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# "STRATEGIC INTENT AND BANK PERFORMANCE: DOES INNOVATION MATTER IN THE CONTEXT OF RURAL BANKS?"

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**Abstract**
This study examines the effect of strategic intent on bank performance, with strategic innovation positioned as a mediating variable, in the context of Indonesia's rural banking sector (Bank Perekonomian Rakyat, BPR). The research is theoretically grounded in Strategic Intent Theory (Hamel & Prahalad, 1989), which posits that a clear and compelling long-term vision drives organizational focus and competitiveness, and Innovation Diffusion Theory (Rogers, 2003), which explains how innovations are adopted and spread within organizational systems. Together, these frameworks provide a comprehensive lens to understand how vision-driven strategies are translated into performance outcomes through innovation.Data were collected through a cross-sectional survey of BPRs and analyzed using Structural Equation Modeling (SEM).
The findings reveal that strategic intent has a significant and positive direct effect on bank performance, reaffirming the importance of long-term strategic direction in achieving organizational success. However, strategic innovation was not found to be a statistically significant mediator of this relationship. This result suggests a disconnect between strategic direction and innovation execution, supporting the notion of innovation performance misalignment (Tidd & Bessant, 2013). Many BPRs implement innovation strategies such as digital service development and core banking upgrade without adequate alignment to their conservative, relationship-based customer segments, or without the dynamic capabilities necessary for effective innovation diffusion.
This misalignment is further compounded by limited digital infrastructure, constrained human capital, and regulatory rigidity from the Financial Services Authority (OJK), which delays innovation deployment. The study proposes a Strategic Intent–Contextual Innovation Fit Model, arguing that innovation only enhances performance when it is aligned with internal capabilities and market realities, as emphasized in both Strategic Intent Theory and Innovation Diffusion Theory.
Managerial implications call for a capability-first approach to innovation, ensuring foundational readiness before pursuing transformation. Regulatory implications suggest the need for more adaptive frameworks that enable experimentation while maintaining oversight. These findings align with the OJK Roadmap 2024–2027, particularly its emphasis on human capital development and institutional strengthening within the BPR sector.

**Keywords**: Strategic Intent; Strategic Innovation, Banking Performance; BPR; Strategic Management

## 1. INTRODUCTION

Bank Perkenomian Rakyat (BPRs), or rural banks, play a pivotal role in advancing financial inclusion in Indonesia, especially in underserved and remote areas. As part of the country's dual banking system, BPRs offer tailored financial services to micro, small, and medium enterprises (MSMEs) and low-income communities. Despite this crucial role, the BPR industry has been facing mounting challenges that threaten its long-term sustainability.
Recent developments indicate a growing concern over the viability of BPRs. In 2024, a significant number of rural banks had their licenses revoked, marking the highest annual rate of closures in history. According to the Indonesia Deposit Insurance Corporation (LPS), the total number of BPRs has decreased by 294 units over the past decade. Among these closures,

48.6% were due to failures in intermediation functions, while the remaining 51.4% resulted from mergers, acquisitions, or voluntary liquidation.

The situation became more alarming toward the end of 2024, when 20 BPRs lost their licenses, primarily due to fraudulent activities. This number far exceeded the annual average of 7–8 closures, highlighting deep-rooted issues in the industry. The primary causes of BPR failures include weak risk management, poor corporate governance, insufficient capital, and outdated information technology infrastructure. Moreover, limited human resource (HR) capacity, both in terms of quality and quantity, coupled with low levels of innovation, have further worsened the situation (OJK, 2023).

While aggregate performance indicators for BPRs over the past decade have generally shown positive trends, the high rate of failures reveals fundamental structural weaknesses, particularly in strategic planning and risk mitigation. These conditions raise important questions about the effectiveness of the strategic orientation of BPRs in facing increasingly complex market and regulatory environments.

## Literature Review and Theoretical Framework

A growing body of research has explored the link between strategic intent and organizational performance. Some studies have found a positive and significant relationship (Olalekan et al., 2024; Onyegbula et al., 2023; Danook & Obaidy, 2022; Muriithi, 2022; Wanjiku et al., 2020), while others have reported weak or statistically insignificant effects (Eze et al., 2020; Richard, 2013). These mixed results suggest that a mediating variable may exist to explain the indirect pathways through which strategic intent affects organizational performance.

One potential mediator that has gained increasing attention is innovation strategy. Scholars such as Salkic (2014), Agarwal and Helfat (2023), and Walker et al. (2019) argue that existing studies often overlook intervening mechanisms that translate strategic planning into measurable outcomes. While strategic intent provides a long-term vision and direction, it may be insufficient without strategic transformation processes that enable the organization to adapt and innovate.

Walker et al. (2019) further emphasize that not all forms of innovation strategies lead to direct performance improvements, underscoring that context and implementation matter significantly. In this sense, innovation strategy serves as a mediator that bridges the gap between the formulation of long-term strategic intent and tangible organizational outcomes.

Innovation strategy enables organizations to translate strategic direction into new products, services, processes, or business models that enhance value creation and build sustainable competitive advantage. This mediating role is particularly relevant in industries facing high uncertainty, including the BPR sector in Indonesia, which must contend with both internal structural limitations and external regulatory pressures.

## Research Gap and Contribution

Although the role of strategic intent in shaping firm performance has been widely discussed, limited empirical work has focused on how this relationship is mediated by innovation strategy, particularly in the context of rural banking in emerging economies. Most prior studies have concentrated on human capital or governance structures, while innovation especially strategic innovation has received comparatively less attention in the BPR literature.

This study aims to fill this gap by investigating how innovation strategy mediates the relationship between strategic intent and organizational performance in Indonesian BPRs. It also contributes to the literature by contextualizing innovation strategy through dimensions that are specifically relevant to the BPR industry.

Drawing on the frameworks of Yang (2014) and AlQershi (2021), this study adapts and modifies key dimensions of innovation strategy to align with the unique characteristics of BPRs in Indonesia. These dimensions include:

1. Product Innovation – Developing new financial products tailored to micro and small enterprises.
2. Core Banking System Development – Upgrading technological infrastructure for improved service delivery.
3. New Strategic Approaches – Adopting agile and customer-centric operational models.
4. Collaborative Innovation – Partnering with fintech platforms, commercial banks, and regional development banks for broader market reach and service integration.

By integrating these dimensions, the study provides a more nuanced understanding of how BPRs can leverage innovation as a strategic enabler in turbulent environments.

Practical and Policy Implications

Given the strategic importance of BPRs in promoting financial inclusion and supporting the MSME sector, improving their resilience and performance is vital for national economic stability. This study offers practical insights for BPR managers, regulators, and policymakers by highlighting the critical role of innovation strategy in enhancing organizational outcomes.

Furthermore, the study aligns with the OJK's BPR Industry Roadmap 2024–2027, which emphasizes human capital development and innovation as key priorities for transforming the rural banking sector. By demonstrating the mediating role of innovation strategy, this research supports ongoing efforts to strengthen BPR competitiveness through the synergy of strategic orientation, HR specialization, and innovative practices

## II..LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretical Framework and Research Contribution

This study is grounded in two primary theoretical frameworks: Strategic Intent Theory (Hamel & Prahalad, 1989) and Innovation Diffusion Theory, as proposed by Rogers (2003), along with the concept of Innovation Strategy as discussed by Damanpour (1991). These theories assert that organizations with a clear and strong strategic intent are more likely to pursue innovation in response to dynamic market conditions and competitive pressures. In this context, innovation is viewed as a strategic instrument to achieve organizational goals and enhance performance.

A substantial body of research supports the link between strategic intent and innovation strategy. Hamel and Prahalad (1989) emphasize the role of strategic intent in creating sustainable competitive advantage through innovation. They argue that a well-defined strategic intent can direct innovative efforts and ensure that organizations remain focused on long-term objectives.

Subsequent studies have reinforced this notion, suggesting that firms with strong strategic intent are more inclined to innovate and succeed in addressing market challenges (Mintzberg, 1994; Christensen, 1997). Organizations with a focused strategic intent tend to be more adaptive, creative, and better positioned to implement innovative ideas that lead to competitive advantage.

The empirical work of Song et al. (2011), titled "Does Strategic Planning Enhance or Impede Innovation and Firm Performance?", demonstrates that strategic planning can positively influence new product development processes, which in turn enhances firm performance. These findings are further supported by studies conducted by Dhaafri et al. (2019), Bryson (2018), Alosani (2020), Mulaa & Kilika (2021), and Jirakraisiri et al. (2021).

The novelty of this research lies in its focus on innovation strategy within the context of Rural Banks (BPRs), particularly in relation to strategic collaborations with other financial

institutions such as peer-to-peer lending platforms, commercial banks, and regional development banks. This approach reflects a distinctive form of strategic innovation specific to the BPR industry.

Logically, a strong strategic intent serves as the foundation for planned and focused strategic innovation. Without a clear strategic direction, innovation efforts tend to be unsustainable or misaligned with the organization's long-term objectives.

Drawing further from Rogers' (2003) Innovation Diffusion Theory and Damanpour's (1991) perspective on innovation strategy, this study reinforces the argument that a compelling strategic intent drives innovation as a mechanism for performance improvement in dynamic environments.

This research contributes to the literature by positioning Innovation Strategy as a mediating variable in the relationship between strategic intent and BPR performance. While prior studies have extensively discussed the role of human capital, the specific role of HR specialization in the BPR context remains underexplored. By introducing innovation strategy as a mediating mechanism, this study offers a more holistic understanding of how strategic orientation is translated into superior organizational performance through innovative pathways.

In this framework, innovation strategy functions as a bridge between long-term strategic intent and its practical implementation, which directly affects organizational outcomes. For BPRs facing growing competitive pressures and increasingly complex regulatory environments the capacity to respond through innovation is crucial. Hence, this study not only enriches the academic discourse in strategic management and human resource management but also offers practical implications for enhancing the role of HR as a key driver of BPR performance.

Furthermore, the novelty of this study aligns with the OJK Roadmap 2024–2027, which identifies human capital development as a strategic priority to support the transformation of the BPR industry. By positioning innovation strategy as a mediating variable, this research supports the efforts of regulators and industry players to strengthen BPR competitiveness through the synergy of HR capabilities and strategic innovation.

**Strategic Intent and Performance**

Previous studies (Olalekan et al., 2024; Odita & Bello, 2015; Obonyo & Arasa, 2020; Onyegbula et al., 2023) have emphasized that strategic intent significantly contributes to organizational performance. The components of vision, mission, and goals have consistently shown a positive influence on performance outcomes. Therefore, it is hypothesized that:

**H1: Strategic Intent has a significant effect on Bank Performance.**

**Strategic Intent and Strategic Innovation**

A substantial body of literature supports the relationship between strategic intent and strategic innovation. Hamel and Prahalad (1989) highlight the importance of strategic intent in fostering sustainable competitive advantage through innovation. They argue that a clear strategic intent directs innovative efforts and ensures that organizations remain focused on their long-term objectives. Other studies affirm that firms with strong strategic intent are more likely to innovate and succeed in responding to market challenges (Mintzberg, 1994; Christensen, 1997). Organizations with well-defined strategic intent tend to be more adaptive, creative, and capable of implementing innovative ideas that lead to competitive advantage.

Song et al. (2011), in their study "Does Strategic Planning Enhance or Impede Innovation and Firm Performance?", found that strategic planning enhances new product development processes, ultimately contributing to improved firm performance. These findings are further supported by research from Dhaafri et al. (2019), Bryson (2018), Alosani (2020), Mulaa & Kilika (2021), and Jirakraisiri et al. (2021).

The novelty of this study lies in its contextual application of strategic innovation within the rural bank (BPR) industry, particularly regarding collaborations with external institutions such as peer-to-peer lending platforms, partnerships with commercial banks, and synergies with Regional Development Banks. These forms of collaboration represent distinctive types of strategic innovation specific to the BPR sector.

Logically, a strong strategic intent serves as a foundation for driving planned and focused strategic innovation. Without clear strategic direction, innovation may become unsustainable or deviate from the organization's long-term objectives. Therefore, it is hypothesized that:

**H2: Strategic Intent has a significant effect on Strategic Innovation.**

**Strategic Innovation and Performance**

Previous research by Ko, O'Neill, and Xie (2021), Mulaa and Kilika (2021), Yusoff, Alosani, and Al Dhaafri (2019), Pisano (2015), and Song et al. (2011) has consistently demonstrated a positive relationship between strategic innovation and organizational performance.

The contribution of this study lies in emphasizing collaboration indicators and innovation strategies that are contextually relevant to the BPR industry, covering both financial and non-financial performance. Innovations in products, service processes, and business models particularly those involving external collaboration—are believed to be key drivers of improved bank performance amid increasingly dynamic competition.

Strategically, innovation enables organizations to respond to external environmental changes in creative and value-adding ways. Innovation supports the creation of inimitable competitive advantages, which ultimately contribute to overall performance. Therefore, it is hypothesized that:

**H3: Strategic Innovation has a significant effect on Bank Performance.**

**The Mediating Role of Strategic Innovation in the Relationship between Strategic Intent and Bank Performance**

Salkic (2014) highlighted a notable gap in the literature regarding the direct impact of strategic planning on firm performance. Although many studies support the positive influence of strategic intent on performance, there is a need to develop models that incorporate innovation as a mediating variable. This is because strategic intent alone may not be sufficient without being translated through innovative strategies.

Walker et al. (2019) argue that not all forms of strategic innovation directly impact performance, suggesting that the effectiveness of such innovation strategies depends greatly on context and execution. Strategic innovation thus acts as a mediator that bridges long-term visions shaped by strategic intent with tangible outcomes in terms of improved performance. It enables organizations to translate strategic direction into new products, services, processes, or business models that offer added value and competitive advantage.

In the context of the BPR industry, innovation also encompasses social innovation and community engagement. This aligns with findings by Agarwal and Helfat (2023), who stress the role of social innovation in generating sustainable performance impacts. Hence, incorporating strategic innovation as a mediating variable in the relationship between strategic intent and bank performance represents a key novelty of this study. Accordingly, the following hypothesis is proposed:

**H4: Strategic Intent has a significant effect on Bank Performance through Strategic Innovation.**

Accordingly, this study examines the effect of strategic intent on bank performance, with Strategic Innovation as a mediating variable, in the context of BPRs in Indonesia (Figure 1).

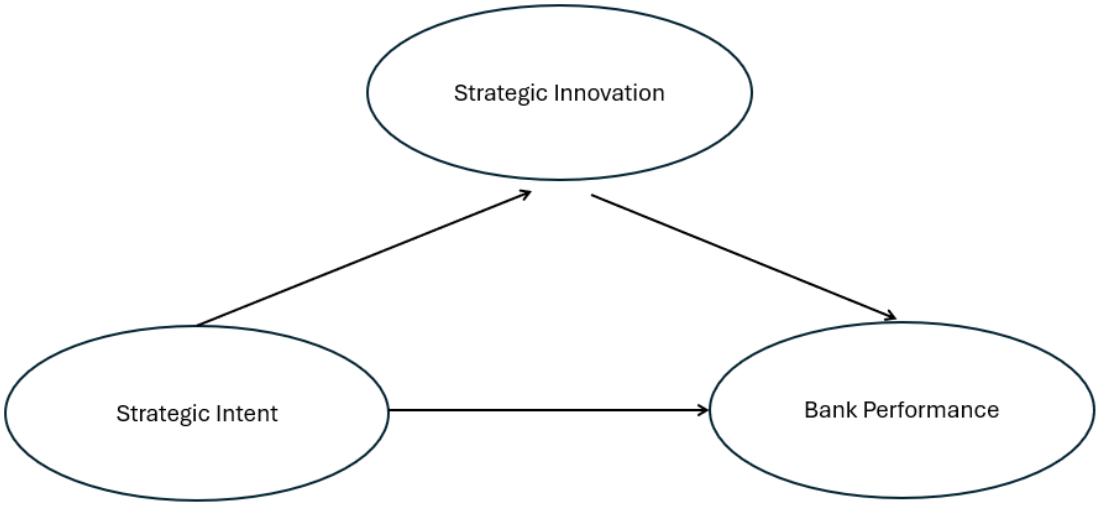



**Fig.1.** Hypothesized Model of Strategic Intent, Strategic Innovation, and Bank Performance

## 2. METHOD

The research sample comprised 783 Rural Banks (BPRs), represented by Commissioners, Directors, or Senior Management. A purposive sampling technique was employed, with inclusion criteria limited to privately owned conventional BPRs with a minimum core capital above IDR 6 billion.

A survey approach was utilized to collect data, and questionnaires were distributed online directly to the respondents. Each variable was measured using instruments adapted from previous studies. The strategic intent questionnaire was adapted from Hamel and Prahalad (1989) and Danook and Obaidy (2022). Human resource specialization was measured using items adapted from Rahman and Akhter (2021), Chen and Huang (2009), Huselid (1995), and Lepak and Snell (1999). Bank performance was assessed using both financial and non-financial indicators. Financial performance was evaluated based on standards established in POJK No. 3 of 2022 and SE OJK No. 11 of 2022 regarding the Soundness Level of BPR and BPRS. Non-financial performance was measured using instruments adapted and modified from Hoque and James (2000) and Tefera and Abebe (2024).

All items were rated on a five-point Likert scale, ranging from 1 (“strongly disagree”) to 5 (“strongly agree”). Following data collection, validity, reliability, and hypothesis testing were conducted using Partial Least Squares (PLS). PLS was selected because of its robustness in contexts involving relatively small sample sizes, non-normal data distributions, and the exploration of emerging constructs (Hair et al., 2019).

## 3. RESULT

### 4.1. Respondent Profile

The demographic profile of respondents is presented in Table 1. Of the 783 participants, 423 (54%) were male and 360 (46%) were female, indicating a fairly balanced gender distribution. In terms of age, the largest group comprised respondents above 51 years old (41.4%, n = 324), suggesting that the leadership of BPRs is dominated by experienced individuals. Educational background showed that the majority of respondents (88.5%, n = 693) held an undergraduate degree, while only a small proportion had completed postgraduate

studies (7.5%, n = 59 with a master's degree). This reflects a relatively limited representation of advanced academic qualifications within the sector.

Regarding organizational position, a significant proportion of respondents (62.8%, n = 492) served as members of the Board of Directors, followed by senior managers (27.2%, n = 213) and commissioners (10%, n = 78). This indicates that the sample is strongly representative of strategic decision-makers within BPRs. Departmental distribution revealed that nearly half of the respondents (46%) were engaged in operational functions, while others worked in strategic (24.9%), credit and marketing (17.6%), finance (5.1%), and human resources (6.4%) departments. This distribution reflects the functional priorities of BPR operations, with a dominant focus on daily business processes and strategy implementation.

In terms of work experience, 46% of respondents had more than 21 years of tenure in the BPR industry, highlighting the maturity and stability of the workforce. Finally, the asset profile of the participating banks showed that 84% managed assets exceeding IDR 50 billion, while only a small portion fell within the IDR 10–30 billion (5.4%) and IDR 30–50 billion (7.8%) categories. This indicates that the majority of the sampled institutions are relatively large and financially stable.

Hence, the demographic characteristics of the respondents suggest that the survey data were drawn from highly experienced and strategically positioned individuals operating within well-capitalized BPRs. This strengthens the reliability of the findings, as the perspectives provided are grounded in substantial managerial experience and organizational scale.

**Table 1. Characteristics of the respondents.**

| **Attributes** | **F** | **%** |
|---|---|---|
| Gender | | |
| Male | 423 | 54 |
| Female | 360 | 46 |
| Age | | |
| 26 – 30 years | 40 | 5.1 |
| 31 – 35 years | 72 | 9.2 |
| 36 – 44 years | 170 | 21.7 |
| 45 – 50 years | 171 | 21.8 |
| > 51 years | 324 | 41.4 |
| Academic Background | | |
| Senior high School/Vacations Degree | 31 | 4 |
| Undergraduate Degree | 693 | 88.5 |
| Master Degree | 59 | 7.5 |
| Position | | |
| Senior Manager | 213 | 27.2 |
| Director | 492 | 62.8 |
| Commissioner | 78 | 10 |
| Department | | |
| Finance | 40 | 5.1 |
| Credit and Marketing | 138 | 17.6 |
| Operational | 360 | 46 |
| Strategic | 195 | 24.9 |

| | | |
|---|---|---|
| Human Resources | 50 | 6.4 |
| Experience | | |
| 5 – 10 years | 161 | 20.6 |
| 11 – 15 years | 142 | 18.1 |
| 16 – 20 years | 120 | 15.3 |
| > 21 years | 360 | 46 |
| Asset (Rp) | | |
| 10 - 30 billion | 40 | 5.4 |
| 30 - 50 billion | 86 | 7.8 |
| > 50 billion | 657 | 84 |

Note N=783

### 4.2. Measurement Model Evaluation

The measurement model was evaluated to ensure the validity and reliability of the constructs. As shown in Table 2, all factor loadings exceeded the minimum threshold of 0.50 (Hair et al., 2022), confirming that the observed indicators contributed meaningfully to their respective latent variables. This provides strong support for convergent validity, which was further reinforced by the Average Variance Extracted (AVE) values. All constructs demonstrated AVE values greater than 0.50 (BP = 0.599; SI = 0.541; SII = 0.573), indicating that each latent variable was able to explain more than half of the variance of its indicators.

Internal consistency reliability was confirmed through both Cronbach's Alpha and Composite Reliability (CR). Each construct exceeded the recommended thresholds of 0.70, with particularly strong results for Strategic Intent (CA = 0.938) and Strategic Innovation (CR = 0.937). These results indicate that the measurement instruments were highly reliable and consistent across items.

Discriminant validity was also established through cross-loading analysis (Table 3) and the Fornell–Larcker criterion (Table 4). Indicators exhibited higher loadings on their associated constructs than on other constructs, and the square roots of the AVE values were greater than the inter-construct correlations. Together, these findings demonstrate that strategic intent, human capital specialization, and bank performance are distinct constructs that do not overlap conceptually. Overall, the results of the measurement model evaluation confirm that the indicators used in this study are valid, reliable, and conceptually distinct, thereby providing a solid foundation for further testing of the structural model.

**Table 2.** Measurement model results for strategic intent, strategic innovation, and bank performance

| Item | Outer Loading | Cronbach's Alpha | Composite reliability (rho_c) | AVE |
|---|---|---|---|---|
| BPF1 | 0.521 | | | |
| BPF2 | 0.537 | | | |
| BPF3 | 0.624 | | | |
| BPF4 | 0.660 | | | |
| BPF5 | 0.629 | 0.886 | 0.91 | 0.599 |
| BPNF1 | 0.690 | | | |
| BPNF2 | 0.719 | | | |
| BPNF3 | 0.662 | | | |
| BPNF4 | 0.754 | | | |
| BPNF5 | 0.690 | | | |

| Item | Outer Loading | Cronbach's Alpha | Composite reliability (rho_c) | AVE |
|---|---|---|---|---|
| BPNF6 | 0.596 | | | |
| BPNF7 | 0.617 | | | |
| BPNF8 | 0.730 | | | |
| BPNF9 | 0.806 | | | |
| BPNF10 | 0.572 | | | |
| SI1 | 0.633 | | | |
| SI2 | 0.713 | | | |
| SI3 | 0.832 | | | |
| SI4 | 0.820 | | | |
| SI5 | 0.698 | | | |
| SI6 | 0.692 | | | |
| SI7 | 0.805 | | | |
| SI8 | 0.658 | 0.938 | 0.944 | 0.541 |
| SI9 | 0.836 | | | |
| SI10 | 0.796 | | | |
| SI11 | 0.809 | | | |
| SI12 | 0.730 | | | |
| SI13 | 0.758 | | | |
| SI14 | 0.658 | | | |
| SI15 | 0.522 | | | |
| SII1 | 0,765 | | | |
| SII2 | 0,776 | | | |
| SII3 | 0,836 | | | |
| SII4 | 0,781 | | | |
| SII5 | 0,842 | 0,937 | 0.945 | 0.573 |
| SII6 | 0,831 | | | |
| SII7 | 0,796 | | | |
| SII8 | 0,729 | | | |
| SII9 | 0,741 | | | |
| SII10 | 0,709 | | | |
| SII11 | 0,505 | | | |
| SII12 | 0,666 | | | |

Note: BP = Banking Performance; SI = Strategic Intent; SII= Strategic Innovation

**Table 3.** Cross-loading analysis for discriminant validity

| Item | BP | SI | SII |
|---|---|---|---|
| BPF1 | 0.521 | 0.633 | 0.435 |
| BPF2 | 0.537 | 0.713 | 0.588 |
| BPF3 | 0.624 | 0.832 | 0.631 |
| BPF4 | 0.660 | 0.820 | 0.614 |
| BPF5 | 0.629 | 0.698 | 0.593 |
| BPNF1 | 0.690 | 0.692 | 0.581 |
| BPNF2 | 0.719 | 0.805 | 0.764 |
| BPNF3 | 0.662 | 0.658 | 0.624 |
| BPNF4 | 0.754 | 0.836 | 0.666 |

| Item | BP | SI | SII |
|---|---|---|---|
| BPNF5 | 0.690 | 0.796 | 0.589 |
| BPNF6 | 0.596 | 0.809 | 0.712 |
| BPNF7 | 0.617 | 0.730 | 0.554 |
| BPNF8 | 0.730 | 0.758 | 0.557 |
| BPNF9 | 0.806 | 0.658 | 0.484 |
| BPNF10 | 0.572 | 0.522 | 0.345 |
| SI1 | 0.633 | 0.503 | 0.642 |
| SI2 | 0.713 | 0.462 | 0.599 |
| SI3 | 0.832 | 0.687 | 0.651 |
| SI4 | 0.820 | 0.642 | 0.846 |
| SI5 | 0.698 | 0.549 | 0.714 |
| SI6 | 0.692 | 0.505 | 0.738 |
| SI7 | 0.805 | 0.616 | 0.821 |
| SI8 | 0.658 | 0.649 | 0.850 |
| SI9 | 0.836 | 0.741 | 0.859 |
| SI10 | 0.796 | 0.665 | 0.813 |
| SI11 | 0.809 | 0.672 | 0.828 |
| SI12 | 0.730 | 0.601 | 0.687 |
| SI13 | 0.758 | 0.662 | 0.667 |
| SI14 | 0.658 | 0.702 | 0.754 |
| SI15 | 0.522 | 0.726 | 0.660 |
| SII1 | 0.642 | 0.699 | 0,799 |
| SII2 | 0.599 | 0.714 | 0,765 |
| SII3 | 0.651 | 0.623 | 0,776 |
| SII4 | 0.846 | 0.462 | 0,836 |
| SII5 | 0.714 | 0.589 | 0,781 |
| SII6 | 0.738 | 0.570 | 0,842 |
| SII7 | 0.821 | 0.334 | 0,831 |
| SII8 | 0.850 | 0.543 | 0,796 |
| SII9 | 0.859 | 0.574 | 0,729 |
| SII10 | 0.813 | 0.584 | 0,741 |

Note: BP = Banking Performance; SI = Strategic Intent; SII = Strategic Innovation

**Table 4.** Fornell–Larcker criterion for discriminant validity.

| Construct | FP | SII | *SI* |
|---|---|---|---|
| BP | 0.774 | | |
| SII | 0.658 | 0.822 | |
| SI | 0.735 | 0.805 | 0.736 |

Note: Note: BP = Banking Performance; SI = Strategic Intent; HCS = Human Capital

### 4.3. Structural Model Evaluation

Model Evaluation and Structural Model Results

The explanatory power of the structural model was assessed using the coefficient of determination ($R^2$). The construct of bank performance yielded an $R^2$ value of 0.644, indicating that the combined influence of strategic intent and strategic innovation explains 64.4% of the variance in bank performance (Table 5). Likewise, the $R^2$ for strategic innovation was recorded

at 0.669, suggesting that strategic intent alone accounts for a substantial portion of its variance. These $R^2$ values reflect moderate to strong explanatory power within the Partial Least Squares Structural Equation Modeling (PLS-SEM) framework, confirming that the model has a robust capability to explain key constructs.

The path coefficient analysis (Table 6) further elucidated the strength and direction of the relationships between constructs. Strategic intent demonstrated a strong and statistically significant positive effect on bank performance ($\beta = 0.626$, $p < 0.001$), affirming its pivotal role in driving organizational outcomes. Moreover, strategic intent also exhibited a highly significant effect on strategic innovation ($\beta = 0.818$, $p < 0.001$), underscoring that a well-articulated strategic orientation is a critical antecedent to innovation development within rural banks (BPRs).

However, the analysis also revealed that strategic innovation does not function as a statistically significant mediating variable in the relationship between strategic intent and bank performance. This conclusion is supported by a t-statistic of 0.776, which falls below the critical threshold of 1.65 (for a one-tailed test), and a p-value of 0.438, well above the conventional 0.05 level of significance. Accordingly, Hypothesis H6 was rejected, indicating that the mediating role of strategic innovation in this model is not supported.

This finding suggests that, while strategic innovation is widely regarded in the literature as a key driver of competitive advantage, its direct influence on performance within the BPR context is limited. This could be attributed to structural limitations, such as resource constraints, underdeveloped innovation capabilities, or a lack of enabling infrastructure, which may hinder the effective implementation and performance impact of innovation initiatives in rural banking institutions.

The predictive relevance of the model was evaluated using the $Q^2$ statistic, with results showing that both strategic intent and bank performance exhibited $Q^2$ values greater than zero (Table 7). This indicates that the model not only fits the observed data but also demonstrates satisfactory predictive capacity. Additionally, the overall model fit was assessed using the Normed Fit Index (NFI), which yielded a value of 0.871. While this is marginally below the commonly accepted threshold of 0.90, it still reflects an acceptable model fit for complex structural equation models. The structural model and its tested pathways are visually presented in Figure 2

.**Table 5.** Coefficient of determination ($R^2$ values) for endogenous constructs.

| **Construct** | **$R^2$** | **Adjusted $R^2$** |
|---|---|---|
| Bank Performance (BP) | 0.644 | 0.616 |
| Strategic Innovation (SI) | 0,669 | 0,666 |

**Table 6.** Path coefficient (Direct and indirect testing)

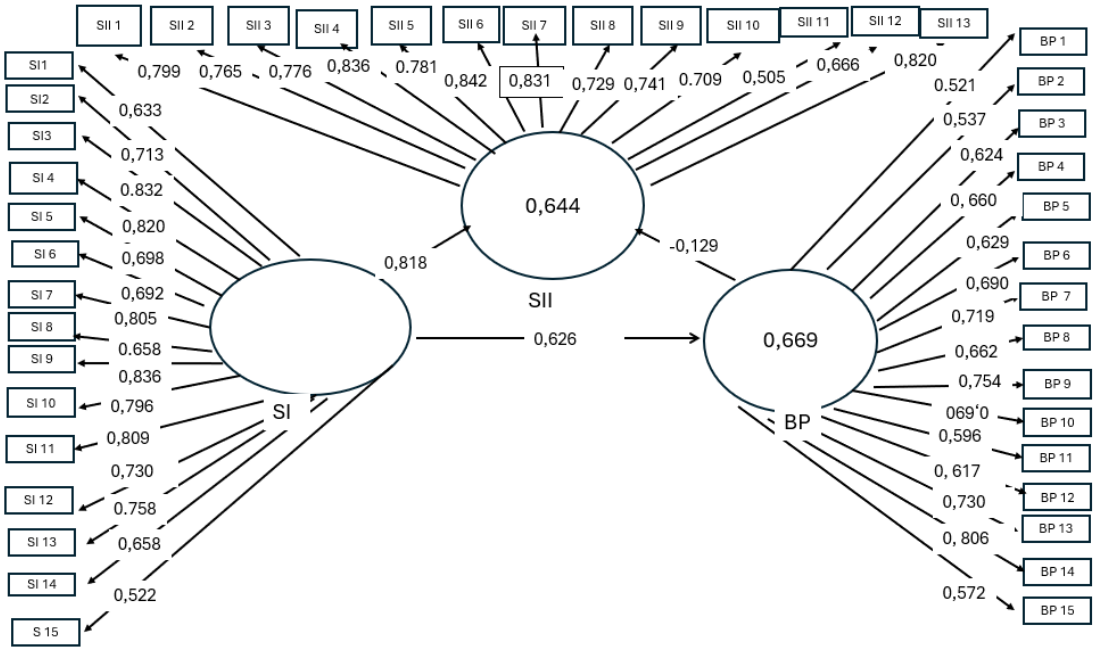
| **Path** | **Original Sample (O)** | **Sample Mean (M)** | **Standard Deviation (STDEV)** | **t-Statistic** | **p-Value** | **Conclusion** |
|---|---|---|---|---|---|---|
| SI → BP | 0.626 | 0.631 | 0.144 | 4.348 | 0.000 | Accepted |
| SI →SII | 0.818 | 0.823 | 0.039 | 21.169 | 0.000 | Accepted |
| SII → BP | -0.129 | -0.109 | 0.166 | 0.776 | 0.438 | Rejected |
| SI →SII → NP (Mediation) | -0.039 | -0.078 | 0.151 | 0.256 | 0.798 | Rejected |

Note: BP = Banking Performance; SI = Strategic Intent; SII = Strategic Innovation

**Table 7.** Predictive Relevance and Model Accuracy

| Construct | $Q^2$ Predict | RMSE |
|---|---|---|
| Bank Performance (BP) | 0.723 | 0.526 |
| Strategic Intent (SI) | 0.575 | 0.654 |

Note: BP = Banking Performance; SI = Strategic Intent




Note: BP = Banking Performance; SI= Strategic Intent; SII = Strategic Innovation

**Fig. 2.** Structural Model Path Analysis

## 4. DISCUSSION

The findings of this study reveal that strategic intent has a positive and significant effect on bank performance. The path coefficient ($\beta = 0.626$, $p < 0.001$; $t = 4.348$) provides strong empirical support for accepting Hypothesis H1, emphasizing the critical role of strategic intent in shaping organizational outcomes. This result is consistent with the resource-based view (RBV) (Hamel & Prahalad, 1989), which highlights the significance of visionary leadership and long-term objectives in achieving sustainable competitive advantage. Within the context of rural banks (Bank Perekonomian Rakyat) in Indonesia, strategic clarity is particularly vital due to heightened regulatory pressure and growing market competition.

In addition, the results demonstrate that strategic intent has a strong and positive effect on strategic innovation ($\beta = 0.818$, $p < 0.001$; $t = 21.169$), thus supporting Hypothesis H2. These findings are in line with previous studies (e.g., Mintzberg, 1994; Christensen, 1997) that argue organizations with strong strategic intent are more likely to generate sustainable innovation in response to dynamic market environments. Strategic intent acts as a guiding principle that drives long-term vision through creative and adaptive pathways, fostering an organizational culture that supports innovation (Bryson, 2018; Dhaafri et al., 2019; Alosani, 2020; Jirakraisiri et al., 2021).

In the BPR industry context, strategic intent is validated as the foundational driver of innovation. Without clear strategic direction, innovation tends to be ad hoc, poorly coordinated, and ultimately fails to deliver meaningful long-term value. Conversely, when organizations are guided by a well-defined strategic vision, innovation becomes more focused, market-relevant, and resilient to external shifts.

However, the analysis also shows that strategic innovation does not significantly impact bank performance (β = –0.129; t = 0.776; p = 0.438), leading to the rejection of Hypothesis H6. The negative but weak path coefficient and non-significant p-value indicate that, within the BPR sector, innovation strategies have not yet emerged as a significant driver of improved performance.

This result contrasts with prior studies (Ko, O'Neill & Xie, 2021; Mulaa & Kilika, 2021; Alosani et al., 2019; Pisano, 2015; Song et al., 2021), which suggest that innovation combined with strategic planning enhances organizational outcomes. Nevertheless, this study contributes novel insights by focusing on collaborative innovation indicators and examining both financial and non-financial performance metrics in an empirically underexplored BPR context.

This finding suggests that strategic vision alone is insufficient it must be operationalized through specialized human capital. This aligns with the concept of strategic alignment, which posits that organizational performance improves when business strategies and HR capabilities are mutually reinforcing. In this case, HR specialization functions as a bridge that converts abstract strategic intent into concrete outcomes, thereby enhancing overall performance.

Conversely, strategic innovation does not mediate the relationship between strategic intent and performance. The indirect effect (β = 0.256; t = 0.256; p = 0.798) is statistically insignificant, resulting in the rejection of Hypothesis H7. These results suggest that strategic innovation does not strengthen the influence of strategic intent on performance in a statistically meaningful way.

From a managerial perspective, this study reinforces the significance of strategic intent as a key determinant of BPR performance. The empirical findings confirm that long-term strategic direction and clarity hallmarks of strong strategic intent—positively influence organizational outcomes. In a highly regulated and competitive environment such as the BPR sector, clear strategic guidance is essential for achieving sustainable performance.

Additionally, the results show that strategic intent significantly drives the formation of innovation strategies. However, the lack of a significant relationship between strategic innovation and performance indicates that innovation efforts in BPRs may lack direction, coherence, or sufficient internal support. This implies that innovation initiatives that are not backed by organizational readiness—such as competent human resources and adequate digital infrastructure—are unlikely to yield meaningful results. Thus, innovation development in BPRs must be approached systematically and contextually, rather than simply following broader digital transformation trends.

Meanwhile, the mediating role of strategic innovation was not supported, which suggests that, despite its theoretical appeal, innovation has yet to make a meaningful contribution to performance outcomes in the BPR sector. This could be attributed to limited innovation capacity, insufficient resources, or contextual barriers such as market conservatism and technology adoption constraints.

Policy and Regulatory Implications (OJK and Stakeholders). From a regulatory perspective, especially for the Indonesian Financial Services Authority (OJK), the findings of this study provide empirical support for the strategic priorities outlined in the OJK Roadmap 2024–2027, which emphasizes the importance of HR development as a core pillar of BPR transformation.

Given that HR specialization contributes more significantly to performance than innovation in the current BPR landscape, regulators should consider the following strategic actions: (a) Facilitate competency-based training and certification programs to strengthen HR specialization across BPRs; (b) Encourage contextually relevant innovation, taking into account digital readiness, organizational structure, and local market needs, (c) Promote strategic alignment between business planning and HR development, ensuring that innovation

and digital transformation are supported by internal capabilities, and (d) Support capacity-building initiatives that empower rural banks to design and implement innovation with measurable outcomes, rather than relying on one-size-fits-all technology adoption.
In conclusion, the study highlights that strategic direction and HR readiness are key enablers of performance in rural banks, while innovation strategies require more targeted development before they can contribute effectively to improving competitiveness within the sector.

## 5. CONCLUSION

This study aimed to examine the impact of strategic intent on bank performance, with strategic innovation positioned as a mediating variable. The findings confirm that strategic intent has a significant and positive effect on bank performance, reaffirming the importance of long-term vision and strategic direction in shaping organizational outcomes. This result aligns with the *resource-based view* (RBV), which emphasizes intangible assets—such as leadership vision and goal clarity—as key sources of sustainable competitive advantage.
However, the analysis also reveals that strategic innovation does not function as a statistically significant mediator between strategic intent and bank performance. This is evidenced by the low t-statistic and high p-value, which led to the rejection of the mediation hypothesis (H4), as well as the direct effect of strategic innovation on performance (H3). According to Sekaran and Bougie (2016), such results indicate the absence of a meaningful mediating effect. Theoretically, this outcome may be explained by the concept of "innovation–performance misalignment" (Tidd & Bessant, 2013), which describes a situation where innovation efforts fail to align with organizational structure or market needs. In the context of rural banks (*BPR*) in Indonesia, many innovation initiatives—such as digital product development or system upgrades—are modeled after commercial banks without contextual adaptation to their unique customer base, which tends to be more conservative and relationship-oriented. The strategic innovation construct in this study encompassed several indicators, including product and service innovation (e.g., technical specifications, data security, accessibility), core banking system development, new marketing approaches (e.g., personalization, digitalization), and strategic partnerships. While these elements are aligned with modernization goals, their implementation often requires longer time frames and internal readiness. A key barrier remains the lack of dynamic capabilities (Teece, 1997), such as the ability to learn, adapt, and reconfigure resources. Without these foundational capabilities, innovation does not translate effectively into improved organizational performance.
Moreover, bank performance was measured using both financial and non-financial indicators, yet innovation-related benefits often emerge in the medium to long term. Thus, the timing of data collection may have constrained the visibility of innovation's full impact. Additionally, strict regulatory oversight by OJK (Indonesia's Financial Services Authority), particularly in approving new digital services, limits the speed and flexibility of innovation deployment, further weakening its short-term performance outcomes.
In summary, the study concludes that strategic innovation has not played an effective mediating role between strategic intent and performance within the BPR context. This underscores that a clear strategic direction alone does not automatically enhance innovation effectiveness—nor does innovation necessarily lead to improved performance—unless it is supported by internal readiness, particularly in human resources, digital infrastructure, and contextual market understanding.

**Limitations of the Study**

Several limitations must be acknowledged:

1. **Cross-sectional design**: Data were collected at a single point in time, which limits the ability to capture long-term innovation effects or performance changes over time.
2. **Industry and geographic scope**: The study focused exclusively on rural banks (BPR) in Indonesia. As such, findings may not be generalizable to commercial banks or to institutions in different regulatory or economic environments.
3. **Measurement limitations**: While innovation was assessed through multiple strategic indicators, other dimensions such as innovation culture, organizational learning, or customer involvement were not explicitly captured.
4. **Unobserved external factors**: The study did not directly control for macroeconomic conditions, policy changes, or industry-wide shocks that may influence both innovation and performance.

**Theoretical Contribution**

This study offers a critical reflection on the **traditional mediation model**, which often assumes that innovation universally enhances the relationship between strategy and performance. The findings challenge this assumption and suggest the need for more context-sensitive frameworks. One potential conceptual contribution is the proposed: Strategic Intent–Contextual Innovation Fit Model whhich posits that innovation only serves as an effective mediator when it is aligned with dynamic capabilities, workforce readiness, and the specific demands of the target market.

**Managerial and Regulatory Implications**

For bank managers, the results imply that innovation investments must be aligned with internal capabilities. Without foundational readiness—particularly in human capital and digital infrastructure—innovation efforts may result in isolated initiatives with limited impact. A capability-first approach is recommended before pursuing innovation-driven transformation. For regulators such as OJK, the findings support the emphasis in the OJK Roadmap 2024–2027 on strengthening human capital and institutional readiness. Policy interventions should not only encourage innovation adoption but also facilitate capacity building, particularly in resource-constrained institutions like BPRs. Additionally, regulatory flexibility is necessary to accommodate innovation timelines and allow for agile experimentation without compromising financial stability or consumer protection.

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