee Shop.

5. Ensuring by using a performance management system through The Gade Share & Learn application to ensure the timeline of innovations is carried out according to what has been set;
6. Recognizing or giving reward to any form of innovation or good performance by the employees through a reward system in the form of incentives or promotions.

The results of this study are expected to be a solution for companies that are struggling to strive in the era of disruption by innovating. Therefore, in order for the readers to able to understand the answer of this study more easily, the researcher will present the results obtained from this study, both the challenges encountered by PT. Pegadaian (Persero) in the ongoing era of disruption and innovation strategies as of what they can do to be able to answer these challenges. If presented in tabular form, the summary of these matters is as follows:

Table 1: The Implementation of EASIER Method (Hussey) by PT. Pegadaian (Persero).

<p>STEP 1: Envisioning</p> <p>Establish Company's new vision: "To be the most valuable financial company in Indonesia and as the the main choice of Financial Inclusion Agent in society"</p>
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STEP 2: Activating				
Establish new company culture, set the appropriate G-values culture to support company's new vision				
STEP 3: Supporting				
Form the Transformation Office that plays a role as the supportsystem for the innovationprocess				
STEP 4: Installing				
Conducting innovation strategy to respond the challenges occur				
Challenges	Indication	Innovation Pillars	Strategy	Outcome
External	Threat from fin-tech as the product substitution	New Business Model	Gen Z-Tech	Integrated Pegadaian Digital Service Application
	Demography and customer preference		Grow Core	
Internal	Resources (human and knowledge)	New Business Process	Groom Talent	Staff recruitment 30 under 30 method
	Stiff and formal corporate governance		Great Culture	<ul style="list-style-type: none"> • Hierarchy degradation • The Gade Share & Learn Application
	Product differentiation	New Product	Grab New	<ul style="list-style-type: none"> • Pawning on demand • Gold investment • The Gade

				coffee shop
Strong leadership is needed to support all of the above elements and to ensure optimal innovation process				
STEP 5: Ensuring Ensure that the innovation process implemented based on planned timeline through performance management system towards all employees				
STEP 6: Recognizing Award for performance and innovation in the form of reward like incentive or promotion				

IV. CONCLUSION

In this present time, PT. Pegadaian (Persero) is within the era of disruption or if seen through the Duncan environmental classification quadrant, this kind of environment contain a high degree of uncertainty. In handling this era, PT. Pegadaian (Persero) faced with both internal and external challenges. The external challenges are: 1) Threats from substitute products by fin-tech; 2) Changes in costumers' preference & demography. And the Internal challenges are: 1) human and knowledge resources; 2) Governance; 3) Product differentiation. These challenges are then classified into three pillars of innovation, namely: new business models, new business processes, and new products, all of which are inseparable from the leadership role applied to a company, in this case PT. Pegadaian (Persero).

After analyzing these challenges, PT. Pegadaian (Persero) responded by implementing an innovation strategy by using the EASIER method introduced by Hussey in 2001. The stages of applying the EASIER method in preparing the innovation strategy of PT. Pegadaian (Persero) in order to answer the challenges that emerged in the era of disruption are: 1) Envisioning by determining the company's vision or goals that must be cohered by all individual in PT. Pegadaian (Persero); 2) Activating by formulating a new company culture that is considered to be able to

support the vision or goals that have been set; 3) Supporting by forming a Transformation Office with the role to optimize the innovations that will be carried out; 4) Installing by formulating the G-5Star innovation strategy to answer the challenges that have been identified; 5) Ensuring by using a performance management system through The Gade Share & Learn application to ensure the timeline of innovations is carried out as specified; 6) Recognizing or giving rewards for innovation or performance that have been done by employees through a reward system in the form of incentives or promotions.

Suggestions or recommendations presented at the end of this research are addressed to two parties, namely, PT. Pegadaian (Persero) itself, and also to other conventional companies that are struggling to adapt in the era of ongoing disruption. The advice is that for the innovation at PT. Pegadaian (Persero) able to run more optimally, the researcher's suggestion for PT. Pegadaian (Persero) is to apply the same structure and governance between Transformation Division Office and other divisions so that all of the individual/employees at the PT. Pegadaian (Persero) are ready face the era of disruption equally, with the same ardor, and by the end of the day the company golas are achieved. Furthermore, as has been done by PT. Pegadaian (Persero), it is hoped that other companies who are struggling to respond and adapt in the era of disruption able to do what PT. Pegadaian (Persero) has done. First, identify any challenges that arise in the era of disruption from both internal and external aspects. Then, categorize these challenges into four pillars of innovation, namely: 1) New Business Model, 2) New Business Process; 3) New Products, and 4) Leadership. And then to overcome and respond to these challenges, of course, the company concerned must innovate and make changes. This can be done by applying the methode of EASIER Formula by Hussey.

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