

Strategic leadership models, business model innovation, and product innovation to improve SOEs performance

Warsim^{a*}, Roy Sembel^a, Gracia Shinta S. Ugut^a and Edison Hulu^a

^aFaculty of Economic and Business, Universitas Pelita Harapan, Tangerang, Indonesia

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ABSTRACT

This study aims to analyze the strategic leadership model, business model innovation, and product innovation to improve performance of State-Owned Business Enterprise. This study employed a quantitative research method and reported the results of a survey using a questionnaire with a population of 28 SOEs in Indonesia engaged in the food and fertilizer industry. Analysis was carried out using SmartPLS software, which consists of descriptive statistics, measurement model evaluation, structural model evaluation, and hypothesis testing. Results of this study indicate that influence of strategic leadership is significant on business model innovation. The influence of business model innovation is significant on product innovation and on company performance. However, influences of strategic leadership on company performance and product innovation are not significant, and influence of product innovation on company performance is also not significant. Strategic leadership has a significant impact on the decision-making process, thus it can facilitate organizations to implement effective strategies designed to achieve optimal performance. Companies that implement strategic leadership have potential to improve performance through the implementation of good planning, motivating, directing, developing employee capabilities in product innovation and business model innovation, as well as communicating company's long-term vision or goals.

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1. Introduction

State-Owned Enterprises (SOEs) in Indonesia, play an important role as agents of national development while at the same time aiming to generate profit (Ong et al., 2020; Tobing, 2009). In the long run, their primary goal is to reduce the financial burden on the the state (Lee et al., 2022), while also fulfilling social purposes (Estanto, 2018) and acting as the locomotive of Indonesia's economic recovery (Zahrudin, 2009). For this reason, Indonesian SOEs are often regarded as the “backbone” of Indonesia's economic development (Yasin, 2014). However, several factors have contributed to the financial losses of SOEs, including low productivity, inefficiency, poor product quality, and inadequate service (Sahasrad, 2017). On the other hand, several Indonesian SOEs have successfully improved their performance. PT Kereta Api Indonesia shifted from a product-oriented to a service-oriented approach, which enhanced customer satisfaction and ultimately generated profits (Rusmawati & Indriati, 2019). Similarly, Bank Mandiri and Bank BRI adopted the concept of “shared value” as their core values, contributing to stronger financial performance (Yasin, 2014).

The Indonesian government has also made efforts to improve the performance of its SOEs, including providing additional capital of IDR 80.9 trillion during 2010--2016 (Kurniawati, 2017). Privatization has been implemented in several cases to enhance efficiency and increase state revenues through dividends and taxes (Annisa & Khusnu, 2020). However, in environments with weak governance, privatization may instead create new problems and burdens for society (Sahasrad, 2017). Another initiative has been merger, consolidation, acquisition, and dissolution, in which Indonesian SOEs operating in the same sector are grouped to create synergy (Makaliwe & Pranoto, 2013). Through such holding processes, assets become larger and the scope of operations broader (Sunaryo, 2020a). Although these measures have been undertaken, the performance of Indonesian SOEs remains inconsistent. Previous studies have highlighted the potential role of strategic

* Corresponding author

E-mail warsim@student.uph.edu (Warsim)

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leadership, business model innovation, and product innovation as important drivers of performance improvement. Strategic leadership provides vision and adaptability, business model innovation enables the creation of new value, and product innovation increases competitiveness and customer satisfaction. However, empirical findings remain inconclusive, and limited studies have examined the interrelationships of these factors in the specific context of Indonesian SOEs.

Therefore, this study seeks to address the research gap by examining how strategic leadership influences business model innovation and product innovation, and how these three factors collectively affect the performance of Indonesian SOEs. This research is expected to contribute both theoretically, by enriching the literature on strategic management and innovation, and practically, by providing insights to strengthen the competitiveness and sustainability of SOEs in Indonesia.

2. Literature Review

The literature on organizational performance and strategic management underscores that sustained success depends not only on the efficient allocation of resources but also on the alignment between leadership, innovation, and organizational goals. For State-Owned Enterprises (SOEs), this alignment is even more complex because they operate under a dual mandate to achieve profitability while also fulfilling social and developmental objectives. Therefore, examining the theoretical foundations that explain how organizations set goals, implement strategies, and mobilize innovation is essential for understanding how SOEs can enhance their competitiveness and long-term performance.

Achievement Goal Theory (AGT) originated in motivational psychology to explain how individuals define success and regulate effort (Nicholls, 1984, 1989). Two orientations are central: 1) task involvement, which emphasizes personal mastery and improvement; and 2) ego involvement, which focuses on social comparison and superiority. Research shows that task orientation produces more adaptive outcomes, especially when perceived competence is low (Harwood, 2008). Beyond individual traits, the motivational climate shaped by social agents, such as leaders or organizations, also influences achievement behavior (Ames, 1992). AGT has since been applied at the organizational level to explain how firms pursue multiple and sometimes competing goals. Organizational goals represent aspirational performance levels (Kotlar et al., 2018). Although profitability remains the primary measure of success (Greve, 2008), companies also pursue productivity, innovation, market share, and reputation (Baum et al., 2005; Fiegenbaum & Schendel, 1996). These goals may complement or compete with one another, influencing how organizations allocate attention and resources (Greve, 2008). As part of its effort to enhance the effectiveness of State-Owned Enterprises (SOEs), the Indonesian government has implemented major structural reforms through mergers and holdingization to improve efficiency, synergy, and governance (Nasihin et al., 2020). Integrating firms within the same sector under a holding company enables resource sharing in areas such as human capital, technology, and distribution networks while enhancing operational flexibility (Makaliwe & Pranoto, 2013). This initiative aligns with efforts to professionalize management and strengthen corporate accountability (Enceng & Yuli, 2013; Sunaryo, 2020a). Legally, Law No. 40 of 2007 on Limited Liability Companies provides the framework for mergers and consolidations (Undang-undang, 2007), but the complex regulatory landscape requires strong coordination among ministries and stakeholders (Sariah, 2019). Corporate studies show that merger activities are driven by efficiency and synergy motives (Andrade et al., 2016; Mitchell & Mulherin, 1996). In SOEs, holding structures improve access to funding and reduce risk through diversification (Higgins & Schall, 1975; Lisnawati, 2019). However, their success depends largely on strategic leadership to manage integration and governance (Banda, 2022). Within this institutional framework, strategic management provides the foundation for aligning strategy with performance. It is defined as the art and science of formulating, implementing, and evaluating decisions that enable organizations to achieve long-term objectives (David, 2011). The process includes four interrelated stages: environmental scanning, strategy formulation, implementation, and evaluation (Hunger & Wheelen, 2014).



Fig. 1. Strategic Management Process Source (Hunger & Wheelen, 2014; NotebookLM)

Effective strategic management integrates all organizational functions to create sustainable competitive advantage (Adoli & Kilika, 2020). Its application varies depending on company size, industry conditions, and resource capacity (Abdelhamid & Almualla, 2022). For SOEs, the main challenge lies in balancing profitability with social responsibility, which requires

strategic coherence between corporate objectives and national policy mandates. Central to this strategic process is leadership, which plays a crucial role in translating vision into actionable results. Leadership refers to the ability to influence and inspire others to achieve shared goals (Bass & Bass, 2006). Leadership is an interactive process that combines influence, collaboration, and direction (Northouse, 2016). Over time, leadership theories have evolved from hierarchical control models to participatory and transformational approaches. Authentic, servant, and adaptive leadership emphasize integrity, empathy, and flexibility (Northouse, 2016). Transformational leadership, in particular, inspires followers to exceed expectations through intellectual stimulation and personalized attention (Bass & Bass, 2006). Within SOEs, leaders must combine managerial competence with the ability to navigate bureaucracy, maintain public accountability, and align organizational goals with national goal. This multidimensional leadership role makes it essential to balance authority with collaboration and control with empowerment, particularly in organizations operating within high regulatory and social accountability environments.

Strategic leadership extends this perspective by focusing on how top leaders shape long-term direction and organizational adaptability. It is defined as the ability to anticipate, envision, maintain flexibility, and empower others to create strategic change (Hoskisson & Hitt, 2007). Strategic leaders establish vision, manage resources, and build systems that promote ethics and innovation (Mabururu & Maina, 2019). Their decisions influence not only performance outcomes but also the overall strategic orientation of the organization (Bass & Bass, 2006). According to Finkelstein et al. (2009), strategic leadership is centered on executives and top management teams whose choices and behaviors determine corporate outcomes. In dynamic environments, strategic leadership ensures that organizations exploit existing capabilities while developing new competencies for future competitiveness (Kriger & Zhovtobryukh, 2016). In Indonesian SOEs, strategic leadership is crucial for balancing efficiency with public value while guiding innovation and organizational transformation.

Ultimately, organizational performance reflects the cumulative result of leadership, strategy, and innovation. It measures how effectively a company achieves its objectives and utilizes resources to create value (Hakim et al., 2019). Performance functions as both an accountability mechanism and a foundation for continuous improvement (Effiyanti et al., 2021). In SOEs, performance evaluation covers financial, operational, and administrative aspects as established by KEP-100/MBU/2002, offering a standardized approach to assessing sustainability (Hidayat et al., 2020). Janati et al. (2020) highlight that accurate evaluation requires relevant indicators, clear criteria, and contextual understanding. From a strategic management perspective, superior performance is determined not only by financial outcomes but also by adaptability and innovation (Teece et al., 1997). In this study, organizational performance is viewed as the holistic outcome of strategic leadership and innovation capability, particularly business model and product innovation, which together drive sustainable growth and create long-term public value in Indonesian SOEs.

2.1. Developing Hypotheses

Strategic leadership plays a central role in determining the direction, adaptability, and long-term success of an organization. According to Hoskisson and Hitt (2007), strategic leaders anticipate environmental changes, envision strategic direction, and empower others to implement change. In the context of State-Owned Enterprises (SOEs), strategic leadership is essential not only for achieving operational efficiency but also for ensuring alignment between corporate goals and public mandates. Effective leaders influence decision-making, foster innovation, and create strategic clarity that enables organizations to respond to volatility and complexity (Banda, 2022; Jooste & Fourie, 2009). Thus, strategic leadership represents a critical capability for enhancing firm competitiveness and overall performance (Wibisono et al., 2016), this study proposes the following hypothesis:

H₁: *Strategic leadership has a significant effect on company performance.*

Beyond its direct impact, strategic leadership fosters an environment conducive to innovation. The ability of leaders to articulate vision, allocate resources, and promote a culture of experimentation enables the development of new business models that support long-term competitiveness. Conversely, poor leadership often results in the loss of focus and failure in strategy execution (Hirschi & Jones, 2009; Mabururu & Maina, 2019). Effective strategic leadership acts as an engine of organizational growth, integrating knowledge and action to drive innovation (Hirschi & Jones, 2009). Through these mechanisms, leaders shape employees' commitment and creative engagement toward business transformation (Alabduljader, 2021). Thus, this study proposes the following hypothesis:

H₂: *Strategic leadership has a significant effect on business model innovation.*

In addition to shaping the business model, leadership also drives product innovation by mobilizing creativity, cross-functional collaboration, and continuous improvement (Löfsten, 2014; Rodriguez & Morant, 2016). Strategic leaders inspire employees to develop innovative products and services that meet changing market demands, contributing to sustained growth and adaptability. Thus, this study proposes the following hypothesis:

H₃: *Strategic leadership has a significant effect on product innovation.*

Business model innovation refers to the process of redefining the way an organization creates and delivers value. Firms that continually innovate their business models tend to achieve superior market performance and operational flexibility (Pedersen et al., 2016). By reconfiguring value propositions, revenue structures, and customer engagement methods, companies can enhance their competitiveness and efficiency (Bae & Choi, 2021). In the context of SOEs, effective business model innovation is expected to enhance company performance. Thus, this study proposes the following hypothesis:

H4: *Business model innovation has a significant effect on company performance.*

Furthermore, business model innovation acts as a catalyst for product innovation. An adaptive business model supports experimentation, integration of new technologies, and customer-driven development (Rahmana et al., 2018). When firms restructure their business models, they often create an environment conducive to the development of new or improved products. Thus, this study proposes the following hypothesis:

H5: *Business model innovation has a significant effect on product innovation.*

Lastly, product innovation remains a major determinant of company performance, as it drives customer satisfaction, market expansion, and financial growth (Löfsten, 2014; Rodriguez & Morant, 2016). However, product innovation effectiveness may depend on complementary organizational capabilities, such as leadership support and resource integration. Thus, this study proposes the following hypothesis:

H6: *Product innovation has a significant effect on company performance.*

2.2. Research Model

Based on the literature review and hypothesis development, the conceptual framework of this study integrates strategic leadership, business model innovation, product innovation, and company performance. This integrated framework emphasizes that leadership is not only a driver of immediate results but also a strategic enabler of innovation and sustainable performance improvement in SOEs. The hypothesized relationships are visually represented in Fig. 2, as follows:

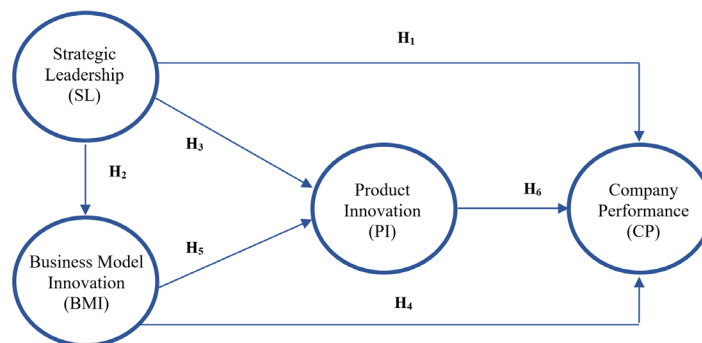


Fig. 2. Research model

3. Research Method

This study applies a quantitative causal design to examine the effects of strategic leadership, business model innovation, and product innovation on the performance of Indonesia's State-Owned Enterprises (SOEs). The research focuses on SOEs in the food and fertilizer sectors, which were selected due to their strategic importance to national food security and their involvement in the government's holdingization program.

Data were collected through a structured online questionnaire distributed between February and June 2024 using purposive sampling. Respondents consisted of executives and senior managers directly involved in strategic planning and innovation. A total of 105 questionnaires were distributed across 28 SOEs, and 65 valid responses were obtained, yielding a response rate of 62 percent. The survey used a ten-point Likert scale ranging from "strongly disagree" to "strongly agree". All respondents participated voluntarily and were assured of confidentiality and academic use of the data.

Data analysis employed Structural Equation Modeling (SEM) using SmartPLS 4.0. The Partial Least Squares (PLS-SEM) approach was selected for its suitability in analyzing complex relationships with relatively small samples. The analytical process included two main stages: measurement model evaluation and structural model testing. The measurement model assessed reliability and validity by ensuring that Cronbach's Alpha and Composite Reliability values were above 0.70, and Average Variance Extracted (AVE) was greater than 0.50. Discriminant validity was verified through the Fornell-Larcker criterion and by maintaining the Heterotrait-Monotrait ratio below 0.85.

The structural model was then tested to determine relationships among variables. Model fit was assessed using SRMR, which was required to be less than 0.08 and NFI which was expected to exceed 0.90. Explanatory and predictive power were evaluated through the coefficient of determination (R^2) and the predictive relevance statistic (Q^2). Statistical significance was tested using a bootstrapping procedure with 5,000 resamples and a 95 percent confidence interval. The mediation analysis further examined whether business model innovation and product innovation served as intermediaries in the relationship between strategic leadership and company performance.

4. Results and Discussion

4.1 Measurement Model Evaluation

Reliability and validity testing confirmed that all constructs met acceptable statistical thresholds. The internal consistency of each construct was evaluated through Cronbach's Alpha, Composite Reliability and Average Variance Extracted (AVE). As shown in Table 1, all Cronbach's Alpha and Composite Reliability values exceeded 0.70, and all AVE values were greater than 0.50, indicating strong reliability and convergent validity (Hair et al., 2021).

Table 1
Reliability and Validity Test Results

Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Business Model Innovation (BMI)	0.936	0.939	0.692
Product Innovation (PI)	0.762	0.783	0.679
Company Performance (CP)	0.921	0.927	0.761
Strategic Leadership (SL)	0.979	0.983	0.619

To establish discriminant validity, the Fornell--Larcker criterion was applied. The square root of each construct's AVE (displayed diagonally) exceeded the correlations between constructs, confirming discriminant validity.

Table 2
Discriminant Validity -- Fornell Larcker Criterion

Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Business Model Innovation (BMI)	0.936	0.939	0.692
Product Innovation (PI)	0.762	0.783	0.679
Company Performance (CP)	0.921	0.927	0.761
Strategic Leadership (SL)	0.979	0.983	0.619

The results demonstrated that the constructs were empirically distinct, ensuring that subsequent hypothesis testing could be conducted with confidence.

4.2 Structural Model Evaluation

The structural model was evaluated to examine the causal relationships among strategic leadership, business model innovation, product innovation, and company performance. The model demonstrated satisfactory goodness-of-fit, with a Standardized Root Mean Square Residual (SRMR) value of 0.060 and a Normed Fit Index (NFI) of 0.93, indicating that the model provides an adequate representation of the observed data. The coefficient of determination (R^2) values were 0.58 for business model innovation, 0.57 for product innovation, and 0.69 for company performance, suggesting that the model explains a substantial proportion of variance in each endogenous construct.

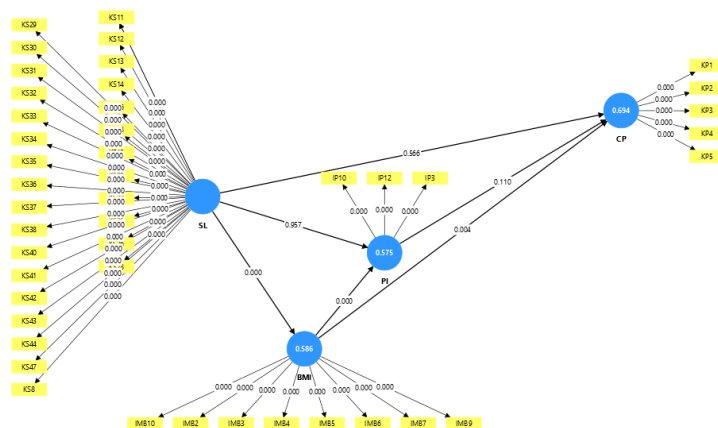


Fig. 3. Structural Equation Model Results

Fig. 3 presents the structural equation modeling (SEM) results derived from SmartPLS analysis. The findings reveal that strategic leadership exerts a significant positive effect on business model innovation, which subsequently enhances both product innovation and company performance. Furthermore, business model innovation functions as an intervening mechanism that links strategic leadership and firm performance, underscoring its pivotal role in transforming leadership vision into measurable organizational outcomes. Conversely, the direct effects of strategic leadership on company performance and of product innovation on performance are not statistically significant, implying that innovation in business models represents the most influential pathway through which leadership impacts firm success.

4.3 Hypothesis Testing

The results revealed that strategic leadership significantly influences business model innovation, but does not directly affect product innovation or company performance. In contrast, business model innovation exerts a strong and positive influence on both product innovation and company performance. Meanwhile, product innovation does not directly impact performance, suggesting that innovation outcomes depend on broader strategic and structural alignment within the organization.

Table 3
Path Coefficients and Hypothesis Testing Results

Hypothesis	Path Relationship	β	t-value	p-value	Decision
H ₁	Strategic Leadership → Company Performance	0,079	0,573	0,566	Not Supported
H ₂	Strategic Leadership → Business Model Innovation	0,766	16,57	0,000	Supported
H ₃	Strategic Leadership → Product Innovation	-0,007	0,054	0,957	Not Supported
H ₄	Business Model Innovation → Company Performance	0,531	2,881	0,004	Supported
H ₅	Business Model Innovation → Product Innovation	0,764	7,026	0,000	Supported
H ₆	Product Innovation → Company Performance	0,289	1,598	0,110	Not Supported

Beyond these direct relationships, the analysis also identified several indirect effects that enrich the understanding of how Strategic Leadership drives performance through innovation mechanisms. Specifically, Business Model Innovation mediates the relationship between Strategic Leadership and Product Innovation, indicating that leadership encourages creativity and change through strategic restructuring rather than direct intervention in product development. Furthermore, the pathway from Strategic Leadership to Company Performance through both Business Model Innovation and Product Innovation was found to be significant, reinforcing that leadership effectiveness in SOEs operates primarily through innovation-based value creation. Conversely, the indirect path from Business Model Innovation to Company Performance via Product Innovation was not significant, suggesting that business model transformation alone already contributes substantially to firm outcomes, without necessarily relying on product-level innovation.

Table 4
Indirect Effect Testing Results

Path Relationship	β	t-value	p-value	Decision
SL → BMI → PI	0,585	6,304	0,000	Supported
BMI → PI → CP	0,221	1,479	0,139	Not Supported
SL → BMI → PI → CP	0,573	4,917	0,000	Supported

4.4 Discussion

The findings highlight that strategic leadership is a critical driver of business model innovation in SOEs. Leaders who can anticipate environmental changes, articulate clear visions, and encourage empowerment are better able to stimulate innovation across organizational systems (Hoskisson & Hitt, 2007). This aligns with prior studies asserting that Strategic Leadership indirectly shapes performance through innovative reconfiguration of business operations (Banda, 2022; Mabururu & Maina, 2019). The significant link between Business Model Innovation and Company Performance supports the notion that continuous redesign of value creation and delivery enhances competitiveness and efficiency (Bae & Choi, 2021; Pedersen et al., 2016). For Indonesian SOEs, this suggests that performance improvement depends on their ability to realign business models with market and policy dynamics, not merely through incremental product changes. Moreover, the strong relationship between Business Model Innovation and Product Innovation reinforces that organizational restructuring facilitates creativity and responsiveness (Rahmana et al., 2018). Although Product Innovation alone did not significantly improve performance, it remains an operational outcome that depends on the strategic foundation set by leadership and the structural flexibility created through business model change (Löfsten, 2014).

Taken together, the hypothesis testing results suggest an indirect causal path rather than a purely direct one. Strategic Leadership does not directly raise Company Performance but does so through its significant influence on Business Model Innovation, which subsequently enhances both Product Innovation and Company Performance. In other words, Business Model Innovation acts as a mediating mechanism, transforming leadership intent and strategic direction into measurable performance results. Effective leadership sets the vision and mobilizes resources, while Business Model Innovation converts those strategies into adaptive systems and operational capabilities that, in synergy, generate superior performance.

5. Conclusion and Suggestions

5.1 Conclusion

This study investigated the influence of Strategic Leadership, Business Model Innovation, and Product Innovation on the Company Performance of Indonesian State-Owned Enterprises (SOEs). The results confirm that Strategic Leadership has a strong and significant effect on Business Model Innovation but no direct impact on Product Innovation or Company Performance. Business Model Innovation, however, significantly improves both Product Innovation and Company Performance. Product Innovation alone does not directly enhance Company Performance, implying that its effect depends on broader strategic alignment.

An important empirical insight that emerged from this analysis is that Business Model Innovation functions as an intervening mechanism between Strategic Leadership and Company Performance. This reinforces the idea that organizational transformation in SOEs occurs not through isolated initiatives but through systemic business model reconfiguration driven by capable leadership.

5.2 Limitations and Future Research

This research is limited to the food and fertilizer sectors and uses cross-sectional data. Future studies could employ longitudinal designs or multi-sector comparisons to explore how leadership and innovation relationships evolve over time. Incorporating qualitative insights from top management teams or board members could also deepen understanding of how strategic decisions translate into innovation-driven performance within SOEs.

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