

# Does Strategic Leadership Impact Competitive Advantage, Mediated by Diversification Strategy In the Manufacturing Industry?

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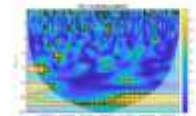


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# Does Strategic Leadership Impact Competitive Advantage, Mediated by Diversification Strategy In the Manufacturing Industry?

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## Abstract

The goal of this research is to conduct an analysis of the mediating role of diversification strategy in increasing competitive advantage, as well as the impact of strategic leadership, in the manufacturing industry located at Riau Island region, Indonesia, categorized as medium, large and export-oriented companies listed in the Riau Island's Central Statistical Office 2021 directory.

The method applied is quantitative research with Structural Equation Modelling (SEM) to test the hypothesis. Primary data were collected by sending questionnaires to 210 respondents as the representative of the manufacturing industry, by using purposive sampling, which was then analyzed using AMOS software.

The study's findings indicate that diversification strategy can operate as a significant and positive mediator in strategic leadership to achieve a competitive advantage, despite the fact that the direct effect test of the diversification strategy variable has no influence on competitive advantage. It may investigate adding other exogenous variables or applying dimensions such as cross-cultural leadership with a fixed population sample in the manufacturing industry, outside Riau Island, or in other countries for future research.

**Keywords:** strategic leadership, diversification strategy, competitive advantage, manufacturing industry

## Introduction

Industrial developments in general, always experience dynamics, starting from the impact of the global economy, product competition, and those related to the company's internal organization, and according to *The Global Risk Report 2022, World Economic Forum*, in the short term, there are many issues related to the environment and social life, while related to the economy in corporate competition, there has been an increase in debt on a global scale in large countries, nationally up to the company level. This deteriorating condition will have an impact on companies that are no longer able to gain a competitive advantage.

The above conditions and situations urge company leaders must be responsive in dealing with times of crisis, such as the condition of the covid 19 pandemic, strategic leadership is needed so that the company's business continuity is maintained (Mahdi & Almsafir, 2014) and remains superior with client-oriented (Varelas & Apostolopoulos, 2020). The characteristics needed by a company leader are the courage to take risks, but still pay attention to the compensation they receive (Benischke et al., 2019). The role of company leaders is very dominant in increasing competitive advantage, for example in the insurance industry, which emphasizes the importance of strengthening the company's strategic direction, vision and mission (Banmore et al., 2019).

In relation to other strategic leadership (Hunitie, 2018) with a sample of respondents at 3 government hospitals in Jordan it shows that strategic leadership has a positive effect on *competitive advantage*, which is mediated by *strategic planning* and *strategic thinking*. In this study, in general the concept of strategic management can be understood that there is a significant influence between strategic leadership and *competitive advantage*, so that for the development of theory and research, it is necessary to test it with the addition of other variables, in this case researcher intend to test it by looking at and analyzing the mediating role of diversification strategy.

Strategic efforts that can be made by companies to increase competitiveness are by diversifying, by implementing *related* or *unrelated diversification* (Oladimeji & Udosen, 2019). Diversification strategy is an important strategy by maximizing existing resources inside and outside the company. Many manufacturers were unable to get up because the product research and development process was not running optimally. Diversification has a dominant impact on increasing competitive advantage (Sihite, 2018) .but research needs to be continued in the industrial sector *automation system*. In the banking sector, the diversification strategy has an important role in increasing competitive advantage (Wanjiru & Nzulwa, 2018). Diversification in assets and portfolios in this study proves that a diversification strategy is needed, but diversification in other variables still needs to be increased. Previous studies have not discussed much about the role of diversification strategy, especially as a mediating variable, in influencing strategic leadership to maintain competitive advantage. This research only focuses on the variables described above, excluding discussion of marketing strategies and related issues *return on Investment* as well as *Return on Asset* in relation to organizational performance.

## **Literature Review**

### **Strategic Leadership**

According to (Hitt et al., 2017) strategic leadership is the ability to anticipate, have a vision, maintain flexibility and empower existing resources in creating strategic changes when changes are needed. Strategic leadership must be able to manage human resources, manage the entire organization, not just the functions of each sub unit and overcome any changes that will always develop in the global economy.

Strategic leadership in the 21st century era, focuses on building resources and capabilities with an emphasis on *intangible human capital* and *social capital* (Hitt & Duane, 2002). Both make a significant contribution to achieving competitive advantage. Leaders must be able to effectively manage resources, evaluate and make changes related to internal and external companies.

The main responsibility for strategic leadership lies with the CEO, but sometimes the CEO is unable to delegate responsibility to departmental managers. All managers must function strategically, formulating and implementing business and corporate level strategies ( Hitt et al., 2017) Global leaders must be able to develop talent and awaken the potential of human resources, organizations and communities to be successful in VUCA conditions. Critical abilities are the essence of the Global Leadership Theory.

Competitive advantage is the result of the work of the CEO as a leader and contributions from members in the corporate community, so that companies can still compete globally (Hitt et al., 2016). There are 6 components of strategic leadership: *Determining strategic direction, Exploiting and maintaining core competencies, Developed human capital, Sustaining and effective corporate culture, Emphasizing ethical practice dan Establishing strategic control*. These components were tested by (Hagen et al., 1998) and concluded that the intended component is the most critical for *corporate strategic leadership*, Where *strategic control* greatly affect the other five components. They emphasized that establishment *human capital* and maintain *core competency* company, is an important part of the 21st century.

Refer to school of thought, strategic leadership has developed from theory *upper echelon* developed by (Hambrick & Mason, 1984) into a study that is not only an instrument that has an impact on the expected results in an organization, but also a symbol and social construction of *Top Executive* (Hambrick & Pettigre, 2001). They argue that there is a difference between leadership theory and strategic leadership theory. Leadership theory is a leader in every position in an organization while strategic leadership theory is more of a study of top management in an organization. Leadership research focuses more on the relationship between leaders and followers.

### **Diversification Strategy**

Diversification strategy was introduced by (Ansoff, 1957) with classical theory *growth strategy matrix*, which in implementation requires similarities between strategy and thinking from the leadership. This theory was cited by (Hussain et al., 2013), and concluded that for the food industry, this strategy can be implemented, but for the diversification strategy it has a greater risk, because new products are introduced to new markets.

A diversification strategy in strategic management is needed in an effort to increase the company's competitiveness, so that it can excel for long term basis. Previous research was examined by testing that diversification affects organizational performance by classifying diversification into *related* and *unrelated diversification* with samples taken at companies in Istanbul (Anil & Yiğit, 2011).

Generally, diversification is carried out by developing from the main business, so as to reduce the company's risk of long-term losses. Investigations in the form of research have been applied and many companies have failed to diversify (Rijamampianina et al., 2003).

### Competitive Advantage

Barney & Hesterly (2008) explains there are 2 types of *sustainable competitive advantage*, namely *temporary and sustainable competitive advantage*. *Competitive advantage* usually generate high profits, in competition and usually the time is temporary, while some others, *competitive advantages* continuous (*sustainable*) if competitors are unable to imitate the competence/resources owned by the company.

Competitive advantage is the ability of an organization to gain an advantage over other competitors. The strategy that is formulated and implemented cannot be imitated by other competitors, or can be imitated at a high cost (Hitt et al., 2017).

The research was conducted (Mahdi & Almsafir, 2014) by sampling private universities in Iraq, with the results of the research: strategic leadership has a significant positive effect on *sustainable competitive advantage*. The research also concluded that building *human capital* and *social capital* showed a significant effect on *sustainable competitive advantage*.

Previous research was also carried out by (Hunitie, 2018) with a sample of government hospital respondents in Jordan. The research results show that strategic leadership has a positive effect on *competitive advantage*, mediated by *strategic planning* and *strategic thinking*.

Another study was conducted by (Wibisono & Tarigan, 2016) with a sample of non-manufacturing company respondents in Surabaya, with the result that strategic leadership had a significant positive effect on *competitive advantage*.

(Najmi et al., 2018) conducted research with results showing that strategic leadership greatly influences competitive advantage. Testing and analysis is carried out in several industrial sectors, including hospitals.

### Conceptual Framework

Previous studies have explained that diversification strategy is an important factor in increasing competitive advantage, but as a mediating variable, there has not been much discussion, as well as the role of strategic leadership in competitive advantage which is mediated by diversification strategy. For this reason, a conceptual framework was formulated as a reference in this study, illustrated below:

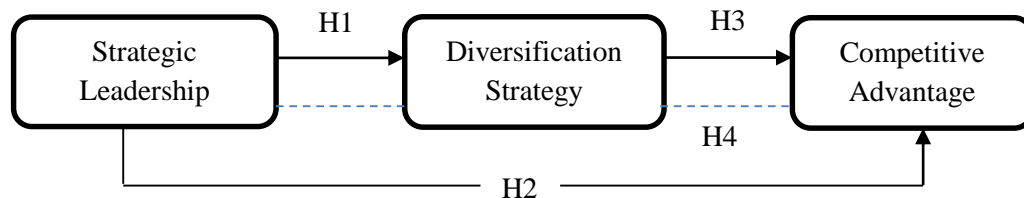


Figure 1 Conceptual Framework

### Hypothesis Development

The role of the leader in an organization must be sensitive to the dynamics of the external environment to observe and evaluate the strategies used. Research (Scheepers & Maher, 2019) concluded that the role of leadership in an organization is very important and influences the success of diversification. The ability of leaders not to be rigid in maintaining strategy, and must use the available information to develop diversification. From this explanation, the hypothesis is formulated as follows:

## **H1: Strategic leadership has a positive impact to diversification strategy.**

Competition in the university has attracted attention (Mahdi et al., 2021) to see the effect of strategic leadership on competitive advantage. The results of the study prove that there is a significant relationship and influence of strategic leadership on competitive advantage. Universities must always improve their human capital and social capital to remain superior in competition. The same research and results were also conducted (Wibisono & Tarigan, 2016) in non-manufacturing industries in Surabaya. Research Ojokuku et al. (2012) explained that leadership style has a strong relationship with organizational performance, and organizational performance is also very strongly related to competitive advantage. (Mahdi & Almsafir, 2014) in their research also stated that sustainable competitive advantage can be increased by implementing strategic leadership. From previous research, the hypothesis is formulated as follows:

## **H2: Strategic leadership has a positive impact on competitive advantage.**

In increasing business competition, diversification strategy is taken as a strategic step, especially in increasing product diversification. Research was conducted by (Chen et al., 2014) in Cihina's listed manufacturing with the result that diversification of related products (related diversification) increasing performance in international competition, but has no effect as a moderator for unrelated diversified products (unrelated diversification). Another study was conducted by (Chan et al., 2019) with sampling of companies listed on the Malaysia Exchange, concluded that companies implementing diversification are superior and perform well compared to those that do not have diversification. Researchers recommend a diversification strategy (related / unrelated) must be focused (dominant), not too broad (broad), to get a competitive advantage. A comparison of the implementation of the diversification strategy done by (Jeong, 2003), comparing 179 American companies with 250 Chinese companies with the result that American companies are better at increasing the performance of new products in international markets compared to Chinese companies. However, firm size also affects new product performance for Chinese firms. From this research, the hypothesis is formulated as follows:

## **H3: Diversification strategy has a positive impact on competitive advantage.**

The novelty in this study is to develop strategic management theory by formulating diversification strategy as mediating variable in the influence of strategic leadership on competitive advantage. Research was conducted in the banking sector (Bátiz-Lazo & Wood, 2003) to see the influence of leadership on the decision to implement diversification, and the need for strategic planning so as to gain competitive advantage. From the results of the study, that management or leaders are influential in making diversification decisions in the banking market. Administrative control through strategic objectives and financial goal appropriate, helping the banking sector to grow and gain wider opportunities. Growth in question, measured by the existence of diversification and position in the market share (market positioning) so as to be able to respond to external innovations, particularly regulatory changes and technological developments.

Not many previous studies have been found using this conceptual framework, so it is necessary to conduct research on the manufacturing industry. The hypothesis can be formulated as follows:

## **H4: Strategic leadership has an impact to competitive advantage with the mediating role of diversification strategy.**

### **Research Method**

This research is a descriptive and quantitative research that is objective by collecting data and analyzed and testing it statistically. The deductive method is used to test existing theories in different industries. The correlational type quantitative method is carried out by testing hypotheses to determine the relationship between the variables used in this study (Sekaran & Bougie, 2016)

#### *Population and Sample*

The population used as the object of research is the manufacturing industry based on (BPS Propinsi Kepulauan Riau, 2021), in the large and medium categories in the Riau Island Province, Indonesia. Large category industries are companies that have more than 20 workers with an investment value of more than Rp. 15 billion, while the medium category industry is a company that has more than 20 workers, with an investment value of less than 15 billion or has less than 20 workers with an investment of more than Rp. 1 billion (Ministry of Industry Decree No. 64, 2016).

The sample determination method used is purposive sampling, with unit of analysis is CEOs, Directors, GMs, Factory Heads and Managers who occupy strategic positions in the company, with a minimum working period of 5 years. Target respondents are 100 export-oriented companies, with large and medium scale, with representatives of at least 2 respondents per company. Researchers tested the data using SEM with software AMOS, and based on previous research (Kline, 2012), the required sample is 200 respondents. For testing and data processing, researchers used 210 respondents.

*Measurement*

In this study, each variable is measured based on instrument conducted in previous studies. Competitive advantage using indicators from references (Adegelu, 2012). Strategic leadership is measured by indicators from (Lear, 2012), while diversification strategy as mediating variable is measured using indicators from (Adegelu, 2012) and (Capușneanu et al., 2021). Data was collected from primary data by using questionnaire with Likert scale (Scale 1-5), 1 = Strongly Disagree, 2 = Disagree, 3 = Disagree, 4 = Agree, and 5 = Strongly Agree. Questionnaire distribution methods were carried out in 2 ways, visiting directly and using surveys online (G-Form) e-mail or WhatsApp application.

**Result**

The variables analyzed in this study are reflective model, so it is recommended to apply AMOS software (Hair et al., 2016). This research adopts two step approach method (Anderson & Gerbing, 1988), where the test results from primary data obtained and processed with AMOS software, are divided into two parts: statistical test results, measurement model test /Confirmatory Factor Analysis (CFA), including normality tests, and structural model tests to see the direct and indirect effects or the mediating role of the variables discussed in this study.

*Normality Test Results*

Primary data obtained from downloads Google form, processed and ensure the data is normally distributed by conducting a normality test. After following the initial process of running AMOS, by first describing the path diagram, and importing data as a test basis, from the results of data processing, and according to (Byrne, 2020), the testing process can use the bootstrapping method with Bollen-Stine, so that the data obtained can still be processed and normally distributed without having to discard it outlier. After running the method bootstrapping, results obtained p-value 0.064 (> 0.05), and it confirmed as normal.

*Measurement Model Test Results /Confirmatory Factor Analysis (CFA)*

In this study, the exogenous variable is strategic leadership and the mediating variable is diversification strategy and endogenous variable is competitive advantage. After running two tests, the measurement items are declared valid, with standard estimated values Loading Factor (SLF) is above 0.5 and then proceed with the reliability test manually, with two tests, where the value Construct Reliability (CR) >0.70 and Variance Extracted (AVE) >0.50, with the following result:

**Tabel 1 : Validity and Reliability Test Result**

Indicators	SLF (Validity)	CR Calculated	AVE Calculated
SL_2 It is my responsibility to optimize and maintain the core competencies of the company.	0,767		
SL_4	0,863	0,87	0,70

I am capable of sustaining an effective corporate culture.			
SL_6 In the company's operations, I am able to establish strategic control.	0,861		
SD_1 Company always need to spread risk – risk aversion.	0,638		
SD_4 Company need to engage unutilized resources: human, technical and financial.	0,843		

Indicators	SLF (Validity)	CR Calculated	AVE Calculated
SD_5 Company attracted to more profitable businesses.	0,790		
SD_7 Company need to improve stability of the company's operation.	0,800	0,86	0,60
CA_1 Brands have excellent customer recognition.	0,847		
CA_2 Product has a strong reputation for quality.	0,851		
CA_5 Company has strong, long-term relationships directly with each of customer.	0,838		
CA_6 Company is delivering the right quantity with the right quality at the right time.	0,903	0,92	0,74

Strategic leadership variables are measured by 3 indicators, namely SL\_2, SL\_4 and SL\_6 with highest value LF is SL\_4: "I am capable of sustaining an effective corporate culture." that is equal to 0.863, meaning that this indicator is the clearest to represent the measurement of strategic leadership variables.

The diversification strategy variable used 4 indicators namely SD\_1, SD\_4, SD\_5 and SD\_7 with highest value is SD\_4: "Company need to engage unutilized resources: human, technical and financial.", which is equal to 0.843. This indicator is the most representative for measuring a diversification strategy, based on responses from respondents.

The competitive advantage variable is an important part of this study, because it is an endogenous variable, which is influenced by the variables discussed and tested for its effect. This variable is measured using the indicators CA\_1, CA\_2, CA\_5 and CA\_6, with highest values is CA\_6: "Company is delivering the right quantity with the right quality at the right time" of 0.903. Thus, this indicator is the clearest way to see measurements of competitive advantage, with reference to respondents' responses to the questionnaire.

For the reliability test, the recapitulation results can be seen in the table above, show that all indicators are reliable/consistent for measuring each variable with CR and AVE above the reference value. Strategic leadership indicator contains 70% explaining the variable, diversification strategy 60% and competitive advantage 74% elements that contain variables that are measured.

#### *Evaluation of Measurement Models*



After all the tests have been conducted, the final part of the CFA test is to determine whether the model made is good and feasible (*Model Fit*). From the test, the following results were obtained:

**Table 2 : Model Fit Result**

<i>GOF Index</i>	Reference Values	Result
Significance Probability	$\geq 0,05$	0,138
RMSEA	$\leq 0,08$	0,025
GFI	$\geq 0,90$	0,928
AGFI	$\geq 0,90$	0,902
CMIN/DF	$\leq 2,00$	1,31
TLI	$\geq 0,95$	0,994
CFI	$\geq 0,95$	0,995

Based on table above, the measurement model meets the requirements and is feasible with all test results above the reference value, so that the structural model test can be continued as a process of testing and analyzing hypotheses in this study.

*Structural Model Test Results (Direct Effect Hypothesis)*

Based on the estimated value of the structural model, the data is obtained as written in the following table which consists of the estimated value to show a positive or negative effect, value *Critical Ratio (CR)* with a reference value of 1.96 and value *p-value* with a reference value of 0.05 to indicate the significance between variables.

**Table 3 : Test Results of Direct Effect Hypothesis**

Hypothesis		Estimated	C.R	<i>p-value</i>	Result
Diversification Strategy	← Strategic Leadership (H1)	-0,090	-0,761	0,447	Not supported
Competitive Advantage	← Strategic Leadership (H2)	0,077	0,522	0,602	Not supported
Competitive Advantage	← Diversification Strategy (H3)	-0,068	-0,287	0,774	Not supported

Based on the results shown in table 3 above, hypotheses tested for direct influence between related variables, those 3 hypotheses are not supported. Strategic leadership has no effect on diversification strategy with  $CR\ 0.76 < 1.96$  and  $p\text{-value}\ 0.45 > 0.05$ , strategic leadership has no impact to competitive advantage with  $CR\ 0.52 < 1.96$  and  $p\text{-value}\ 0.60 > 0.05$ , and diversification strategy has no impact to competitive advantage with  $CR\ 0.29 < 1.96$  and  $p\text{-value}\ 0.77 > 0.05$ .

*Indirect Effect Hypothesis Test Results (Mediation)*

The results of the indirect or mediation test were examined to determine the effect of the role of the diversification strategy as a mediator between the variables of strategic leadership on competitive advantage. From the test results, data is obtained as shown in table 4 below:

**Table 4 : Indirect Effect Hypothesis Test Results (Mediation)**

Hypothesis	Path Value	<i>p-value</i>	Result
Strategic Leadership → Diversification Strategy → Competitive Advantage (H4)	0,70	0,04	Supported

Diversification strategy plays a significant and positive role as a mediation for strategic leadership variables with  $p\text{-value}\ 0,04 < 0,05$ .

## Discussion of Research Results

The development of the manufacturing industry is very dynamic and there is intense competition both nationally and globally. As explained, it is necessary to maintain the investment climate for the manufacturing industry because it makes a significant contribution to the Indonesian economy (Ministry of Industry, 2021). Researchers have conducted hypothesis testing to answer research problems, and referring to the test results as shown in tables above, the researcher describes all research results as follows:

**Hypothesis 1:** Strategic leadership has a positive impact to diversification strategy.

The hypothesis test result was not supported, where strategic leadership has no effect on the diversification strategy. Even though in previous research that has been described in the hypothesis formulation section that there is an influence (Scheepers & Maher, 2019), it is not proven for the manufacturing industry. Practically this is rational because in the manufacturing industry there are *Research and Development (R&D)* department which conduct analysis and design new products (diversification), so that the role of the company leadership is not a problem, because the *R&D* team have been able to carry out the work in accordance with what has been determined to realize the company's vision in increasing competitive advantage. In the manufacturing industry, company leaders come from *Home Country* sometimes experiencing problems in terms of communication with local employees. In the respondents, there are foreign nationals who use English and their mother tongue in their daily lives (*Mandarin/Chinese*), so that the role of corporate leadership is not a strong influence in terms of diversification, when *person in-charged* already mastered and expert on their field. Although the use of foreign employees are permissible, there must be an element of *transfer knowledge* so that local employees are able to handle those duties held by foreign employees within the time determined by the laws and regulations.

Respondent data were dominated by the position of HR Manager who has a role and function in human resource management (HR), so it is not too influential in product diversification activities in the manufacturing industry. However, solid communication and coordination are needed to support the company's operational activities as a whole.

**Hypothesis 2:** Strategic leadership has a positive impact to competitive advantage.

The hypothesis test result was not supported. There is no significant influence between strategic leadership and competitive advantage. It does not apply to the manufacturing industry, because each company understands its roles and functions well. So that the role of the company's leadership is more to the function of monitoring and implementation of company operations. This result contradicts with previous research which states that the role of leadership has a significant influence on competitive advantage, even though most of the tests were carried out in non-manufacturing sector. The results of this study contradict with previous research, where strategic leadership has an important role in increasing competitive advantage (Mahdi et al., 2021), (Wibisono & Tarigan, 2016), Ojokuku et al. (2012), (Mahdi & Almsafir, 2014). This contradiction may be reasonable because the respondents were dominated by *HR Manager*, where not all manufacturing industries have implemented HR functions as *business partner (HR-BP)*. In the manufacturing industry, some HR functions are still focusing on administrator, in addition to other functions as a facilitator and mediator within the company (Fatyandri & Muchsinati, 2014).

**Hypothesis 3:** Diversification strategy has a positive impact to competitive advantage.

The results of the hypothesis testing were not supported and indicate that the diversification strategy has no effect on competitive advantage, especially in the manufacturing industry located in the Riau Archipelago, Indonesia. One of the practical conditions, the Dutch company that produces irons, do diversify by making products for health. This company is leading the competition in the market. The tendency of the manufacturing industry still seems not to be fast in diversifying, because some industries only carry out activities such as *assembly or sub assembly* and depending on the order from the customer. The results of this study contradict with previous studies (Chen et al., 2014), (Chan et al., 2019), (Jeong, 2003), where in this study recommended that diversification be carried out in a focused or dominant diversification, both for *related or unrelated diversification*.

**Hypothesis 4:** Strategic leadership has an impact to competitive advantage with the mediating role of diversification strategy.

The results of hypothesis testing are supported although the direct relationship between those variables have no effect. Diversification strategy as a mediating role, make strategic leadership becomes significant and has a positive impact to competitive advantage. The ability of company's leaders to maintain and optimize the company's main competencies is a great opportunity to execute diversification strategy, with the ultimate goal of gaining competitive advantage. There were not much research has discussed and analyzed the mediating role of diversification strategy, the results of this study can add to theoretical studies that previously had the same research results but were conducted in the banking industry (Bátiz-Lazo & Wood, 2003).

Refer to research result above, strategic leadership influences competitive advantage by mediating diversification strategies, playing a greater role in strengthening internal resources in the development of existing products or in the design and creation of new products. Previous studies partially support the results of this study, and can still be developed for further research using different indicators.

### **Conclusion**

This research focuses on the manufacturing industry by proving that the diversification strategy can play a role as a mediation in increasing the company's competitive advantage, with the strategic leadership variable, although the direct relationship between variables does not have a significant and positive effect. In previous research, it focused more on service and non-manufacturing industries, so that the research results can be used as reference material for theory development.

The research was conducted only on manufacturing industries located in the Riau Archipelago, Indonesia and not including other areas that have Industrial Estates which consist of medium and large and export-oriented companies.

Diversification strategy is proven to act as a mediation in the effect of strategic leadership on competitive advantage. The conceptual model can be used as a reference by combining other strategic variables, so that the theory development becomes sharper and deeper. Diversification strategy *grand theory* Ansoff (1957), classical theory *growth strategy matrix*, have greater risk, because new products are introduced to new markets. However, by choosing the right variable as an exogenous variable, it will give good results, such as strategic leadership variable, when mediated by diversification strategy variables, have a positive impact on competitive advantage.

The role of the leader is not only to provide routine directions but also requires thought and planning as well as ideas or *blueprint* to create innovations with competitive diversification to maintain a sustainable competitive advantage. Quick and precise decision-making under normal and critical conditions as well as the ability to empower and motivate internal employees is an important role for company's leaders.

### **Recommendation**

For further research, the conceptual framework can be expanded by adding other exogenous variables, or expanding variables by using dimensions, such as Human Capital, Social Capital in increasing competitive advantage. Industry 4.0 innovation and involvement can be used as a variable to see industry support in using technology in developing its business. *Cross Cultural Leadership*, can be used as an interesting variable, especially in the manufacturing industry, because generally factory heads/leaders are assigned from countries of origin that have interesting or potential for research, which has not been successfully implemented in this study.

Research object can be expanded to Industrial Areas that are outside the Riau Archipelago, or in other countries and increase the sample size to become larger. The manufacturing industry is still recommended to

be used as an object of research considering that the manufacturing industry makes a major contribution to increasing economic growth.

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# Does Strategic Leadership Impact Competitive Advantage, Mediated by Diversification Strategy In the Manufacturing Industry?

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## Does Strategic Leadership Impact Competitive Advantage, Mediated by Diversification Strategy In the Manufacturing Industry?

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### Abstract

The goal of this research is to conduct an analysis of the mediating role of diversification strategy in increasing competitive advantage, as well as the impact of strategic leadership, in the manufacturing industry located at Riau Island region, Indonesia, categorized as medium, large and export-oriented companies listed in the Riau Island's Central Statistical Office 2021 directory.

The method applied is quantitative research with Structural Equation Modelling (SEM) to test the hypothesis. Primary data were collected by sending questionnaires to 210 respondents as the representative of the manufacturing industry, by using purposive sampling, which was then analyzed using AMOS software.

The study's findings indicate that diversification strategy can operate as a significant and positive mediator in strategic leadership to achieve a competitive advantage, despite the fact that the direct effect test of the diversification strategy variable has no influence on competitive advantage. It may investigate adding other exogenous variables or applying dimensions such as cross-cultural leadership with a fixed population sample in the manufacturing industry, outside Riau Island, or in other countries for future research.

**Keywords:** strategic leadership, diversification strategy, competitive advantage, manufacturing industry

### Introduction

Industrial developments in general, always experience dynamics, starting from the impact of the global economy, product competition, and those related to the company's internal organization, and according to *The Global Risk Report 2022, World Economic Forum*, in the short term, there are many issues related to the environment and social life, while related to the economy in corporate competition, there has been an increase in debt on a global scale in large countries, nationally up to the company level. This deteriorating condition will have an impact on companies that are no longer able to gain a competitive advantage.

The above conditions and situations urge company leaders must be responsive in dealing with times of crisis, such as the condition of the covid 19 pandemic, strategic leadership is needed so that the company's business continuity is maintained (Mahdi & Almsafir, 2014) and remains superior with client-oriented (Varelas & Apostolopoulos, 2020). The characteristics needed by a company leader are the courage to take risks, but still pay attention to the compensation they receive (Benischke et al., 2019). The role of company leaders is very dominant in increasing competitive advantage, for example in the insurance industry, which emphasizes the importance of strengthening the company's strategic direction, vision and mission (Banmore et al., 2019).

In relation to other strategic leadership (Hunitie, 2018) with a sample of respondents at 3 government hospitals in Jordan it shows that strategic leadership has a positive effect on competitive advantage, which is mediated by strategic planning and strategic thinking. In this study, in general the concept of strategic management can be understood that there is a significant influence between strategic leadership and competitive advantage, so that for the development of theory and research, it is necessary to test it with the addition of other variables, in this case researcher intend to test it by looking at and analyzing the mediating role of diversification strategy.

Strategic efforts that can be made by companies to increase competitiveness are by diversifying, by implementing *related* or *unrelated diversification* (Oladimeji & Udosen, 2019). Diversification strategy is an important strategy by maximizing existing resources inside and outside the company. Many manufacturers were unable to get up because the product research and development process was not running optimally. Diversification has a dominant impact on increasing competitive advantage (Sihite, 2018). But research needs to be continued in the industrial sector *automation system*. In the banking sector, the diversification strategy has an important role in increasing competitive advantage (Wanjiru & Nzulwa, 2018). Diversification in assets and portfolios in this study proves that a diversification strategy is needed, but diversification in other variables still needs to be increased. Previous studies have not discussed much about the role of diversification strategy, especially as a mediating variable, in influencing strategic leadership to maintain competitive advantage. This research only focuses on the variables described above, excluding discussion of marketing strategies and related issues *return on Investment* as well as *Return on Asset* in relation to organizational performance.

## Literature Review

### Strategic Leadership

According to (Hitt et al., 2017) strategic leadership is the ability to anticipate, have a vision, maintain flexibility and empower existing resources in creating strategic changes when changes are needed. Strategic leadership must be able to manage human resources, manage the entire organization, not just the functions of each sub unit and overcome any changes that will always develop in the global economy.

Strategic leadership in the 21st century era, focuses on building resources and capabilities with an emphasis on *intangible human capital* and *social capital* (Hitt & Duane, 2002). Both make a significant contribution to achieving competitive advantage. Leaders must be able to effectively manage resources, evaluate and make changes related to internal and external companies.

The main responsibility for strategic leadership lies with the CEO, but sometimes the CEO is unable to delegate responsibility to departmental managers. All managers must function strategically, formulating and implementing business and corporate level strategies (Hitt et al., 2017) Global leaders must be able to develop talent and awaken the potential of human resources, organizations and communities to be successful in VUCA conditions. Critical abilities are the essence of the Global Leadership Theory.

Competitive advantage is the result of the work of the CEO as a leader and contributions from members in the corporate community, so that companies can still compete globally (Hitt et al., 2016). There are 6 components of strategic leadership: *Determining strategic direction, Exploiting and maintaining core competencies, Developed human capital, Sustaining and effective corporate culture, Emphasizing ethical practice dan Establishing strategic control*. These components were tested by (Hagen et al., 1998) and concluded that the intended component is the most critical for *corporate strategic leadership*, Where *strategic control* greatly affect the other five components. They emphasized that establishment *human capital* and maintain *core competency* company, is an important part of the 21st century.

Refer to school of thought, strategic leadership has developed from theory *upper echelon* developed by (Hambrick & Mason, 1984) into a study that is not only an instrument that has an impact on the expected results in an organization, but also a symbol and social construction of *Top Executive* (Hambrick & Pettigre, 2001). They argue that there is a difference between leadership theory and strategic leadership theory. Leadership theory is a leader in every position in an organization while strategic leadership theory is more of a study of top management in an organization. Leadership research focuses more on the relationship between leaders and followers.

### Diversification Strategy

Diversification strategy was introduced by (Ansoff, 1957) with classical theory *growth strategy matrix*, which in implementation requires similarities between strategy and thinking from the leadership. This theory was cited by (Hussain et al., 2013), and concluded that for the food industry, this strategy can be implemented, but for the diversification strategy it has a greater risk, because new products are introduced to new markets.



A diversification strategy in strategic management is needed in an effort to increase the company's competitiveness, so that it can excel for long term basis. Previous research was examined by testing that diversification affects organizational performance by classifying diversification into *related* and *unrelated diversification* with samples taken at companies in Istanbul (Anil & Yiğit, 2011).

Generally, diversification is carried out by developing from the main business, so as to reduce the company's risk of long-term losses. Investigations in the form of research have been applied and many companies have failed to diversify (Rijamampianina et al., 2003).

### Competitive Advantage

Barney & Hesterly (2008) explains there are 2 types of *sustainable competitive advantage*, namely *temporary and sustainable competitive advantage*. *Competitive advantage* usually generate high profits, in competition and usually the time is temporary, while some others, *competitive advantages* continuous (*sustainable*) if competitors are unable to imitate the competence/resources owned by the company.

Competitive advantage is the ability of an organization to gain an advantage over other competitors. The strategy that is formulated and implemented cannot be imitated by other competitors, or can be imitated at a high cost (Hitt et al., 2017).

The research was conducted (Mahdi & Almsafir, 2014) by sampling private universities in Iraq, with the results of the research: strategic leadership has a significant positive effect on *sustainable competitive advantage*. The research also concluded that building *human capital* and *social capital* showed a significant effect on *sustainable competitive advantage*.

Previous research was also carried out by (Hunitie, 2018) with a sample of government hospital respondents in Jordan. The research results show that strategic leadership has a positive effect on *competitive advantage*, mediated by *strategic planning* and *strategic thinking*.

Another study was conducted by (Ibisono & Tarigan, 2016) with a sample of non-manufacturing company respondents in Surabaya, with the result that strategic leadership had a significant positive effect on *competitive advantage*.

(Najmi et al., 2018) conducted research with results showing that strategic leadership greatly influences competitive advantage. Testing and analysis is carried out in several industrial sectors, including hospitals.

### Conceptual Framework

Previous studies have explained that diversification strategy is an important factor in increasing competitive advantage, but as a mediating variable, there has not been much discussion, as well as the role of strategic leadership in competitive advantage which is mediated by diversification strategy. For this reason, a conceptual framework was formulated as a reference in this study, illustrated below:

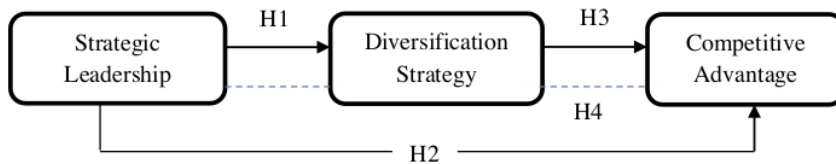


Figure 1 Conceptual Framework

### Hypothesis Development

The role of the leader in an organization must be sensitive to the dynamics of the external environment to observe and evaluate the strategies used. Research (Scheepers & Maher, 2019) concluded that the role of leadership in an organization is very important and influences the success of diversification. The ability of leaders not to be rigid in maintaining strategy, and must use the available information to develop diversification. From this explanation, the hypothesis is formulated as follows:

### **H1: Strategic leadership has a positive impact to diversification strategy.**

Competition in the university <sup>21</sup> attracted attention (Mahdi et al., 2021) to see the effect of strategic leadership on competitive advantage. <sup>36</sup> The results of the study prove that there is a significant relationship and influence of strategic leadership on competitive advantage. Universities must always improve their human capital and social capital to remain superior in competition. The same research and results were also conducted (Wibisono & Tarigan, 2016) in non-manufacturing industries in Surabaya. Research Ojokuku et al. (2012) explained that leadership style has a strong relationship with organizational performance, and organizational performance is also very strongly related to competitive advantage. (Mahdi & Almsafir, 2014) in their research also stated that sustainable competitive advantage can be increased by implementing strategic leadership. From previous research, the hypothesis is formulated as follows:

### **H2: Strategic leadership has a positive impact on competitive advantage.**

<sup>33</sup> In increasing business competition, diversification strategy is taken as a strategic step, especially in increasing product diversification. Research was conducted by (Chen et al., 2014) in Cihina's listed manufacturing with the result that diversification of related products (related diversification) increasing performance in international competition, but has no effect as a moderator for unrelated diversified products (unrelated diversification). Another study was conducted by (Chan et al., 2019) with sampling of companies listed on the Malaysia Exchange, concluded that companies implementing diversification are superior and perform well compared to those that do not have diversification. Researchers recommend a diversification strategy (related / unrelated) must be focused (dominant), not too broad (broad), to get a competitive advantage. A comparison of the implementation of the diversification strategy done by (Jeong, 2003), comparing 179 American <sup>19</sup> companies with 250 Chinese companies with the result that American companies are better at increasing the performance <sup>19</sup> of new products in international markets compared to Chinese companies. However, firm size also affects new product performance for Chinese firms. From this research, the hypothesis is formulated as follows:

### **H3: Diversification strategy has a positive impact on competitive advantage.**

The novelty in this <sup>3</sup> study is to develop strategic management theory by formulating diversification strategy as mediating variable in the influence of strategic leadership on competitive advantage. Research was conducted in the banking sector (Bá <sup>27</sup> Lazo & Wood, 2003) to see the influence of leadership on the decision to implement diversification, and the need for strategic planning so as to gain competitive advantage. From the results of the study, that management or leaders are influential in making diversification decisions in the banking market. Administrative control through strategic objectives and financial goal appropriate, helping the banking sector to grow and gain wider opportunities. Growth in question, measured by the existence of diversification and position in the market share (market positioning) so as to be able to respond to external innovations, particularly regulatory changes and technological developments.

Not many previous studies have been <sup>40</sup> found using this conceptual framework, so it is necessary to conduct research on the manufacturing industry. The hypothesis can be formulated as follows:

### **H4: Strategic leadership has an impact to competitive advantage with the mediating role of diversification strategy.**

#### **<sup>43</sup> Research Method**

This research is a descriptive and quantitative research that is objective by collecting data and analyzed and testing it statistically. The deductive method is used to test existing theories in different industries. The correlational type quantitative method is carried out by testing hypotheses to determine the relationship between the variables used in this study (Sekaran & Bougie, 2016)

#### *Population and Sample*

The population used as the object of research is the manufacturing industry based on (BPS Propinsi Kepulauan Riau, 2021), in the large and medium categories in the Riau Island Province, Indonesia. Large category industries are companies that have more than 20 workers with an investment value of more than Rp. 15 billion, while the medium category industry is a company that has more than 20 workers, with an investment value of less than 15 billion or has less than 20 workers with an investment of more than Rp. 1 billion (Ministry of Industry Decree No. 64, 2016).

The sample determination method used is purposive sampling, with unit of analysis is CEOs, Directors, GMs, Factory Heads and Managers who occupy strategic positions in the company, with a minimum working period of 5 years. Target respondents are 100 export-oriented companies, with large and medium scale, with representatives of at least 2 respondents per company. Researchers tested the data using SEM with software AMOS, and based on previous research (Kline, 2012), the required sample is 200 respondents. For testing and data processing, researchers used 210 respondents.

*Measurement*

In this study, each variable is measured based on instrument conducted in previous studies. Competitive advantage using indicators from references (Adegelu, 2012). Strategic leadership is measured by indicators from (Lear, 2012), while diversification strategy as mediating variable is measured using indicators from (Ade20u, 2012) and (Capuşneănu et al., 2021). Data was collected from primary data by using questionnaire with Likert scale (Scale 1-5), 1 = Strongly Disagree, 2 = Disagree, 3 = Disagree, 4 = Agree, and 5 = Strongly Agree. Questionnaire distribution methods were carried out in 2 ways, visiting directly and using surveys online (G-Form) e-mail or WhatsApp application.

**Result**

The variables analyzed in this study are reflective model, so it is recommended to apply AMOS software (Hair et al., 2016). This research adopts two step approach method (Anderson & Gerbing, 1988), where the test results from primary data obtained and processed with AMOS software, are divided into two parts: statistical test results, measurement model test /Confirmatory Factor Analysis (CFA), including normality tests, and structural model tests to see the direct and indirect effects or the mediating role of the variables discussed in this study.

*Normality Test Results*

Primary data obtained from downloads Google form, processed and ensure the data is normally distributed by conducting a normality test. After following the initial process of running AMOS, by first describing the path diagram, and importing data as a test basis, from the results of data processing, and according to (Byrne, 2020), the testing process can use the bootstrapping method with Bollen-Stine, so that the data obtained can still be processed and normally distributed without having to discard it outlier. After running the method bootstrapping, results obtained p-value 0.064 (> 0.05), and it confirmed as normal.

<sup>32</sup>  
*Measurement Model Test Results /Confirmatory Factor Analysis (CFA)*

In this study, the exogenous variable is strategic leadership and the mediating variable is diversification strategy and endogenous variable is competitive advantage. After running two tests, the measurement items are declared valid, with standard estimated values <sup>22</sup>ding Factor (SLF) is above 0.5 and then proceed with the reliability test manually, with two tests, where the value Construct Reliability (CR) >0.70 and Variance Extracted (AVE) >0.50, with the following result:

**Table 1 : Validity and Reliability Test Result**

Indicators	SLF (Validity)	CR Calculated	AVE Calculated
SL_2 It is my responsibility to optimize and maintain the core competencies of the company.	0,767		
SL_4	0,863	0,87	0,70

I am capable of sustaining an effective corporate culture.			
SL_6 In the company's operations, I am able to establish strategic control.	0,861		
SD_1 Company always need to spread risk – risk aversion.	0,638		
SD_4 Company need to engage unutilized resources: human, technical and financial.	0,843		

Indicators	SLF (Validity)	CR Calculated	AVE Calculated
SD_5 Company attracted to more profitable businesses.	0,790		
SD_7 Company need to improve stability of the company's operation.	0,800	0,86	0,60
A_1 Brands have excellent customer recognition.	0,847		
CA_2 Product has a strong reputation for quality.	0,851		
CA_5 Company has strong, long-term relationships directly with each of customer.	0,838		
CA_6 Company is delivering the right quantity with the right quality at the right time.	0,903	0,92	0,74

5 Strategic leadership variables are measured by 3 indicators, namely SL\_2, SL\_4 and SL\_6 with highest value LF is SL\_4: "I am capable of sustaining an effective corporate culture." that is equal to 0.863, meaning that this indicator is the clearest to represent the measurement of strategic leadership variables.

The diversification strategy variable used 4 indicators namely SD\_1, SD\_4, SD\_5 and SD\_7 with highest value is SD\_4: " Company need to engage unutilized resources: human, technical and financial.", which is equal to 0.843. This indicator is the most representative for measuring a diversification strategy, based on responses from respondents.

The competitive advantage variable is an important part of this study, because it is an endogenous variable, which is influenced by the variables discussed and tested for its effect. This variable is measured using the indicators CA\_1, CA\_2, CA\_5 and CA\_6, with highest values is CA\_6: " Company is delivering the right quantity with the right quality at the right time " of 0.903. Thus, this indicator is the clearest way to see measurements of competitive advantage, with reference to respondents' responses to the questionnaire.

For the reliability test, the recapitulation results can be seen in the table above, show that all indicators are reliable/consistent for measuring each variable with CR and AVE above the reference value. Strategic leadership indicator contains 70% explaining the variable, diversification strategy 60% and competitive advantage 74% elements that contain variables that are measured.

#### Evaluation of Measurement Models

After all the tests have been conducted, the final part of the CFA test is to determine whether the model made is good and feasible (*Model Fit*). From the test, the following results were obtained:

**Table 2 : Model Fit Result**

<i>GOF Index</i>	Reference Values	Result
Significance Probability	$\geq 0,05$	0,138
RMSEA	$\leq 0,08$	0,025
GFI	$\geq 0,90$	0,928
AGFI	$\geq 0,90$	0,902
CMIN/DF	$< 2,00$	1,31
TLI	$\geq 0,95$	0,994
CFI	$\geq 0,95$	0,995

Based on table above, the measurement model meets the requirements and is feasible with all test results above the reference value, so that the structural model test can be continued as a process of testing and analyzing hypotheses in this study.

*Structural Model Test Results (Direct Effect Hypothesis)*

Based on the estimated value of the structural model, the data is obtained as written in the following table which consists of the estimated value to show a positive or negative effect, value *Critical Ratio (CR)* with a reference value of 1.96 and value *p-value* with a reference value of 0.05 to indicate the significance between variables.

**Table 3 : Test Results of Direct Effect Hypothesis**

Hypothesis		Estimated	C.R	<i>p-value</i>	Result
Diversification Strategy	← Strategic Leadership (H1)	-0,090	-0,761	0,447	Not supported
Competitive Advantage	← Strategic Leadership (H2)	0,077	0,522	0,602	Not supported
Competitive Advantage	← Diversification Strategy (H3)	-0,068	-0,287	0,774	Not supported

Based on the results shown in table 3 above, hypotheses tested for direct influence between related variables, those 3 hypotheses are not supported. Strategic leadership has no effect on diversification strategy with CR 0.76 < 1.96 and *p-value* 0.45 > 0.05, strategic leadership has no impact to competitive advantage with CR 0.52 < 1.96 and *p-value* 0.60 > 0.05, and diversification strategy has no impact to competitive advantage with CR 0.29 < 1.96 and *p-value* 0,77 > 0,05.

*Indirect Effect Hypothesis Test Results (Mediation)*

The results of the indirect or mediation test are examined to determine the effect of the role of the diversification strategy as a mediator between the variables of strategic leadership on competitive advantage. From the test results, data is obtained as shown in table 4 below:

**Table 4 : Indirect Effect Hypothesis Test Results (Mediation)**

Hypothesis	Path Value	<i>p-value</i>	Result
Strategic Leadership → Diversification Strategy → Competitive Advantage (H4)	0,70	0,04	Supported

Diversification strategy plays a significant and positive role as a mediation for strategic leadership variables with *p-value* 0,04 < 0,05.

## Discussion of Research Results

The development of the manufacturing industry is very dynamic and there is intense competition both nationally and globally. As explained, it is necessary to maintain the investment climate for the manufacturing industry because it makes a significant contribution to the Indonesian economy (Ministry of Industry, 2021). Researcher have conducted hypothesis testing to answer research problems, and referring to the test results as shown in tables above, the researcher describes all research results as follows:

**Hypothesis 1:** Strategic leadership has a positive impact to diversification strategy.

The hypothesis test result was not supported, where strategic leadership has no effect on the diversification strategy. Even though in previous research that has been described in the hypothesis formulation section that there is an influence (Scheepers & Maher, 2019), it is not proven for the manufacturing industry. Practically this is rational. because in the manufacturing industry there are *Research and Development (R&D)* department which conduct analysis and design new products (diversification), so that the role of the company leadership is not a problem, because the *R&D* team have been able to carry out the work in accordance with what has been determined to realize the company's vision in increasing competitive advantage. In the manufacturing industry, company leaders come from *Home Country* sometimes experiencing problems in terms of communication with local employees. In the respondents, there are foreign nationals who use English and their mother tongue in their daily lives (*Mandarin/Chinese*), so that the role of corporate leadership is not a strong influence in terms of diversification, when *person in-charged* already mastered and expert on their field. Although the use of foreign employees are permissible, there must be an element of *transfer knowledge* so that local employees are able to handle those duties held by foreign employees within the time determined by the laws and regulations.

Respondent data were dominated by the position of HR Manager who has a role and function in human resource management (HR), so it is not too influential in product diversification activities in the manufacturing industry. However, solid communication and coordination are needed to support the company's operational activities as a whole.

**Hypothesis 2:** Strategic leadership has a positive impact to competitive advantage.

The hypothesis test result was not supported. There is no significant influence between strategic leadership and competitive advantage. It does not apply to the manufacturing industry, because each company understands its roles and functions well. So that the role of the company's leadership is more to the function of monitoring and implementation of company operations. This result contradicts with previous research which states that the role of leadership has a significant influence on competitive advantage, even though most of the tests were carried out in non-manufacturing sector. The results of this study contradict with previous research, where strategic leadership has an important role in increasing competitive advantage (Mahdi et al., 2021), (Wibisono & Tarigan, 2016), Ojokuku et al. (2012), (Mahdi & Almsafir, 2014). This contradiction may reasonable because the respondents were dominated by *HR Manager*, where not all manufacturing industries have implemented HR functions as *business partner (HR-BP)*. In the manufacturing industry, some HR function are still focusing on administrator, in addition to other functions as a facilitator and mediator within the company (Fatyandri & Muchsinati, 2014).

**Hypothesis 3:** Diversification strategy has a positive impact to competitive advantage.

The results of the hypothesis testing were not supported and indicate that the diversification strategy has no effect on competitive advantage, especially in the manufacturing industry located in the Riau Archipelago, Indonesia. One of the practical conditions, the Dutch company that produces irons, do diversify by making products for health. This company is leading the competition in the market. The tendency of the manufacturing industry still seems not to be fast in diversifying, because some industries only carry out activities such as *assembly or sub assembly* and depending on the order from the customer. The results of this study contradict with previous studies (Chen et al., 2014), (Chan et al., 2019), (Jeong, 2003), where in this study recommended that diversification be carried out in a focused or dominant diversification, both for *related or unrelated diversification*.

**Hypothesis 4:** Strategic leadership has an impact to competitive advantage with the mediating role of diversification strategy.

The results of hypothesis testing are supported although the direct relationship between those variables have no effect. Diversification strategy as a mediating role, make strategic leadership becomes significant and has a positive impact to competitive advantage. The ability of company's leaders to maintain and optimize the company's main competencies is a great opportunity to execute diversification strategy, with the ultimate goal of gaining competitive advantage. There were not much research has discussed and analyzed the mediating role of diversification strategy, the results of this study can add to theoretical studies that previously had the same research results but were conducted in the banking industry (Bátiz-Lazo & Wood, 2003).

Refer to research result above, strategic leadership influences competitive advantage by mediating diversification strategies, playing a greater role in strengthening internal resources in the development of existing products or in the design and creation of new products. Previous studies partially support the results of this study, and can still be developed for further research using different indicators.

### Conclusion

This research focuses on <sup>41</sup> the manufacturing industry by proving that the diversification strategy can play a role as a mediation in increasing the company's competitive advantage, with the strategic leadership variable, although the direct relationship between variables does not have a significant and positive effect. In previous research, it focused more on service and non-manufacturing industries, so that the research results can be used as reference material for theory development.

The research was conducted only on manufacturing industries located in the Riau Archipelago, Indonesia and not including other areas that have Industrial Estates which consist of medium and large and export-oriented companies.

<sup>3</sup> Diversification strategy is proven to act as a mediation in the effect of strategic leadership on competitive advantage. The conceptual model can be used as a reference by combining other strategic variables, so that the theory development becomes sharper and deeper. Diversification strategy *grand theory* Ansoff (1957), classical theory *growth strategy matrix*, have greater risk, because new products are introduced to new markets. However, by choosing the right variable<sup>29</sup>; an exogenous variable, it will give good results, such as strategic leadership variable, when mediated by diversification strategy variables, have a positive impact on competitive advantage.

The role of the leader is not only to provide routine directions but also requires thought and planning as well as ideas or *blueprint* to create innovations with competitive diversification to maintain a sustainable competitive advantage. Quick and precise decision-making under normal and critical conditions as well as the ability to empower and motivate internal employees is an important role for company's leaders.

### Recommendation

For further research, the conceptual framework can be expanded by adding other exogenous variables, or expanding variables by using dimensions, such as Human Capital, Social Capital in increasing competitive advantage. Industry 4.0 innovation and involvement can be used as a variable to see industry support in using technology in developing its business. *Cross Cultural Leadership*, can be used as an interesting variable, especially in the manufacturing industry, because generally factory heads/leaders are assigned from countries of origin that have interesting or potential for research, which has not been successfully implemented in this study.

Research object can be expanded to Industrial Areas that are outside the Riau Archipelago, or in other countries and increase the sample size to become larger. The manufacturing industry is still recommended to

be used as an object of research considering that the manufacturing industry makes a major contribution to increasing economic growth.

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