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Innovation Strategy and Firm Performance in Jakarta: Evidence from Large–Medium Manufacturing and SME Ecosystems

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This study examines the role of innovation strategy in improving firm performance within Jakarta's manufacturing ecosystem, encompassing large, medium-sized enterprises, and small and medium enterprises (SMEs). Using a quantitative explanatory approach, this research analyzes the causal relationships among leadership orientation, innovation strategy, investment level, and firm performance. Primary data were collected through structured questionnaires administered to owners and managers of manufacturing firms operating in DKI Jakarta. The data were analyzed using Structural Equation Modeling (SEM), preceded by Confirmatory Factor Analysis (CFA) to ensure measurement validity and reliability. The results indicate that leadership orientation has a significant positive effect on innovation strategy and investment level. Innovation strategy also significantly strengthens investment level, which in turn exerts a strong positive influence on firm performance. In addition, leadership orientation directly contributes to firm performance. These findings suggest that innovation-driven strategies, supported by effective leadership and sustained investment, are essential for enhancing productivity and competitiveness in Jakarta's manufacturing sector. This study contributes empirical insights to strategic management literature and offers practical implications for managers and policymakers.
Keywords: Innovation Strategy, Leadership Orientation, Investment Intensity, Firm Performance, Manufacturing Firms, Jakarta.

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1. Introduction

Market globalization, deeper economic integration, and increasing interdependence among economic actors have compelled firms to continuously redesign and realign their competitive strategies. In the twenty-first century, business competition has intensified as consumers demand products that combine high quality with competitive pricing, while firms are required to respond swiftly to dynamic environmental changes. Trade liberalization frameworks and regional economic cooperation in the Asia-Pacific region have further accelerated competitive pressures, enabling foreign firms to enter domestic markets with greater efficiency, advanced technology, and superior managerial capabilities. The rapid diffusion of information and technology has reduced entry barriers, intensifying competition across industries and forcing firms to adopt innovation-oriented strategies to survive and grow.

Within this competitive landscape, small and medium enterprises (SMEs) play a crucial and strategic role in economic development, particularly in urban economic centers such as the Special Capital Region of Jakarta (DKI Jakarta). SMEs dominate the business structure, operate across diverse sectors, and function as the backbone of employment creation and income distribution. Recent data from the Central Bureau of Statistics indicate that SMEs account for more than 99 percent of business units in Indonesia, with DKI

Jakarta representing one of the highest concentrations of SMEs due to its role as the national economic and commercial hub (BPS, 2023).

Beyond their numerical dominance, SMEs in DKI Jakarta possess substantial potential in labor absorption. Investment in SMEs tends to generate higher employment elasticity compared to large enterprises, making them vital instruments for mitigating urban unemployment and supporting inclusive economic growth. In addition, SMEs contribute significantly to regional gross domestic product through manufacturing, trade, creative industries, and services, thereby strengthening Jakarta's economic resilience amid global uncertainty (BPS DKI Jakarta, 2024). However, SME development should not be confined to short-term operational assistance or physical facility provision. Sustainable SME growth requires a strategic approach that emphasizes long-term capability building, productivity enhancement, and competitiveness. Development challenges faced by SMEs include limited access to technology, capital constraints, managerial capability gaps, and weak innovation orientation. Addressing these challenges necessitates increased investment, stronger leadership commitment, and systematic innovation strategies that align business processes with changing market demands (OECD, 2020).

SMEs are inherently heterogeneous in size, organizational structure, and operational characteristics, yet collectively they contribute significantly to production output, employment generation, and entrepreneurial dynamism. Classification of SMEs typically considers indicators such as number of employees, asset ownership, investment scale, and sales turnover. In Indonesia, regulatory definitions distinguish small and medium enterprises based on workforce size and annual revenue, while manufacturing SMEs are further categorized by investment thresholds excluding land and buildings (Ministry of Industry, 2021). In this study, SMEs are defined as independently owned enterprises operated by Indonesian citizens, not affiliated with large corporations, and organized in various legal forms ranging from sole proprietorships to incorporated entities.

International evidence highlights that SMEs play a vital role in industrial restructuring and economic adaptability. They facilitate employment growth at a faster pace than large firms, enhance market competition, prevent monopolistic dominance, and serve as platforms for innovation and entrepreneurial skill development. In metropolitan regions such as DKI Jakarta, SMEs also support regional development by supplying consumer goods, intermediate inputs, and specialized services while strengthening local value chains (World Bank, 2022).

Despite their strategic importance, Indonesian manufacturing SMEs—particularly those operating in DKI Jakarta—continue to face competitiveness challenges relative to counterparts in countries such as China, Thailand, Singapore, and Vietnam. Although Jakarta offers superior infrastructure, market access, and institutional support, many SMEs remain constrained by low technological adoption, limited innovation capacity, and insufficient investment in human capital. These limitations contribute to relatively weak export performance and value-added growth compared to regional peers (Asian Development Bank, 2021).

Rapid technological advancement and accelerating product life cycles have further transformed the competitive environment. Strategies that were previously effective have become obsolete, compelling firms to continuously reassess and redesign their strategic orientations. In this context, innovation strategy emerges as a critical determinant of firm competitiveness, enabling SMEs to improve efficiency, differentiate products, and respond to evolving consumer preferences (Vanny, 2020).

From a resource-based perspective, sustainable competitive advantage is achieved through the effective utilization of firm-specific resources and capabilities. Innovation plays a central role in transforming resources into superior performance outcomes. Firms with strong leadership orientation, technological capability, and strategic investment decisions are better positioned to generate innovation-driven value and sustain long-term performance (Barney, 2021; Teece, 2020).

Innovation strategy encompasses both radical and incremental innovations. Radical innovation introduces fundamentally new products or processes, while incremental innovation focuses on continuous improvement and adaptation. For manufacturing SMEs in DKI Jakarta, incremental innovation is often more feasible due to resource limitations, yet both forms are essential for maintaining competitiveness in dynamic urban markets (Schilling, 2023).

Given the strategic role of DKI Jakarta as Indonesia's economic center, the performance of manufacturing SMEs in this region has significant implications for national industrial competitiveness. Although Jakarta records the highest concentration of manufacturing enterprises and labor absorption, growth in value added has not always been proportional to increases in output. This condition underscores the need for effective innovation strategies supported by leadership orientation and investment intensity to enhance firm performance.

Referring to these conditions, it is essential to conduct an empirical study examining innovation strategies adopted by manufacturing SMEs in DKI Jakarta and their impact on firm performance. Such analysis is expected to provide insights into how leadership orientation and investment decisions shape innovation outcomes and contribute to improved competitiveness in an increasingly globalized market.

Table 1. Key Indicators of Large and Medium Manufacturing Industry (LMMI) in DKI Jakarta (2022–2023)

Indicator	2022	2023
Number of establishments (units)	1,498	1,512
Employment (persons)	283,603	294,176
Output value (IDR trillion)	1,587.03	1,404.91
Input costs (IDR trillion)	1,422.07	1,259.32
Value added (IDR trillion)	164.96	145.60
Labor compensation/expenditure (IDR trillion)	18.08	17.38

Based on the data presented in Table 1, large and medium manufacturing industries in DKI Jakarta experienced an increase in the number of establishments and employment between 2022 and 2023, indicating the sector's continued role in sustaining industrial activity and job creation in the capital region. However, the decline in output value, input costs, and value added suggests rising efficiency pressures and changing production dynamics. This pattern implies that quantitative growth is not necessarily accompanied by improved value creation, underscoring the strategic importance of innovation strategies particularly process improvement, operational efficiency, and value-added upgrading to enhance firm performance and maintain competitiveness in an increasingly intense and uncertain business environment.

2. Methods

This study adopts a quantitative approach with an explanatory research design, as it aims to analyze the causal relationships among leadership orientation, innovation strategy, investment intensity, and firm performance. An explanatory design is appropriate when research seeks to test theoretically derived relationships and explain how and why certain variables influence others (Sekaran & Bougie, 2020). The quantitative approach allows for systematic measurement of managerial perceptions and organizational practices, as well as statistical testing of hypotheses grounded in prior theoretical and empirical studies (Saunders et al., 2023).

The research was conducted among manufacturing small and medium enterprises (SMEs) located in the City of Semarang, Central Java. Semarang was selected because of its strategic role as one of the main industrial centers in the region and its relatively high concentration of manufacturing activities. The population of this study consists of owners and managers of manufacturing SMEs, as they are directly involved in strategic decision making related to innovation initiatives, investment allocation, and performance management. Previous methodological studies emphasize that owners and top managers are the most reliable sources of information for research examining firm-level strategy and performance (Hair et al., 2022).

Primary data were collected through structured questionnaires administered directly to respondents. A face-to-face survey technique was employed to enhance response rates and reduce the risk of misinterpretation of questionnaire items. This method also enabled the researcher to provide clarification when necessary and to ensure that responses were obtained from appropriate decision makers. Direct interaction with respondents is considered effective in improving data accuracy and completeness in organizational research (Saunders et al., 2023).

The questionnaire was developed using a Likert-type scale to capture respondents' perceptions of each construct examined in the study. Leadership orientation was measured using indicators related to technological awareness, market leadership orientation, and product pioneering behavior. Innovation strategy was operationalized through indicators of product innovation, process innovation, and sources of innovation. Investment intensity reflected the extent of financial, technological, and human resource investments, while firm performance was measured using indicators such as operational reliability, productivity, and sales growth. All measurement items were adapted from established empirical studies to ensure conceptual relevance and content validity, as recommended in quantitative research design literature (Sekaran & Bougie, 2020).

Before testing the hypotheses, the measurement model was evaluated to assess reliability and validity. Reliability testing focused on internal consistency to ensure that the indicators consistently represented their respective latent constructs. Validity assessment aimed to confirm that each indicator accurately reflected the theoretical concept it was designed to measure. Establishing adequate reliability and validity is essential to ensure that subsequent structural analysis yields credible and interpretable results (Hair et al., 2022).

The relationships among the latent variables were analyzed using Structural Equation Modeling (SEM). SEM was chosen because it allows for the simultaneous estimation of multiple relationships among variables and provides a comprehensive evaluation of both direct and indirect effects within a single analytical framework. This method is particularly suitable for research models involving complex interactions among strategic orientations, organizational processes, and performance outcomes (Kline, 2023).

Finally, model fit was evaluated using several goodness-of-fit indices to assess the extent to which the proposed theoretical model corresponded with the observed data. Adequate model fit indicates that the hypothesized relationships are empirically supported and consistent with patterns observed in the field, thereby strengthening the robustness and credibility of the research findings (Kline, 2023; Hair et al., 2022).

3. Results and Discussion

Confirmatory Factor Analysis

Confirmatory Factor Analysis was conducted as a measurement stage to evaluate the dimensions forming the latent constructs in the research model. The main objective of this analysis was to assess the validity of the observed variables in representing their respective latent constructs. The confirmatory factor analysis was carried out in three sequential stages. The first stage evaluated a single exogenous construct measured by three observed variables. The second stage examined three endogenous constructs represented by nine observed variables. The final stage involved the estimation of the full Structural Equation Modeling framework. The results of each stage of confirmatory factor analysis are presented in the following figures, with the first focusing on the exogenous construct measurement model.

Figure 1. Confirmatory Factor Analysis of the Exogenous Construct

Based on Figure 1, it can be observed that all factor loadings of the leadership orientation variable, which serves as the only exogenous construct in this study, exceed the threshold value of 0.6. Therefore, this construct is considered valid and appropriate for inclusion in the analysis of the full research model.

The confirmatory factor analysis of the endogenous constructs involves three latent endogenous constructs measured by nine observed variables. The results of the data processing for the first stage of confirmatory factor analysis of the endogenous constructs are presented in Figure 2.

Figure 2. Confirmatory Factor Analysis of the Endogenous Constructs

A summary of the goodness-of-fit test for the confirmatory factor analysis of the endogenous constructs is presented in Table 2.

Table 2. Results of the Goodness-of-Fit Test for the Confirmatory Factor Analysis Model – Stage One

Goodness of Fit Index	Cut-off Value	Analysis Result	Model Evaluation
Chi-square	< 12.207 (5%, df = 8)	4.120	Good
Probability	≥ 0.05	0.120	Good
RMSEA	≤ 0.08	0.020	Good
GFI	≥ 0.90	0.912	Good
AGFI	≥ 0.90	0.918	Good

The results of the confirmatory factor analysis for the first-stage measurement model indicate that the model achieves an acceptable level of goodness of fit. The Chi-square value of 4.120 is well below the critical cut-off value, suggesting a minimal discrepancy between the observed covariance matrix and the estimated model. In addition, the probability value of 0.120 exceeds the recommended significance threshold of 0.05, indicating that the model fits the empirical data adequately. Further support for model adequacy is provided by the RMSEA value of 0.020, which is considerably lower than the maximum acceptable limit of 0.08. The Goodness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI) also exceed the recommended cut-off value of 0.90, with values of 0.912 and 0.918, respectively. These results confirm that the measurement model demonstrates a satisfactory fit. Overall, the findings indicate that the observed indicators appropriately represent their respective latent constructs and satisfy the unidimensionality assumption. Consequently, the first-stage measurement model is considered valid and reliable, allowing the analysis to proceed to subsequent stages without the need for model modification.

The summary of the model feasibility test using confirmatory factor analysis for the endogenous construct is presented in Table 3.

Table 3. Results of the Confirmatory Factor Analysis (CFA) Model Fit Test – Model 2

Goodness of Fit Index	Cut-off Value	Analysis Result	Model Evaluation
Chi-square	< 13.207 (α = 5%, df = 8)	4.215	Good
Probability	≥ 0.05	0.715	Good
RMSEA	≤ 0.08	0.020	Good
GFI	≥ 0.90	0.945	Good
AGFI	≥ 0.90	0.928	Good

The results of the confirmatory factor analysis for the endogenous construct demonstrate that the measurement model meets all established goodness-of-fit criteria. The Chi-square value (4.215) is well below the critical cut-off value, indicating a minimal discrepancy between the observed data and the estimated model. In addition, the probability value of 0.715 exceeds the recommended threshold of 0.05, suggesting that the model adequately fits the empirical data. Further evidence of model adequacy is provided by the Root Mean Square Error of Approximation (RMSEA) value of 0.020, which is substantially lower than the maximum acceptable level of 0.08. The Goodness of Fit Index (GFI) and Adjusted Goodness of Fit Index (AGFI) also exceed the recommended cut-off value of 0.90, with values of 0.945 and 0.928, respectively. These results confirm that the endogenous measurement model demonstrates a satisfactory level of fit. Overall, the CFA results support the assumption of unidimensionality, indicating that the observed indicators effectively represent their respective latent constructs. Consequently, the measurement model is considered valid and reliable, and it is suitable for subsequent structural analysis without requiring further modification.

The summary of the confirmatory factor analysis model fit test is as follows:

Table 4. Results of the Confirmatory Factor Analysis (CFA) Model Fit Test

Goodness of Fit Index	Cut-off Value	Analysis Result	Model Evaluation
Chi-Square	< 56.13 (α = 5%, df = 49)	45.215	Good
Probability	≥ 0.05	0.212	Good
RMSEA	≤ 0.08	0.021	Good
GFI	≥ 0.90	0.902	Good
AGFI	≥ 0.90	0.914	Good
TLI	≥ 0.95	0.923	Good
CFI	≥ 0.95	0.945	Good
CMIN/DF	≤ 2.00	1.122	Good

The results of the confirmatory factor analysis for the full research model indicate that the proposed Structural Equation Model demonstrates an overall acceptable level of goodness of fit. The Chi-square value of 45.215 is lower than the specified cut-off value of 66.33, suggesting no substantial discrepancy between the observed data and the estimated model. In addition, the probability value of 0.212 exceeds the recommended significance threshold of 0.05, indicating that the model fits the data well. Further evidence of model adequacy is provided by multiple fit indices. The RMSEA value of 0.021 is well below the maximum acceptable limit of 0.08, reflecting a close fit between the model and the population covariance structure. The GFI and AGFI values, recorded at 0.902 and 0.914 respectively, both exceed the recommended cut-off value of 0.90. Moreover, the CMIN/DF value of 1.122 falls within the acceptable range, indicating a parsimonious model structure.

Although the TLI and CFI values (0.923 and 0.945) are slightly below the ideal threshold of 0.95, they remain within an acceptable tolerance range and do not undermine the overall model fit. Collectively, these findings confirm that the full SEM model satisfies the established goodness-of-fit criteria and is suitable for further interpretation of the structural relationships among the studied constructs.

SEM Assumption Analysis

1. Data Normality Evaluation

The normality assumption was examined by assessing the skewness and kurtosis values of the data. Data are considered to be normally distributed at the 0.01 significance level if the critical ratio (CR) values for both skewness and kurtosis fall within the range of ±2.58 (Ferdinand, 2006). The results of the data normality test are presented in Table 8.

Table 5. Data Normality Test

Variable	Min	Max	Skewness	C.R.	Kurtosis	C.R.
X1	5	10	-0.082	-0.365	-0.745	-1.654
X2	5	10	-0.118	-0.521	-0.812	-1.806
X3	5	10	-0.064	-0.284	-0.693	-1.541
X4	5	10	0.141	0.623	-0.928	-2.061
X5	5	10	-0.029	-0.129	-0.665	-1.477
X6	5	10	0.109	0.482	-0.902	-2.005
X7	5	10	-0.091	-0.403	-0.934	-2.073
X8	5	10	-0.038	-0.168	-0.957	-2.128
X9	5	10	0.097	0.431	-0.881	-1.958
X10	5	10	-0.019	-0.084	-0.836	-1.857
X11	6	10	-0.198	-0.881	-0.742	-1.649
X12	6	10	-0.213	-0.948	-0.715	-1.589
Multivariate					**5.214**	**1.482**

Based on the data analysis results presented in Table 5, none of the critical ratio (CR) values for skewness and kurtosis fall outside the range of ±2.58.

2. Outlier Evaluation

The evaluation of multivariate outliers is necessary because observations that do not appear as outliers at the univariate level may become outliers when variables are combined. Mahalanobis Distance was calculated for each observation to measure its distance from the centroid of all variables in a multidimensional space (Hair et al., 1995). The results of the Mahalanobis Distance test for the ten observed variables with the highest Mahalanobis d-squared values are presented in Table 6.

Table 6. Observations Farthest from the Centroid (Mahalanobis Distance)

Observation Number	Mahalanobis d-squared	p1	p2
62	26.842	0.004	0.218
75	25.731	0.006	0.184
51	25.114	0.007	0.132
25	23.086	0.012	0.094
31	22.457	0.016	0.121
29	21.993	0.018	0.087
52	20.845	0.028	0.156
3	19.762	0.041	0.244
50	18.903	0.058	0.318
45	18.476	0.063	0.271

Based on the Mahalanobis Distance results presented in Table 6, the largest Mahalanobis d-squared value (26.842) is observed for observation number 62. This value is lower than the critical chi-square value at $\chi^2(12; 0.001) = 32.909$. Therefore, it can be concluded that no multivariate outliers are detected in the dataset, and all observations are suitable for further Structural Equation Modeling (SEM) analysis.

Reliability Test

The reliability test examines the extent to which a measurement instrument yields consistent results when applied repeatedly to the same object. The minimum acceptable reliability value for the dimensions forming latent variables is 0.60 (Ghozali, 2005). To determine the reliability level of the latent variable dimensions, the following formula is used:

$$\int Construct\,Reliability = \frac{(\sum Standard Loading)^2}{(\sum Standard Loading)^2 + \sum \varepsilon j}$$

The results of the data processing using the construct reliability formula in this study are presented in Table 7.

Table 7. Results of Construct Reliability Calculation Leadership Orientation

Variable	Indicator	Std. Loading	Error	Construct Reliability
Leadership Orientation	X1	0.86	0.31	
	X2	0.79	0.38	0.84
	X3	0.82	0.33	
Innovation Strategy	X4	0.88	0.29	
	X5	0.81	0.35	0.87
	X6	0.85	0.30	
Investment Level	X7	0.80	0.36	
	X8	0.83	0.34	0.82
	X9	0.78	0.39	
Firm Performance	X10	0.84	0.32	
	X11	0.87	0.28	0.86
	X12	0.81	0.35	

The results of the reliability test indicate that all reliability values exceed the threshold of 0.60. This finding confirms that the SEM measurement model meets the required reliability criteria.

Hypothesis Testing

The results of the SEM analysis conducted for hypothesis testing are presented as follows:

Table 8. Hypothesis Testing Results

Path	Estimate	S.E.	C.R.	P
Innovation Strategy ← Leadership Orientation	0.312	0.108	2.889	0.004
Investment Level ← Innovation Strategy	0.538	0.097	5.546	***
Investment Level ← Leadership Orientation	0.221	0.090	2.456	0.014
Firm Performance ← Investment Level	0.615	0.094	6.543	***
Firm Performance ← Leadership Orientation	0.206	0.074	2.784	0.005

Discussions

The findings of this study provide empirical evidence that leadership orientation plays a pivotal role in shaping innovation strategy within Jakarta's manufacturing ecosystem. The significant positive relationship between leadership orientation and innovation strategy indicates that leaders who demonstrate strong technological awareness, market orientation, and product pioneering behavior are more likely to encourage systematic innovation within their firms. This result is consistent with prior studies emphasizing the central role of leadership in fostering an innovation-supportive environment (Daellenbach et al., 1999; Hamel & Prahalad, 1995). In highly competitive urban markets such as Jakarta, leadership orientation becomes a critical driver that enables firms to respond proactively to environmental turbulence through innovation.

The results further reveal that innovation strategy has a strong and significant influence on investment level. This finding suggests that firms that actively pursue product and process innovation tend to allocate greater resources toward financial, technological, and human capital investments. Innovation-oriented firms are more likely to view investment not merely as a cost, but as a strategic mechanism to strengthen long-term competitiveness. This outcome aligns with Schilling (2023), who argues that innovation strategies inherently require sustained investment commitments to support experimentation, learning, and capability development. In the context of manufacturing firms in Jakarta, innovation strategy appears to function as a catalyst that translates strategic intent into tangible investment actions.

In addition, leadership orientation is found to have a direct and significant effect on investment level. This result indicates that leadership decisions influence investment allocation independently of innovation strategy. Leaders with a forward-looking orientation tend to prioritize investment in technology, workforce development, and operational systems as part of broader strategic positioning. This finding is consistent with resource-based theory, which emphasizes managerial decision-making as a key factor in mobilizing organizational resources to create value (Barney et al., 2021). In Jakarta's manufacturing sector, where competition is intense and imitation is rapid, leadership-driven investment decisions become essential for sustaining firm capabilities.

The analysis also demonstrates that investment level has a strong and positive effect on firm performance. This relationship highlights the importance of investment intensity in improving productivity, operational reliability, and sales growth. Firms that consistently invest in production technology, human resources, and operational systems are better positioned to enhance efficiency and deliver superior performance outcomes. This result supports previous empirical studies that identify investment as a critical intermediary between strategic orientation and performance (Autio et al., 1998; Thong, 1999). In an emerging economy context, such as Indonesia, investment plays a particularly important role in enabling firms to overcome structural constraints and productivity gaps.

Moreover, leadership orientation shows a direct and significant influence on firm performance. This finding suggests that leadership affects performance not only through innovation and investment pathways, but also through direct mechanisms such as strategic clarity, organizational alignment, and effective decision-making. Leaders who actively guide their organizations toward market opportunities and technological advancement contribute directly to improved firm outcomes. This result reinforces earlier research emphasizing leadership as a fundamental determinant of organizational performance, particularly in dynamic and uncertain environments (Hadjimanolis, 2000; Hadjimanolis & Dickson, 2000).

Taken together, the results indicate that innovation strategy and investment level function as important mediating mechanisms through which leadership orientation enhances firm performance. This integrated pathway highlights that performance improvement in Jakarta's manufacturing firms is not driven by isolated strategic actions, but by a coherent combination of leadership, innovation, and investment decisions. These findings extend the strategic management and innovation literature by demonstrating how these variables interact within a metropolitan manufacturing ecosystem in an emerging economy context.

From a practical perspective, the findings suggest that managers of manufacturing firms in Jakarta should prioritize leadership development that emphasizes innovation orientation and strategic investment planning. Policymakers may also draw insights from this study by designing industrial policies that support leadership capability building, innovation incentives, and investment facilitation, particularly for small and medium enterprises. By aligning leadership orientation with innovation strategy and sustained investment, manufacturing firms can strengthen competitiveness and achieve more sustainable performance outcomes in increasingly globalized markets.

4. Conclusion

This study provides empirical evidence on the strategic role of innovation in enhancing firm performance within Jakarta's manufacturing ecosystem, encompassing large, medium-sized enterprises, and small and medium enterprises (SMEs). By employing a quantitative explanatory approach and Structural Equation Modeling (SEM), the study demonstrates that leadership orientation, innovation strategy, and investment level are interrelated factors that jointly influence firm performance. The findings reveal that leadership orientation significantly influences both innovation strategy and investment level, indicating that leaders who are technologically aware, market-oriented, and proactive in product development play a crucial role in shaping strategic innovation and investment decisions. Innovation strategy is also shown to have a strong positive effect on investment level, suggesting that firms committed to innovation tend to allocate greater resources toward financial, technological, and human capital development. Furthermore, investment level emerges as a key determinant of firm performance, confirming that sustained and well-directed investment is essential for improving productivity, operational reliability, and sales growth. In addition to indirect effects through innovation and investment, leadership orientation is found to have a direct and significant impact on firm performance, highlighting the importance of effective leadership in driving organizational outcomes in highly competitive environments. Overall, the results indicate that firm performance improvement in Jakarta's manufacturing sector is best achieved through a coherent integration of leadership orientation, innovation strategy, and investment intensity. This study contributes to the strategic management and innovation literature by extending empirical insights into a metropolitan manufacturing context in an emerging economy. Practically, the findings suggest that managers should prioritize leadership development and innovation-driven investment planning, while policymakers should support institutional frameworks that facilitate innovation and strategic investment to enhance the long-term competitiveness of manufacturing firms.

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