


**THE EFFECT OF STRATEGIC FLEXIBILITY, STRATEGIC INNOVATION, JOB SATISFACTION AND EMPLOYEE PERFORMANCE: STUDY ON SMALL AND MEDIUM CLOTHING INDUSTRY IN EAST JAVA PROVINCE**

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ARTICLE INFO	ABSTRACT
<p><b>Article history:</b>  <b>Received:</b> Jun, 13<sup>th</sup> 2024  <b>Accepted:</b> Aug, 13<sup>th</sup> 2024</p>	<p><b>Objective:</b> This study investigates the relationships between strategic flexibility, strategic innovation, job satisfaction, and employee performance in Small and Medium Enterprises (SMEs) within East Java’s clothing industry. The research specifically aims to examine the mediating role of job satisfaction in these relationships.</p>
<p><b>Keywords:</b>  Strategic Flexibility;  Strategic Innovation;  Job Satisfaction;  Employee Performance.</p> <div data-bbox="172 1041 478 1288" style="text-align: center;">  </div>	<p><b>Theoretical Framework:</b> The study is grounded in organizational behavior and strategic management theories, proposing that strategic flexibility and innovation positively influence job satisfaction, which in turn enhances employee performance. Job satisfaction is posited as a mediator that impacts the effect of strategic flexibility and innovation on employee outcomes.</p> <p><b>Method:</b> The research employs an explanatory design with Partial Least Squares (PLS) analysis to test hypotheses and establish causal relationships. Data were collected from 160 employees in East Java’s clothing sector through stratified random sampling. A Likert scale-based questionnaire was utilized to measure variables, and SmartPLS 3.0 was used for data analysis.</p> <p><b>Results and Discussion:</b> The findings indicate that strategic flexibility significantly enhances both job satisfaction and employee performance. Strategic innovation impacts employee performance indirectly by improving job satisfaction. The mediation analysis reveals that job satisfaction fully mediates the relationship between strategic innovation and employee performance, and partially mediates the effect of strategic flexibility on performance.</p> <p><b>Research Implications:</b> The study underscores the effectiveness of PLS analysis in exploring these relationships and offers insights into how SME managers in East Java can improve employee outcomes by focusing on strategic flexibility, innovation, and job satisfaction.</p> <p><b>Originality/Value:</b> This research contributes to the literature by highlighting the mediating role of job satisfaction in the relationship between strategic management practices and employee performance. The findings provide practical</p>

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recommendations for SME managers to enhance performance by prioritizing employee satisfaction and adaptability.

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## O EFEITO DA FLEXIBILIDADE ESTRATÉGICA, DA INOVAÇÃO ESTRATÉGICA, DA SATISFAÇÃO NO TRABALHO E DO DESEMPENHO DOS TRABALHADORES: ESTUDO SOBRE A PEQUENA E MÉDIA INDÚSTRIA DO VESTUÁRIO NA PROVÍNCIA DE JAVA ORIENTAL

### RESUMO

**Objetivo:** Este estudo investiga as relações entre flexibilidade estratégica, inovação estratégica, satisfação no trabalho e desempenho dos funcionários em Pequenas e Médias Empresas (PMEs) na indústria de confecção no leste de Java. A pesquisa visa especificamente examinar o papel mediador da satisfação no trabalho nessas relações.

**Referencial Teórico:** O estudo é fundamentado em teorias de comportamento organizacional e gestão estratégica, propondo que a flexibilidade e a inovação estratégicas influenciam positivamente a satisfação no trabalho, o que, por sua vez, melhora o desempenho dos funcionários. A satisfação no trabalho é colocada como mediadora, impactando o efeito da flexibilidade estratégica e da inovação nos resultados dos funcionários.

**Método:** A pesquisa adota um design explicativo com análise de Mínimos Quadrados Parciais (PLS) para testar hipóteses e estabelecer relações causais. Os dados foram coletados de 160 funcionários do setor de confecção do leste de Java por meio de amostragem estratificada. Um questionário baseado em escala Likert foi utilizado para medir as variáveis, e o software SmartPLS 3.0 foi empregado para a análise dos dados.

**Resultados e Discussão:** Os resultados indicam que a flexibilidade estratégica melhora significativamente tanto a satisfação no trabalho quanto o desempenho dos funcionários. A inovação estratégica afeta indiretamente o desempenho ao melhorar a satisfação no trabalho. A análise de mediação revela que a satisfação no trabalho medeia totalmente a relação entre inovação estratégica e desempenho dos funcionários, e medeia parcialmente o efeito da flexibilidade estratégica no desempenho.

**Implicações da Pesquisa:** O estudo ressalta a eficácia da análise PLS na exploração dessas relações e oferece insights sobre como os gestores de PMEs no leste de Java podem melhorar os resultados dos funcionários focando na flexibilidade estratégica, inovação e satisfação no trabalho.

**Originalidade/Valor:** Esta pesquisa contribui para a literatura ao destacar o papel mediador da satisfação no trabalho na relação entre práticas de gestão estratégica e o desempenho dos funcionários. Os achados fornecem recomendações práticas para gestores de PMEs, visando melhorar o desempenho ao priorizar a satisfação dos funcionários e a adaptabilidade estratégica.

**Palavras-chave:** Flexibilidade Estratégica, Inovação Estratégica, Satisfação no Trabalho, Desempenho dos Funcionários.

## EL EFECTO DE LA FLEXIBILIDAD ESTRATÉGICA, LA INNOVACIÓN ESTRATÉGICA, LA SATISFACCIÓN LABORAL Y EL RENDIMIENTO DE LOS EMPLEADOS: ESTUDIO SOBRE LA PEQUEÑA Y MEDIANA INDUSTRIA DE LA CONFECCIÓN EN LA PROVINCIA DE JAVA ORIENTAL

### RESUMEN

**Objetivo:** Este estudio investiga las relaciones entre la flexibilidad estratégica, la innovación estratégica, la satisfacción laboral y el desempeño de los empleados en las Pequeñas y Medianas Empresas (PYMEs) de la industria de la confección en Java Oriental. La investigación se centra específicamente en examinar el papel mediador de la satisfacción laboral en estas relaciones.

**Marco Teórico:** El estudio se basa en teorías de comportamiento organizacional y gestión estratégica, proponiendo que la flexibilidad y la innovación estratégicas influyen positivamente en la satisfacción laboral, lo que a su vez mejora el desempeño de los empleados. Se postula que la satisfacción laboral actúa como mediador que impacta el efecto de la flexibilidad estratégica y la innovación en los resultados de los empleados.

**Método:** La investigación emplea un diseño explicativo con análisis de Mínimos Cuadrados Parciales (PLS) para probar hipótesis y establecer relaciones causales. Los datos se recopilaron de 160 empleados del sector de la confección en Java Oriental mediante un muestreo aleatorio estratificado. Se utilizó un cuestionario basado en la escala Likert para medir las variables, y SmartPLS 3.0 se utilizó para el análisis de datos.

**Resultados y Discusión:** Los hallazgos indican que la flexibilidad estratégica mejora significativamente tanto la satisfacción laboral como el desempeño de los empleados. La innovación estratégica impacta indirectamente el desempeño de los empleados al mejorar la satisfacción laboral. El análisis de mediación revela que la satisfacción

laboral media completamente la relación entre la innovación estratégica y el desempeño de los empleados, y media parcialmente el efecto de la flexibilidad estratégica en el desempeño.

**Implicaciones de la Investigación:** El estudio subraya la efectividad del análisis PLS para explorar estas relaciones y ofrece ideas sobre cómo los gerentes de las PYMEs en Java Oriental pueden mejorar los resultados de los empleados enfocándose en la flexibilidad estratégica, la innovación y la satisfacción laboral.

**Originalidad/Valor:** Esta investigación contribuye a la literatura destacando el papel mediador de la satisfacción laboral en la relación entre las prácticas de gestión estratégica y el desempeño de los empleados. Los hallazgos proporcionan recomendaciones prácticas para que los gerentes de PYMEs mejoren el desempeño priorizando la satisfacción y la adaptabilidad de los empleados.

**Palabras clave:** Flexibilidad Estratégica, Innovación Estratégica, Satisfacción Laboral, Desempeño de los Empleados.

## 1 INTRODUCTION

The COVID-19 pandemic has impacted nearly every aspect of life, affecting various economic sectors around the world, including Indonesia. Small and medium enterprises (SMEs) have been particularly hard hit, with many experiencing a decline in turnover, forcing them to shut down. To survive in the current situation, businesses are compelled to continue innovating, and SMEs are seen as having the potential to succeed in the competitive industry (Herrera, 2015). SMEs have the flexibility to innovate due to their smaller size, making agility and innovation essential for gaining a competitive edge. Nowadays, innovation is not only necessary for large companies, but also for SMEs, which need to foster a culture of innovation and engage in innovative activities. Effective human resource management is crucial for organizational progress (Brewster et al., 2016). In an era of uncertainty and environmental change with increasing competition, HR remains a critical focus for organizations striving to survive (Sumiati, 2018). Organizational progress is achievable when human resources perform well (Manurung & Riani, 2017); (Mondiani, 2012). Conversely, poor HR performance can negatively impact the achievement of organizational goals (Manzoor et al., 2011). Each business organization must develop different strategies and policies to address uncertainty and environmental changes. In this context, strategy flexibility and innovation are vital for adapting to these conditions (Thomas, 2014).

Businesses aim to develop strategies and resources to innovate and maintain sustainable competitiveness, as well as to drive long-term revenue and profit growth (Bernardo, 2014); (Bergman et al., 2015). To develop strategic flexibility, entrepreneurs need to exercise strategic leadership, build dynamic capabilities, focus on and develop human resources, adopt new manufacturing and information technologies, and foster an innovative culture (Bock et al., 2012); (Pei et al., 2020). Strategy flexibility and innovation can enhance employee engagement

and productivity. Research by (Origo & Pagani, 2008), (Alibrandi et al., 2023), and (McNall et al., 2009) indicates a positive correlation between strategic flexibility and job satisfaction. Additionally, (Kelliher & Anderson, 2008) found that flexible working arrangements are positively correlated with performance. Based on these insights, it can be inferred that strategic flexibility, strategic innovation, and job satisfaction may influence employee performance.

## 2 THEORETICAL FRAMEWORK

### 2.1 STRATEGIC FLEXIBILITY AFFECTS JOB SATISFACTION AND EMPLOYEE PERFORMANCE

Employers are currently facing uncertainty due to rapidly changing economic and political trends. While traditional management concepts can help organizations succeed in stable environments, they are often insufficient in preparing organizations to cope with uncertainty. According to (Kortmann et al., 2014), companies today must be able to quickly adapt to environmental changes, which requires strategic flexibility.

Strategic flexibility refers to a company's ability to proactively respond or quickly adapt to changing conditions and competitive environments (Brozovic, 2018); (Kortmann et al., 2014). From a resource perspective, (Beraha et al., 2018) define strategic flexibility as the ability to allocate and organize organizational resources, processes, and strategies in response to environmental shifts. This concept serves as a key indicator in this study, with employee performance indicators being developed based on research by (Purnama et al., 2021); (Purnama & Subroto, 2016) and (Bashor & Purnama, 2017), encompassing knowledge, attitudes, skills, and emotional maturity.

Research has shown that working flexibility is positively related to performance (Kelliher & Anderson, 2008). Similarly, studies by (Altindag & Siller, 2014) demonstrate that flexible working conditions positively influence employee performance. Other research by (Origo & Pagani, 2008), (Daniel et al., 2015), and (McNall et al., 2009) also indicates a positive relationship between work flexibility and job satisfaction. Therefore, the hypotheses for this study are formulated as follows: H1: Strategic flexibility has a significant effect on employee performance. H2: Strategic flexibility has a significant effect on job satisfaction.

## 2.2 STRATEGIC INNOVATION AFFECTS JOB SATISFACTION AND EMPLOYEE PERFORMANCE

Innovation is the process of converting knowledge and ideas into new products and services that offer value to customers and markets, while also providing benefits or added value to the company (Feeny & Rogers, 2003); (Jaskyte, 2011); (Acar et al., 2024); (Al-Hakim & Hassan, 2016); (Prajogo, 2016). According to (Supriyanto et al., 2023), innovation enables organizations to integrate both external and internal resources, as well as to create, propose, filter, adapt, and implement new and useful ideas, services, procedures, and processes.

Innovation has become a focal point for researchers and business practitioners in today's highly competitive business landscape (Bergman et al., 2015); (Alshammari et al., 2014), as it is a key driver of global economic growth (Graese et al., 2018); (Babkin et al., 2015) and business expansion (Bergman et al., 2015); (Alshammari et al., 2014); (Gül et al., 2023). In response to these conditions, researchers and businesses are focused on developing strategies and resources to innovate, with the goal of maintaining sustainable competitiveness (Bernardo, 2014) and achieving long-term revenue and profit growth (Bergman et al., 2015). The widespread focus on innovation among researchers and practitioners has led to a variety of innovation strategies.

An innovation strategy involves transforming knowledge and ideas into new products, processes, services, and systems (Perdomo-Ortiz et al., 2006); (Jaskyte, 2011) or converting knowledge into financial gain (Graese et al., 2018). In this study, an innovation strategy is defined as the transformation of knowledge and ideas into products, processes, and improvements to existing methods, products, and services to meet customer needs and benefit the company. This concept is based on (Damanpour, 2018) research, which includes indicators such as administrative innovation, technical innovation, service innovation, and product innovation.

Research by (Cottam et al., 2001) suggests that an innovation strategy is one way companies can create a competitive advantage, enabling them to thrive in a competitive business environment. Studies conducted by (Kusuma et al., 2021) and (Marín-Idárraga & Cuartas-Marín, 2019) provide evidence that innovation significantly impacts employee performance.

Based on the above discussion, the following hypotheses can be formulated for this study: H3: Strategic innovation significantly affects employee performance. H4: Strategic innovation significantly affects job satisfaction.

## 2.3 JOB SATISFACTION AFFECTS EMPLOYEE PERFORMANCE

According to (Gibson et al., 1987), (Hasibuan & Wahyuni, 2020), and (Robbins et al., 2013), job satisfaction is a positive attitude that employees develop over time towards their work. This attitude stems from the employee's ongoing perception of various aspects of their job. Several factors influence job satisfaction, including salary, opportunities for promotion, and relationships with coworkers. Essentially, job satisfaction is a personal characteristic, as each individual's level of satisfaction varies depending on the values they prioritize. The more a job fulfills an individual's desires, the higher their perceived job satisfaction. (Luthans et al., 2007) suggest that job satisfaction results from employees' perceptions of how well their job meets essential needs. (Dora et al., 2018) describes job satisfaction as a positive emotional state derived from evaluating one's work experiences, whereas dissatisfaction arises when expectations are not met. (Robbins et al., 2013) define job satisfaction as a positive attitude towards one's job, based on the evaluation of its attributes. This definition underscores that job satisfaction reflects an individual's attitude and serves as feedback on their work. According to (Luthans et al., 2007) and (Purnama, 2017), job satisfaction comprises four dimensions: work itself, opportunities, supervision, and relationships with coworkers. These dimensions are used as indicators to measure job satisfaction.

Research conducted by (Yuen et al., 2018), (Buble, 2015), and (Purnama, 2017) has shown that job satisfaction significantly impacts employee performance. This study also aims to determine whether job satisfaction mediates the relationship between strategic flexibility and strategic innovation on employee performance. Based on this, the following hypotheses are formulated: H5: Job satisfaction has a significant effect on employee performance. H6: Job satisfaction mediates the relationship between strategic flexibility and employee performance. H7: Job satisfaction mediates the relationship between strategic innovation and employee performance.

The conceptual framework for assessing the impact of strategic flexibility and strategic innovation on employee performance, with job satisfaction as a mediating factor, is illustrated in Figure 1.

### 3 METHODOLOGY

#### 3.1 RESEARCH DESIGN

According to (Ghozali, 2021), this study is designed as an explanatory research, aiming to explain the relationships between strategic flexibility, strategic innovation, job satisfaction, and employee performance. The research tests hypotheses to draw causal conclusions.

#### 3.2 POPULATION AND SAMPLE

The study's population includes all employees in the SME clothing industry in East Java province. The sample size is determined based on statistical techniques to minimize sampling error. (Dewi et al., 2021) suggests that the optimal sample size for PLS analysis ranges between 100 and 200 respondents. Additionally, the sample size should be at least five to ten times the number of indicators in the latent variables. In this study, with 16 indicators, the sample consists of 160 respondents. The sample was selected using stratified random sampling.

#### 3.3 METHOD OF DATA COLLECTION

The study employs a Likert scale for measurement, chosen for its convenience, high reliability in gauging perceptions, flexibility, and wide applicability. Questionnaires containing research variable indicators were distributed to respondents, who answered based on their perceptions. Responses were measured using a five-point Likert scale, where 1 = Strongly Disagree and 5 = Strongly Agree (Ghozali, 2021).

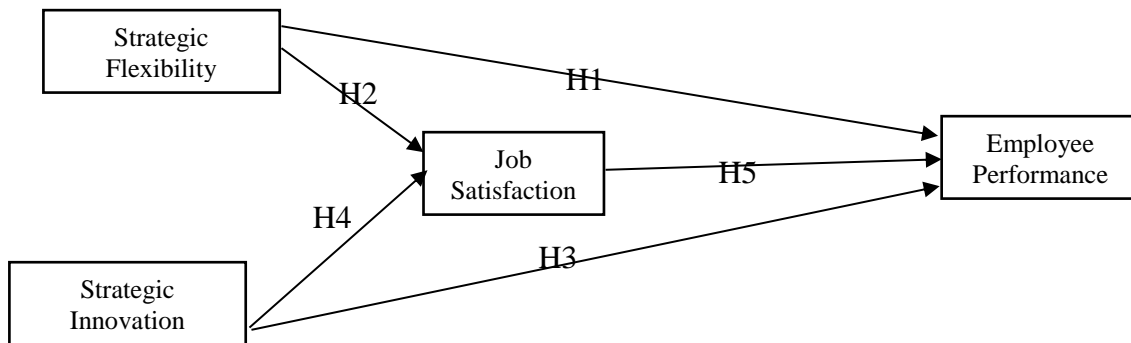
#### 3.4 DATA ANALYSIS METHOD

The analysis in this study using PLS (Partial Least Squares) is conducted in two stages. The first stage involves evaluating the measurement model (or outer model), using four criteria: dimensional reliability, internal consistency reliability (Table 2), convergent validity, discriminant validity (Table 1), and average variance extracted (AVE) (Table 3). The second stage evaluates the structural model (or inner model) to determine the relationships between

constructs, significance values, R-square, and Q-square (Table 4) in the research model. SmartPLS software is used to test the PLS-based empirical model (Ghozali, 2021).

**Figure 1**

*Research model and proposed hypothesis.*



H6: Strategic Flexibility → Job Satisfaction → Employee Performance  
H7: Strategic Innovation → Job Satisfaction → Employee Performance

## 4 RESULTS AND DISCUSSIONS

### 4.1 RESULTS VALIDITY TEST RESULTS

According to Hair, as cited in (Ghozali, 2021), a questionnaire is considered valid if the statements within it clearly reveal what is being measured. Validity is tested by correlating the scores of each question with the overall variable scores. In this study, each variable has an outer loading greater than 0.4. Table 1 indicates that the statement items related to strategic flexibility, strategic innovation, job satisfaction, and employee performance all have correlation coefficients greater than 0.4, confirming their validity. Statement items with a coefficient above 0.4 are deemed valid.

**Table 1**

*Validity Test Results*

Variable	Indicator	Loading Factor	Information
Strategic flexibility	Organize	0,495	Valid
	Process	0,499	Valid
	Strategy	0,914	Valid
Strategic innovation	Service	0,866	Valid
	Product	0,903	Valid
	Jobs	0,881	Valid
Job satisfaction	Opportunities	0,775	Valid
	Supervision	0,802	Valid
	Partners	0,796	Valid
Employee performance	Knowledge	0,687	Valid
	Attitudes	0,744	Valid
	Skills	0,590	Valid
	Emotional	0,781	Valid

Source: data processing results

Based on Table 1 above, the entire value of the loading factor shows that it is more than 0.40. Thus it can be stated that the dimensions of the variables observed in the study have met the requirements to be said to be valid.

#### 4.2 RELIABILITY TEST RESULTS

An instrument is considered reliable if it consistently produces the same measurement results when used to measure the same phenomenon at different times. According to (Malhotra, 2004), an instrument can be deemed reliable if it has an alpha coefficient value of 0.6 or higher.

In the context of evaluating the dependability of the PLS measurement model, composite reliability with a value greater than 0.70 and Cronbach's alpha with a value greater than 0.60 are used as criteria. These reliability measures help determine whether the dimensions consistently measure a construct. Table 2 presents the composite reliability and Cronbach's alpha values obtained from this evaluation.

**Table 2**

*Reliability Test Results*

Variabel	Composite Reliability	Cronbach's Alpha	Information
Strategic flexibility	1,000	1,000	Reliabel
Strategic innovation	0,879	0,724	Reliabel
Job satisfaction	0,888	0,831	Reliabel
Employee performance	0,804	0,693	Reliabel

Source: data processing results

Based on Table 3, it is evident that all variables have a composite reliability value greater than 0.7 and a Cronbach's alpha value greater than 0.6. Therefore, it can be concluded that all variables meet the reliability requirements for the study

#### 4.3 RESULTS OF TESTING THE MEASUREMENT MODEL (OUTER MODEL)

The outer model or loading factor test shows the weight of each dimension as a measure of each variable. Dimensions with loading factors are the strongest variables and vice versa. The outer model or measurement model is a model with calculation results based on the calculation of the Smart PLS version 3.0 programme. Confirmatory component analysis proves that dimensions explain a construct. The PLS model's reflective dimension loading factor is outer loading. Each variable in this study had an outside loading greater than 0.50.

Table 2 demonstrates that the loading factor exceeds 0.50. Hence, the study's variables' dimensions are legitimate.

If the Average Variance Extracted (AVE) value is greater than 0.50, all dimensions on the variable are valid (Ghozali, 2021). can be found in the table below:

**Table 3**

*Results of Average Variance Extracted (AVE)*

Variabel	Average Variance Extracted	Information
Strategic flexibility	1,000	Valid
Strategic innovation	0,783	Valid
Job satisfaction	0,664	Valid
Employee performance	0,676	Valid

Source: data processing results

Based on Table 3 above, it can be seen that the variables of strategic flexibility, strategic innovation, job satisfaction, and employee performance produce AVE values above  $> 0.50$  so that they meet the requirements of convergent validity and reliability.

#### 4.4 RESULTS OF TESTING THE STRUCTURAL MODEL (INNER MODEL)

Assessment of the structural model (inner model) uses numerous characteristics and dimensions to measure the model's accuracy in the research as a whole. Model fit (goodness of fit models) is an index and assessment of latent variable relationships inside a research concept

framework. PLS analysis using R-Square and Q-Square Predictive Relevance to determine model fit. The following table shows goodness of fit model findings:

**Table 4**

*Results of R-Square and Q-Square Predictive Relevance*

Variable	R-Square	Q-Square
Employee performance	0,571	0,409
Job satisfaction	0,274	0,246

Source: data processing results

According to Table 4, the employee performance R-square value is 0.571, or 57.1%. 57.1% of the variance in employee performance characteristics may be explained by strategic flexibility, strategic innovation, and work satisfaction, according to these findings. In other words, the contribution of strategic flexibility, strategic innovation, and work satisfaction to employee performance is 57.1%, with the remaining 22.9% attributable to the contribution of variables not mentioned in this study. The R-square value for the variable work satisfaction is 0.274%, or 0.274. These results indicate that strategic flexibility and innovation can explain the diversity of job satisfaction variables by 27.4%. In other words, the contribution of strategic flexibility and strategic innovation is 27,4 percent, and the remaining 72,6 percent is the contribution of other variables not covered in this study.

The employee performance variable has a predictive relevance value of 0.409% according to Q-square. This demonstrates the predictive power of strategic flexibility, strategic innovation, and job happiness on employee performance. The predictive importance of the job satisfaction variable is quantified by a Q-square value of 0.246%. This demonstrates that strategy flexibility and strategic innovation are reasonably predictive of job happiness.

#### 4.5 HYPOTHESIS TESTING RESULTS

The results of hypothesis testing in full are in the following description:

##### 4.5.1 Direct Effect Hypothesis Testing

Results of hypothesis testing and path coefficients of direct influence between strategic flexibility, strategic innovation, job satisfaction, and employee performance variables as presented in Table 5 below.

**Table 5**

*Direct Effect Test Results*

Independent Variable	Dependent Variable	Path Coefficient	T-Statistic	P-Value	Conclusion
Strategic flexibility	Employee performance	0,501	5,795	0,000	Significant
Strategic flexibility	Job satisfaction	0,499	6,416	0,000	Significant
Strategic innovation	Employee performance	0,014	1,477	0,420	Not Significant
Strategic innovation	Job satisfaction	0,249	4,165	0,000	Significant
Job satisfaction	Employee performance	0,269	3,054	0,002	Significant

Source: data processing results

4.6 INDIRECT EFFECT TESTING

The purpose of the indirect effect test is to determine whether the independent variable has an indirect effect on the dependent variable via the mediating variable. The test conditions state that exogenous variables have a substantial effect on endogenous variables via their mediating variables if the p-values threshold of significance (=5%) is met. The indirect effect test results are shown in the table below:

**Table 6**

*Indirect Effect Test Results*

Independent Variable	Mediation Variable	Independent Variable	Indirect Coefficient	T Statistik	P-Value
Strategic flexibility	Job satisfaction	Employee performance	0,133	2,920	0,004
Strategic innovation	Job satisfaction	Employee performance	0,230	3,176	0,002

Source: results of data processing

Based on the tests listed in the table above, it can be seen that:

4.7 DISCUSSION

**Effect of Strategic Flexibility on Employee Performance:** The research findings show that strategic flexibility significantly influences employee performance, as indicated by a path coefficient of 0.501 and a p-value of 0.000, which is below the significance threshold of 0.05. This suggests that increased strategic flexibility positively impacts employee performance, supporting the acceptance of Hypothesis 1 (H1). The study empirically

demonstrates that strategic flexibility enhances employee performance by prioritizing organizational processes and strategies, which in turn improves employees' capabilities, including their knowledge, attitudes, skills, and emotional maturity. Organizations that emphasize strategic flexibility are more likely to promote growth and advancement, positively influencing employee performance. These findings are consistent with prior research by (Kelliher & Anderson, 2008), (Altindag & Siller, 2014), and others, which indicate a positive correlation between flexibility and performance.

**Effect of Strategic Flexibility on Job Satisfaction:** The study found that strategic flexibility has a significant positive effect on job satisfaction, with a path coefficient of 0.499 and a p-value of 0.000, confirming Hypothesis 2 (H2). The positive path coefficient indicates that as strategic flexibility increases, so does job satisfaction. The results suggest that strategic flexibility enhances job satisfaction by focusing on organizational processes and service strategies. Organizations that prioritize strategic flexibility are more likely to foster job satisfaction by creating opportunities for employees and providing effective supervision and partnerships. This aligns with previous research by (Origo & Pagani, 2008), (Daniel et al., 2015), and (McNall et al., 2009), which also found a positive relationship between flexibility and job satisfaction.

**Effect of Strategic Innovation on Employee Performance:** The study reveals that strategic innovation does not significantly affect employee performance, as indicated by a path coefficient of 0.014 and a p-value of 0.420, which exceeds the significance threshold of 0.05, leading to the rejection of Hypothesis 3 (H3). The findings suggest that strategic innovation has not effectively motivated employees to improve their performance. Despite strategic innovation efforts in areas like service and product innovation, these have not translated into improved employee performance. This finding is consistent with (Suwanto et al., 2019), who also reported no significant effect of strategic innovation on employee performance. However, it contrasts with studies by (Cottam et al., 2001), (A. Kusuma et al., 2021), and (Marín-Idárraga & Cuartas-Marín, 2019), which highlight the importance of innovation strategies for enhancing employee performance.

**Effect of Strategic Innovation on Job Satisfaction:** The study found that strategic innovation significantly positively impacts job satisfaction, with a p-value of 0.000, supporting Hypothesis 4 (H4). The positive path coefficient indicates that better strategic innovation leads to higher job satisfaction. The findings suggest that strategic innovation enhances job satisfaction by consistently prioritizing service and product innovation for employees.

Organizations focusing on strategic innovation are more likely to create a work environment that fosters job satisfaction. These findings align with previous research by (Graese et al., 2018), (Babkin et al., 2015), and others, which emphasize the importance of innovation in driving economic and corporate growth.

**Effect of Job Satisfaction on Employee Performance:** The study confirms that job satisfaction positively influences employee performance, with a path coefficient of 0.269 and a p-value of 0.002, leading to the acceptance of Hypothesis 5 (H5). The positive path coefficient suggests that higher job satisfaction correlates with better employee performance. The findings indicate that job satisfaction, derived from factors like employment opportunities, supervision, and partnerships, can significantly enhance employees' knowledge, attitudes, skills, and maturity. This finding is consistent with prior research, although it contrasts with the work of (Yuen et al., 2018) and (Suhartono et al., 2023), who reported a strong correlation between job satisfaction and performance.

**Mediation Effects:** The study also explored the mediating role of job satisfaction in the relationship between strategic flexibility, strategic innovation, and employee performance.

- **strategic flexibility and employee performance:** Hypothesis 8 (H8) examined job satisfaction as a mediator between strategic flexibility and employee performance. The results indicate that job satisfaction partially mediates this relationship, as both the direct and indirect effects of strategic flexibility on employee performance are significant. The findings suggest that while strategic flexibility can directly impact employee performance, its effect is amplified when mediated by job satisfaction;
- **strategic innovation and employee performance:** Hypothesis 7 (H7) explored the mediating role of job satisfaction in the relationship between strategic innovation and employee performance. The results show that job satisfaction fully mediates this relationship, as strategic innovation does not directly impact employee performance, but does so through its influence on job satisfaction. This finding underscores the importance of job satisfaction in translating strategic innovation into improved employee performance.

#### 4.7.1 Research implications

1. **methodological contribution:** this study contributes methodologically by employing cluster random sampling and Partial Least Squares Regression (PLS) analysis via

SmartPLS version 3.0. These methods can be adopted by other researchers to enhance the reliability and robustness of their findings;

2. **theoretical advancement:** the research advances theoretical understanding by uncovering the complex relationships between strategic flexibility, strategic innovation, job satisfaction, and employee performance, encouraging further exploration in organizational behavior and strategic management;
3. **managerial insights:** the findings provide valuable insights for managers, particularly in the Small and Medium Industries (SMIs) of Clothing in East Java Province, emphasizing the importance of strategic flexibility and job satisfaction in enhancing employee performance.

#### 4.7.2 Practical implications

1. **human resource management:** organizations can integrate strategies to enhance strategic flexibility and job satisfaction into their HR practices, such as offering skill development opportunities and fostering a supportive work environment.
2. **organizational development:** understanding the mediating role of job satisfaction can help organizations focus on initiatives that improve employee satisfaction, leading to higher engagement and productivity.
3. **strategic planning:** managers can use these insights to prioritize strategic flexibility and job satisfaction in their planning processes, knowing these factors are critical for achieving high employee performance and organizational success.

#### 4.7.3 Social implications

1. **employee well-being:** promoting strategic flexibility and job satisfaction can contribute to a positive work environment and enhance overall employee well-being, which may have broader societal benefits, including improved mental health and work-life balance;
2. **economic growth:** improving employee performance through strategic flexibility and job satisfaction can boost productivity and innovation, contributing to regional and national economic growth, particularly within the Small and Medium Industry sector;

3. **workforce development:** investing in strategies to enhance strategic flexibility and job satisfaction can help develop a skilled and motivated workforce, leading to better job opportunities and career advancement within the community.

## 5 CONCLUSION

The research findings demonstrate that strategic flexibility significantly enhances employee performance and job satisfaction within the Small and Medium Enterprises (SMEs) in the clothing sector of East Java Province. Conversely, strategic innovation does not have a direct impact on employee performance but can improve it indirectly by boosting job satisfaction, which in turn positively affects performance. These results highlight the crucial role of job satisfaction as a mediator between strategic flexibility, strategic innovation, and employee performance in the clothing SMEs of East Java Province.

Based on these findings, several practical recommendations are offered for management in the clothing SMEs of East Java Province:

1. **enhance strategic flexibility:** management should focus on increasing strategic flexibility within the organization by investing in employee training, skill development, and implementing systems that support adaptability to market changes.
2. **prioritize strategic innovation:** although strategic innovation does not directly impact employee performance, it remains essential for improving job satisfaction. Management should foster a culture of innovation and encourage creative ideas from employees to enhance business processes and add value.
3. **strengthen job satisfaction management:** given the importance of job satisfaction as a mediator, management should prioritize creating an inclusive work environment, offering fair compensation, and maintaining open communication channels to improve employee job satisfaction.

**Further Research Opportunities:** Future studies could explore additional factors that may moderate or mediate the relationships between strategic flexibility, strategic innovation, job satisfaction, and employee performance in the clothing SMEs sector across different regional contexts. This would provide further insights valuable to both practitioners and academics for more effective organizational management.

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