



How Strategic Leadership Drives Financial Performance: The Mediating Effect of Organizational Innovation Capability

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Abstract

This study examines how strategic leadership influences firm financial performance through the mediating role of organizational innovation capability. Grounded in Upper Echelons Theory, the Resource-Based View, and Dynamic Capabilities Theory, the study employed a quantitative, cross-sectional design using survey data from 240 organizational respondents and analysed the proposed relationships through PLS-SEM using ADANCO. The findings reveal that strategic leadership significantly enhances organizational innovation capability and firm financial performance, while innovation capability also positively influences financial performance. The mediation analysis further confirms that organizational innovation capability partially mediates the relationship between strategic leadership and financial performance, accounting for approximately 38.2% of the total leadership effect. The study demonstrates that strategic leadership creates financial value both directly and by strengthening the organization's capacity to innovate. These findings highlight innovation capability as an important organizational mechanism connecting leadership practices with superior financial outcomes.

Keyword: Strategic Leadership; Organizational Innovation Capability; Financial Performance; Dynamic Capabilities; PLS-SEM.

1. Introduction

In an increasingly volatile and innovation-driven business environment, firms are under continuous pressure to strengthen their financial performance while simultaneously adapting to technological change, competitive intensity, and shifting stakeholder expectations. Traditional explanations of financial performance have largely emphasized market conditions, financial structure, investment decisions, and operational efficiency. However, growing attention is being directed toward managerial and organizational factors that shape a firm's ability to create and sustain financial value. Among these factors, strategic leadership has emerged as a critical organizational resource because senior leaders influence long-term direction, resource allocation, strategic priorities, organizational learning, and the firm's capacity to respond to environmental changes (Morah et al., 2020). Understanding how strategic leadership contributes to financial outcomes is therefore important for both management and finance research. Strategic leadership refers to the ability of senior managers to anticipate future developments, establish strategic direction, maintain organizational flexibility, and mobilize resources toward long-term objectives. Drawing on Upper Echelons Theory, organizational strategies and outcomes are influenced by the perceptions, values, experiences, and decisions of senior executives (Bergh et al., 2025)(Hambrick & Mason, 1984). Existing studies suggest that effective strategic leadership can improve organizational performance by facilitating better decision-making, strengthening employee commitment, improving resource utilization, and

promoting organizational adaptability (Suharto, 2023). Nevertheless, the relationship between strategic leadership and financial performance may not always be direct. Leadership decisions often influence financial outcomes through intermediate organizational capabilities that transform strategic intentions into economically valuable results.

Organizational innovation capability represents one such mechanism. It reflects a firm's capacity to generate, adopt, implement, and commercialize new products, processes, services, technologies, and managerial practices. From the Resource-Based View, innovation capability can be considered a valuable strategic resource that enables firms to differentiate themselves and achieve sustainable competitive advantage (Rihayana et al., 2023). Similarly, Dynamic Capabilities Theory suggests that firms achieve superior performance when they can sense emerging opportunities, seize them through appropriate investments, and reconfigure organizational resources in response to environmental change (Oroh, 2020). Strategic leaders can contribute to this capability by encouraging experimentation, supporting knowledge sharing, allocating resources to innovation activities, and creating an organizational environment conducive to change. Although previous research has independently examined leadership, innovation, and organizational performance, an important question remains insufficiently resolved: through what mechanism does strategic leadership translate into improved financial performance? Much of the existing literature has concentrated either on the direct leadership-performance relationship or on

innovation as an independent predictor of organizational outcomes. Comparatively fewer studies have integrated these constructs within a single mediation framework, particularly by positioning organizational innovation capability as the explanatory mechanism connecting strategic leadership with financial performance. This creates a theoretical gap at the intersection of management and finance, as the process through which managerial capabilities are converted into measurable financial outcomes requires further empirical clarification. Accordingly, the present study investigates the mediating role of organizational innovation capability in the relationship between strategic leadership and firm financial performance. Specifically, it addresses the research question: Does strategic leadership improve financial performance directly, and to what extent is this relationship transmitted through organizational innovation capability? The study is based on survey data collected from 240 respondents and employs Partial Least Squares Structural Equation Modeling using ADANCO to simultaneously assess the measurement and structural relationships among the proposed constructs.

The study contributes to the literature in several ways. First, it integrates Upper Echelons Theory, the Resource-Based View, and Dynamic Capabilities Theory to provide a multidisciplinary explanation of how leadership-related managerial resources can produce financial outcomes. Second, it extends existing research by treating organizational innovation capability as a mediating mechanism rather than merely an independent antecedent of performance. Third, it provides empirical evidence supporting the direct and indirect pathways linking strategic leadership with financial performance, thereby offering practical implications for organizations seeking to strengthen financial results through leadership-driven innovation. The remainder of the paper reviews the relevant theoretical and empirical literature and develops the hypotheses, followed by the research methodology and SEM analysis. The subsequent sections present the empirical findings, discuss their theoretical and managerial implications, and conclude with the study's contributions, limitations, and directions for future research.

2. Theoretical Foundation and Hypothesis Development

2.1 Theoretical Foundation

The proposed framework examines how strategic leadership influences firm financial performance through organizational innovation capability. The model is primarily grounded in Upper Echelons Theory (UET), the Resource-Based View (RBV), and Dynamic Capabilities Theory (DCT). Integrating these perspectives provides a multilevel explanation of how managerial decisions at the leadership level are

transformed into organizational capabilities and, ultimately, financial outcomes. Upper Echelons Theory provides the primary theoretical basis for explaining the role of strategic leadership. Hambrick, (2018) argue that organizational strategies and outcomes partly reflect the experiences, values, cognitive orientations, and choices of senior executives. Strategic leaders influence organizational direction because they determine strategic priorities, allocate resources, interpret environmental opportunities and threats, and establish organizational mechanisms through which strategic decisions are implemented. Strategic leadership can therefore be conceptualized as the capacity of senior leaders to anticipate environmental developments, formulate a long-term direction, maintain strategic flexibility, develop organizational competencies, and mobilize resources toward sustainable organizational objectives. Prior research has established strategic leadership as an important antecedent of innovation and organizational outcomes, although the mechanisms through which leaders influence performance remain an important area for further investigation (Bergh et al., 2025). While UET explains why leaders matter, the Resource-Based View explains how leadership-controlled resources can create superior performance. RBV proposes that sustainable competitive advantage originates from valuable organizational resources and capabilities that competitors cannot easily replicate or substitute (Iliyas & Barca, 2025). Strategic leadership itself represents an important managerial resource; however, leadership may not generate financial value automatically. Rather, leaders create value by acquiring, developing, combining, and deploying resources that produce distinctive organizational capabilities. From this perspective, organizational innovation capability represents a strategic capability through which leadership resources can be converted into competitive and financial advantages.

Organizational innovation capability refers to a firm's capacity to generate, adopt, develop, and successfully implement new ideas, products, services, processes, technologies, and managerial practices. Its value lies not simply in generating ideas but in repeatedly converting knowledge and resources into commercially or operationally useful innovations. Empirical research shows that innovation capability is associated with both financial and non-financial organizational performance and can operate as a source of sustained competitive advantage. For example, Al-kalouti et al. (2020) found innovation capability to be relevant to organizational performance in service firms, while recent SEM evidence also connects innovation capabilities and innovation strategy with financial performance (Dweiri & Shatat, 2021). Dynamic Capabilities Theory further explains the

proposed mediating mechanism. (Öztürk, 2024)

argue that organizations operating in changing environments require capabilities that enable them to integrate, develop, and reconfigure internal and external competencies. Strategic leaders play a central role in this process by sensing emerging opportunities, directing resources toward promising opportunities, and facilitating organizational transformation. Innovation capability consequently functions as a dynamic organizational mechanism through which leadership decisions are converted into market-relevant outcomes. Strategic leadership may establish direction and allocate resources, but innovation capability enables the organization to transform those strategic inputs into new products, improved processes, differentiated services, operational efficiencies, and revenue opportunities.

The dependent construct, firm financial performance, refers to the firm's ability to generate satisfactory economic outcomes, reflected through indicators such as profitability, revenue growth, return on investment, return on assets, cost efficiency, and overall financial effectiveness. From an RBV perspective, superior financial performance results when organizational resources are transformed into capabilities capable of generating economic rents. Accordingly, the theoretical sequence underlying the present study is leadership resource → organizational capability → financial outcome. The integration of UET, RBV, and DCT extends existing knowledge by moving beyond the simple proposition that effective leadership improves firm performance. Instead, it identifies organizational innovation capability as a mechanism explaining how strategic leadership generates financial value. This perspective is particularly important because reviews of strategic leadership research indicate that direct leadership–performance relationships can vary across organizational settings and that intermediate organizational mechanisms require greater attention.

2.2 Strategic Leadership and Organizational Innovation Capability

Strategic leaders shape innovation by establishing priorities, allocating financial and human resources, encouraging experimentation, supporting knowledge acquisition, and creating an organizational climate in which new ideas can be pursued. According to UET, strategic decisions reflect leaders' interpretations of environmental conditions. Leaders who demonstrate strategic foresight are therefore more likely to recognize technological and market opportunities and direct organizational resources toward innovation (Ehls et al., 2022). This relationship is also consistent with DCT because leaders influence the firm's capacity to sense opportunities, seize them, and reorganize resources. Strategic leadership can facilitate cross-functional collaboration, reduce resistance to change, support calculated risk-taking, and align innovation initiatives with long-term organizational objectives. Reviews of the strategic leadership literature demonstrate substantial

theoretical and empirical connections between senior leadership and different stages of organizational innovation (Rindova & Petkova, 2023). More recent empirical work has similarly reported a positive influence of strategic leadership capabilities on innovation outcomes. Accordingly:

H1: Strategic leadership has a positive and significant effect on organizational innovation capability.

2.3 Organizational Innovation Capability and Firm Financial Performance

Innovation capability can generate financial value through several mechanisms. Firms capable of consistently developing and implementing innovations are better positioned to introduce differentiated products, improve service quality, reduce production or operating costs, enter new markets, respond rapidly to customer requirements, and exploit emerging business opportunities (Wanyama et al., 2024). These benefits can subsequently enhance revenue growth, profitability, returns on investment, and overall financial competitiveness. RBV predicts this relationship because innovation capability represents an organizational competency capable of producing competitive differentiation and economic value. DCT similarly predicts that firms capable of continuously renewing their resource base will perform better under dynamic competitive conditions (Rettig & Schreyögg, 2020). Empirical evidence supports these propositions. Research in service firms has identified innovation capability as an important contributor to performance, while evidence from SMEs demonstrates meaningful relationships between innovation capabilities, innovation strategies, and financial outcomes. Thus:

H2: Organizational innovation capability has a positive and significant effect on firm financial performance.

2.4 Strategic Leadership and Firm Financial Performance

Strategic leadership may also influence financial performance directly. Senior leaders make decisions regarding investment priorities, resource allocation, competitive positioning, restructuring, cost management, strategic partnerships, and market expansion. The quality of such decisions can directly affect revenue generation, resource productivity, profitability, and long-term firm value (Crossland et al., 2024). UET predicts that differences among senior leaders translate into differences in organizational strategies and outcomes. Strategic leaders who successfully align organizational resources with environmental opportunities can therefore generate stronger performance (Fox et al., 2017). Existing literature generally recognizes strategic leadership as an important determinant of organizational performance, although evidence also suggests that the magnitude of the relationship can

depend upon intermediate organizational processes and contextual conditions. Therefore:

H3: Strategic leadership has a positive and significant effect on firm financial performance.

2.5 Mediating Role of Organizational Innovation Capability

Although strategic leadership can directly affect financial outcomes, its influence is likely to operate partly through the organizational capabilities that leaders develop. Leadership establishes strategic direction and provides resources, whereas innovation capability transforms those resources into commercially useful outcomes. This distinction provides the theoretical foundation for the proposed mediation. From an RBV perspective, strategic leadership represents an important managerial resource, while innovation capability constitutes the organizational capability through which that resource generates economic value. DCT similarly suggests that leaders enable resource reconfiguration, but performance advantages emerge when the organization successfully converts such reconfiguration into adaptive and innovative outputs (Rindova & Petkova, 2023). Research increasingly recognizes that the leadership-performance relationship involves intermediate organizational

capabilities rather than representing an exclusively direct process. Empirical studies have also demonstrated mediation mechanisms linking leadership with innovation-related performance outcomes, reinforcing the importance of examining the organizational processes through which strategic leadership creates value (Ashkevari & Ghasemi, 2023). Consequently, a firm may possess competent strategic leaders without achieving optimal financial outcomes if it lacks the capability to transform leadership vision into successful innovation. Conversely, strategic leadership that strengthens innovation capability can enable the organization to develop new offerings, improve processes, exploit opportunities, and create competitive advantages that ultimately enhance financial performance. Organizational innovation capability therefore provides the explanatory bridge connecting the management domain of strategic leadership with the finance domain of firm performance. Accordingly:

H4: Organizational innovation capability positively and significantly mediates the relationship between strategic leadership and firm financial performance.

2.6 Conceptual Model

The proposed conceptual framework can be represented as:

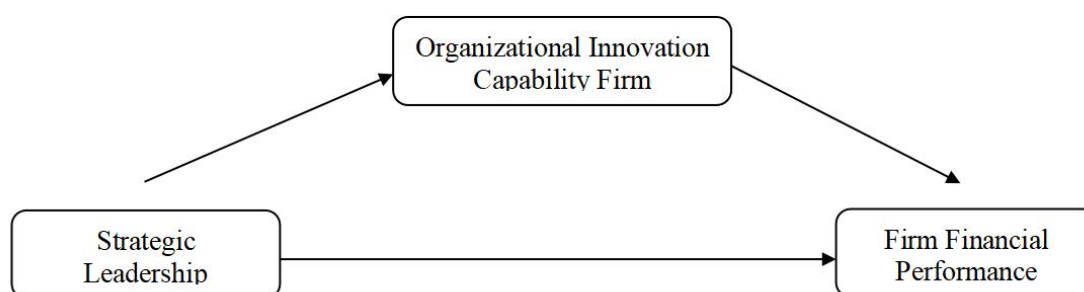


Figure 1. Conceptual Model

Thus, H1 represents the IV → Mediator relationship, H2 represents the Mediator → DV relationship, H3 captures the direct effect, and H4 evaluates the indirect or mediating effect. Collectively, the framework explains not only whether strategic leadership influences financial performance but, more importantly, how leadership-driven organizational innovation converts strategic managerial capabilities into superior financial outcomes.

3. Methodology

The study adopted a quantitative, cross-sectional explanatory research design to examine the relationships among strategic leadership, organizational innovation capability, and firm

financial performance. A quantitative approach was appropriate because the proposed hypotheses specify theoretically derived causal associations among latent constructs that can be statistically estimated. Data were collected at a single point in time through a structured questionnaire, making the cross-sectional design suitable for assessing the proposed direct and mediating relationships. The research model specifically examined whether strategic leadership influences financial performance directly and indirectly through organizational innovation capability. The target population comprised organizational respondents with sufficient exposure to their firm's leadership practices, innovation activities, and organizational performance. Eligible participants were individuals currently

employed in organizations and possessing adequate organizational experience to evaluate the study constructs. Respondents without sufficient organizational exposure or those providing substantially incomplete questionnaires were excluded. The final usable sample consisted of 240 respondents, which was considered adequate for Partial Least Squares Structural Equation Modeling (PLS-SEM), given the relatively parsimonious model containing three latent constructs and four hypothesized relationships. Participants were selected using convenience sampling. Potential respondents meeting the eligibility criteria were approached, informed about the academic purpose of the study, and invited to participate voluntarily. Although this approach facilitated access to respondents capable of providing relevant organizational assessments, its non-probability nature may restrict population-level generalizability and introduce selection bias. Consequently, findings are interpreted primarily within the sampled organizational context rather than as statistically representative of all firms. Data were collected during January to June 2026 using a structured questionnaire. Participation was voluntary, respondents were informed that responses would remain confidential, and no personally identifying information was used in the analysis. The questionnaire was reviewed for clarity and content relevance prior to final administration. All constructs were measured using established scales adapted to the study context. Strategic Leadership was measured using six items derived from Chen and Wu (2008) and conceptually supported by Samimi et al. (2020). Organizational Innovation Capability was assessed using six items adapted from Calantone et al. (2002), while Firm Financial Performance was measured through six subjective comparative-performance items based on Venkatraman and Ramanujam (1986), with conceptual support from Rowe and Morrow (1999). All 18 indicators were rated on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Higher composite scores represented higher levels of the corresponding construct.

Measurement precision was assessed through indicator reliability, internal consistency reliability, convergent validity, and discriminant validity. Reliability was evaluated using Cronbach's alpha, Dijkstra-Henseler's rho (ρ_A), and composite reliability, while average variance extracted (AVE) was used to establish convergent validity. Discriminant validity was assessed using the heterotrait-monotrait ratio (HTMT). Incomplete or inconsistent responses were screened before

structural analysis, and cases failing predefined completeness criteria were excluded. The hypothesized model was analysed using ADANCO and PLS-SEM. Analysis proceeded from descriptive assessment and data screening to measurement-model evaluation and subsequent structural-model testing. Collinearity was examined using variance inflation factors, followed by estimation of standardized path coefficients and explained variance (R^2). Statistical significance of direct and indirect effects was assessed through bootstrapping at the 5% significance level ($p < 0.05$). The mediating effect of organizational innovation capability was determined from the significance of the specific indirect effect of strategic leadership on firm financial performance, thereby permitting simultaneous evaluation of H1–H4.

4. Results

The proposed model was assessed using Partial Least Squares Structural Equation Modeling (PLS-SEM) in ADANCO. The analysis proceeded in three stages: assessment of overall model fit, evaluation of the measurement model, and examination of the structural relationships and mediating effect. Overall, the results provide strong empirical support for the proposed relationships among strategic leadership (SL), organizational innovation capability (OIC), and firm financial performance (FP).

4.1 Overall Model Fit

The model demonstrated satisfactory overall fit. The standardized root mean square residual (SRMR) was 0.0406, which was below both the HI95 value of 0.0436 and the commonly applied threshold of 0.08. Similarly, the discrepancy measures $dULS = 0.2814$ and $dG = 0.1778$ were below their respective HI95 values of 0.3246 and 0.2282. The saturated and estimated models produced virtually identical fit statistics, indicating that the proposed structural specification was consistent with the observed data. Collectively, these results indicate an adequate model fit and support proceeding with interpretation of the measurement and structural models.

4.2 Measurement Model Assessment

The measurement model demonstrated satisfactory internal consistency and construct validity. As presented in Table 1, Dijkstra-Henseler's rho (ρ_A) ranged from 0.9024 to 0.9133, Jöreskog's composite reliability (ρ_C)

ranged from 0.8933 to 0.9080, and Cronbach's alpha ranged from 0.8992 to 0.9091. All values comfortably exceeded the recommended minimum level of 0.70, demonstrating strong internal consistency across the three constructs.

Table 1. Reliability and convergent validity

Construct	ρ_A	ρ_C	Cronbach's α	AVE

Strategic Leadership (SL)	0.9133	0.9080	0.9091	0.6240
Organizational Innovation Capability (OIC)	0.9097	0.8995	0.9005	0.6028
Firm Financial Performance (FP)	0.9024	0.8933	0.8992	0.5994

Convergent validity was also established, with average variance extracted (AVE) values of 0.6240 for SL, 0.6028 for OIC, and 0.5994 for FP, all exceeding the recommended benchmark of 0.50. Thus, each latent construct explained more than half of the variance in its respective indicators. Discriminant validity was assessed primarily through the heterotrait-monotrait ratio (HTMT). The HTMT coefficients were 0.4873 for SL–OIC, 0.6089 for SL–FP, and 0.6549 for OIC–FP. As all values were substantially below the conservative threshold of 0.85, the constructs demonstrated satisfactory empirical distinctiveness. The Fornell-Larcker assessment provided additional support, as the AVE of each construct exceeded its corresponding squared inter-construct correlations. Therefore, reliability, convergent validity, and discriminant

validity were adequately established.

4.3 Structural Model Results

The explanatory power of the structural model was evaluated using the coefficient of determination (R^2). Strategic leadership explained 24.79% of the variance in organizational innovation capability ($R^2=0.2479$; adjusted $R^2=0.2447$). More importantly, strategic leadership and organizational innovation capability jointly explained 53.97% of the variance in firm financial performance ($R^2=0.5397$; adjusted $R^2=0.5358$). Thus, the model demonstrated particularly meaningful explanatory power for the principal financial outcome. The bootstrapping results showed that all three proposed direct relationships were positive and statistically significant.

Table 2. Structural relationships and hypothesis testing

Hypothesis	Relationship	β	t-value	p-value	95% CI	f^2	Decision
H1	SL $\rightarrow$ OIC	0.4979	9.9806	<0.001	[0.4018, 0.5968]	0.3295	Supported
H2	OIC $\rightarrow$ FP	0.4694	8.4566	<0.001	[0.3608, 0.5766]	0.3601	Supported
H3	SL $\rightarrow$ FP	0.3778	6.9982	<0.001	[0.2688, 0.4823]	0.2333	Supported
H4	SL $\rightarrow$ OIC $\rightarrow$ FP	0.2337	6.4819	<0.001	[0.1685, 0.3082]	—	Supported

Strategic leadership exerted a substantial positive effect on organizational innovation capability ($\beta=0.4979$, $p<0.001$), supporting H1. This finding indicates that stronger strategic leadership is associated with greater organizational capacity to develop and implement innovation. Organizational innovation capability also had a positive and statistically significant effect on financial performance ($\beta=0.4694$, $p<0.001$), supporting H2. Notably, this relationship displayed the largest effect size in the structural model ($f^2=0.3601$), highlighting innovation capability as a particularly important determinant of financial performance. The direct relationship between strategic leadership and

financial performance was also significant ($\beta=0.3778$, $p<0.001$), supporting H3. The effect size of 0.2333 indicates a meaningful contribution of strategic leadership to explaining financial performance even after organizational innovation capability was included in the model.

4.4 Mediation Analysis

The central research question concerned whether organizational innovation capability serves as a mechanism through which strategic leadership contributes to financial performance. Bootstrapping confirmed a statistically significant indirect effect of strategic leadership on financial performance through organizational innovation capability.

SL→OIC→FP=0.2337, $t=6.4819$, $p<0.001$. The corresponding 95% bootstrap confidence interval ranged from 0.1685 to 0.3082 and therefore did not contain zero. Accordingly, H4 was supported. Importantly, the direct effect of strategic leadership on financial performance remained statistically significant after inclusion of the mediator ($\beta=0.3778$, $p<0.001$). The mediation can therefore be characterized as complementary partial mediation, since both the direct and indirect effects were positive and significant.

The indirect effect accounted for approximately 38.2% of the total effect of strategic leadership on financial performance (0.2337/0.6115). The total effect of strategic leadership on financial performance was 0.6115 ($t=15.1840$, $p<0.001$), substantially exceeding its direct effect. This is a theoretically important finding because it demonstrates that strategic leadership contributes to financial outcomes not only through its direct strategic influence but also through its ability to strengthen the firm's innovation capability.

The empirical evidence supports the complete proposed framework. Strategic leadership positively influences both organizational innovation capability and financial performance, while innovation capability independently contributes to superior financial outcomes. More importantly, innovation capability significantly transmits part of the influence of strategic leadership to financial performance. Thus, the findings support the theoretical proposition that leadership resources generate greater financial value when they are converted into organizational innovation capability.

The most consequential result is therefore not simply the significant direct association between strategic leadership and financial performance, but the demonstration of the mechanism underlying that relationship. With 53.97% of financial-performance variance explained, the model provides substantial empirical support for positioning organizational innovation capability as an important bridge between management-level strategic leadership and finance-level organizational outcomes.

5. Discussion

The present study examined how strategic leadership contributes to firm financial performance and whether organizational innovation capability serves as an explanatory mechanism in this relationship. The findings provide consistent support for the proposed conceptual model. All four hypotheses were supported, demonstrating that strategic leadership positively influences organizational innovation capability and financial performance, that organizational innovation capability positively influences financial performance, and that innovation capability significantly mediates the strategic leadership–financial performance relationship. More importantly, the results explain how managerial

leadership is converted into financial value, thereby strengthening the interdisciplinary connection between strategic management and finance.

The measurement and structural results also provide confidence in interpreting these relationships. The SRMR value of 0.0406 indicates satisfactory overall model fit, while the discrepancy measures were below their corresponding bootstrap thresholds. Reliability coefficients exceeded conventional requirements, AVE values ranged from 0.5994 to 0.6240, and HTMT values remained well below conservative discriminant-validity thresholds. Thus, strategic leadership, organizational innovation capability, and financial performance were empirically distinguishable while being measured with adequate precision.

5.1 Interpretation of the Hypothesized Relationships

H1 proposed that strategic leadership positively influences organizational innovation capability. The significant path coefficient ($\beta = 0.4979$, $t = 9.9806$, $p < 0.001$) supports this proposition and indicates that strategic leaders play a meaningful role in developing an organization's capacity to innovate. This finding is consistent with Upper Echelons Theory, which argues that organizational choices and outcomes reflect the values, interpretations and strategic orientations of senior decision-makers. Leaders who anticipate environmental changes, communicate strategic priorities and allocate resources toward future opportunities appear more capable of creating organizational conditions supportive of innovation.

The finding also aligns with earlier strategic leadership research suggesting that senior leaders affect innovation by shaping organizational priorities, resource deployment and responsiveness to environmental change (Metcalf et al., 2022). It therefore supports the argument advanced by Samimi et al. and related strategic-leadership scholarship that leadership influence should not be restricted to direct performance outcomes; leaders also shape the organizational mechanisms through which strategic objectives are realized. The relatively strong relationship observed here implies that innovation capability is partly leadership-created rather than merely a consequence of technological resources or market conditions.

H2 proposed a positive relationship between organizational innovation capability and financial performance. This hypothesis was also strongly supported ($\beta = 0.4694$, $t = 8.4566$, $p < 0.001$). The finding suggests that organizations capable of consistently generating, adopting and implementing innovative solutions are better positioned to translate their resources into economic outcomes. Innovation capability can improve financial performance through differentiated offerings, process improvements, productivity gains, enhanced responsiveness to customers and the exploitation of

new market opportunities.

This result is consistent with the Resource-Based View, according to which valuable and difficult-to-replicate organizational capabilities contribute to competitive advantage and superior performance (Salsabila et al., 2022). It also supports the logic of Dynamic Capabilities Theory, because firms benefit financially when they are able to renew and reconfigure their resource base as environmental conditions evolve (Kangala, 2021). The result reinforces earlier evidence, including the innovation capability–performance relationship established in work such as Calantone et al., while extending this logic by embedding innovation capability within a strategic leadership-driven process.

H3 predicted a direct positive effect of strategic leadership on financial performance. The significant relationship ($\beta = 0.3778$, $t = 6.9982$, $p < 0.001$) confirms that strategic leadership has financial consequences beyond its influence through innovation. Strategic leaders affect investment decisions, resource allocation, competitive positioning, organizational priorities and responses to environmental threats. These activities can directly influence financial effectiveness even before their effects are transmitted through specific organizational capabilities.

This finding validates the central proposition of Upper Echelons Theory that senior leadership characteristics and strategic choices are reflected in organizational outcomes. However, the magnitude of the direct relationship becomes particularly meaningful when considered alongside the mediation result. Leadership matters financially, but its effect cannot be fully explained through a simple direct leadership–performance relationship.

5.2 Mediating Role of Organizational Innovation Capability

The most important finding concerns H4. The indirect effect of strategic leadership on financial performance through organizational innovation capability was positive and statistically significant ($\beta = 0.2337$, $t = 6.4819$, $p < 0.001$). The 95% bootstrap confidence interval of approximately 0.1685 to 0.3082 excludes zero, providing clear evidence of mediation.

At the same time, the direct effect of strategic leadership on financial performance remained significant after introducing the mediator. The findings therefore indicate complementary partial mediation rather than full mediation. Approximately 38% of the total strategic leadership effect on financial performance is transmitted through innovation capability ($0.2337/0.6115$), while the remaining influence operates through direct or other unmeasured organizational mechanisms.

This is an important theoretical insight. Innovation capability is not the only route through which

strategic leadership generates financial value, but it represents a substantial mechanism. Other pathways may include operational efficiency, employee capabilities, strategic flexibility, organizational learning, digital transformation, risk management or improved decision quality. Rather than challenging the proposed framework, the persistence of the direct effect suggests that the leadership–finance relationship is broader than any single mediating capability.

The total effect of strategic leadership on financial performance was substantial ($\beta = 0.6115$, $p < 0.001$). Moreover, the model explained 53.97% of the variance in financial performance, indicating meaningful explanatory power. The 24.79% variance explained in innovation capability suggests that strategic leadership is important but that innovation capability also depends on other factors such as organizational culture, technological resources, employee knowledge, market orientation and external collaboration.

5.3 Theoretical and Research Implications

The study makes three principal contributions to existing literature. First, it integrates Upper Echelons Theory, the Resource-Based View and Dynamic Capabilities Theory within a single management–finance framework. Upper Echelons Theory explains why strategic leaders influence organizational choices; RBV explains why organizational capabilities create economic value; and Dynamic Capabilities Theory clarifies how resources are renewed and transformed under changing conditions. The study therefore connects these theories through the sequence: Strategic Leadership → Innovation Capability → Financial Performance.

Second, the findings extend previous research by shifting the question from whether strategic leadership improves performance to how strategic leadership produces financial outcomes. The significant mediation identifies innovation capability as an important transmission mechanism between the management and finance domains.

Third, the evidence of partial mediation refines existing theoretical understanding. Strategic leadership creates financial value both through innovation capability and through additional mechanisms. The study therefore neither treats leadership as a purely distal antecedent nor assumes innovation to be the exclusive mechanism. Instead, it presents a more integrated explanation of managerial resource conversion into financial performance.

5.4 Managerial and Practical Implications

The findings have clear implications for senior managers and organizational decision-makers. Organizations seeking stronger financial performance should not view strategic leadership development and innovation investment as separate

initiatives. Leadership development should emphasize strategic foresight, resource orchestration, adaptability, innovation sponsorship and long-term value creation.

Boards and senior management should also evaluate leaders partly on their capacity to develop organizational capabilities rather than exclusively on short-term financial indicators. Investment in innovation infrastructure, employee experimentation, knowledge-sharing systems, digital technologies and cross-functional collaboration can provide the mechanism through which strategic leadership translates into measurable financial outcomes.

Managers should particularly recognize that innovation capability is not equivalent to occasional product innovation. It requires repeatable organizational processes for identifying opportunities, developing ideas, deploying resources and commercializing or implementing solutions. The relatively strong OIC → FP relationship indicates that developing this capability can represent an economically meaningful strategic investment.

5.5 Social and Stakeholder Implications

The findings also carry broader stakeholder implications. Leadership-supported innovation can contribute to more productive organizations, improved service delivery, new employment opportunities and better utilization of organizational resources. Where innovation is directed toward sustainable technologies, resource efficiency and socially responsible solutions, leadership-driven innovation may create value not only for shareholders but also for employees, customers and communities. Policymakers and industry bodies may therefore consider leadership capability and organizational innovation development as complementary elements within programs designed to improve enterprise competitiveness and economic resilience.

5.6 Limitations and Future Research

Several limitations should guide interpretation. First, the cross-sectional design captures relationships at one point in time and therefore limits strong causal claims. Longitudinal research could examine whether improvements in strategic leadership precede changes in innovation capability and subsequent financial outcomes. Second, the study relies on survey-based perceptions, including subjective assessments of financial performance. Future studies could triangulate survey responses with objective indicators such as ROA, ROE, revenue growth or profitability.

Third, although the sample of 240 respondents was sufficient for the estimated PLS-SEM model, broader samples across industries, organizational sizes and geographic settings would improve external validity. Fourth, the model intentionally focuses on three constructs and therefore does not capture all

mechanisms linking leadership and finance. Future research could examine parallel mediators such as strategic flexibility, operational efficiency, digital capability, knowledge management or agency-cost reduction. Moderating variables such as environmental dynamism, firm size and technological turbulence could also reveal the conditions under which strategic leadership has stronger financial consequences.

Overall, the findings demonstrate that strategic leadership is financially consequential not simply because leaders make strategic decisions, but because they develop organizational capabilities capable of transforming those decisions into economic value. Organizational innovation capability emerges as a significant—but not exclusive—bridge between leadership and firm financial performance, providing a more theoretically integrated explanation of how management practices ultimately influence financial outcomes.

5. Conclusion

This study examined the relationship between strategic leadership and firm financial performance, with organizational innovation capability positioned as a mediating mechanism. Using survey data from 240 respondents and PLS-SEM analysis through ADANCO, the findings provide consistent support for the proposed conceptual model. Strategic leadership was found to positively influence organizational innovation capability as well as financial performance, while organizational innovation capability also demonstrated a significant positive effect on financial performance. Most importantly, the mediation analysis confirmed that organizational innovation capability partially mediates the relationship between strategic leadership and financial performance. This indicates that the financial benefits of strategic leadership are realized not only through direct managerial and strategic decisions but also through the organization's ability to transform leadership direction into innovative products, processes, services, and practices. The findings therefore reinforce the integration of Upper Echelons Theory, the Resource-Based View, and Dynamic Capabilities Theory by demonstrating a clear leadership-capability-performance pathway. From a managerial perspective, organizations seeking stronger financial outcomes should not focus solely on appointing capable strategic leaders. Equal attention should be given to developing innovation-supportive systems, resource allocation mechanisms, knowledge-sharing practices, and organizational flexibility. The study contributes to management and finance literature by identifying innovation capability as an important explanatory bridge between strategic leadership and financial value creation. Future research may extend the model by incorporating longitudinal designs, objective financial indicators, additional mediators, or industry-specific comparisons.

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