Can Strategy and Innovation Drive Performance Through Competitive Advantage?

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Abstract: This paper attempts to is to understand and analyze the influence of business strategy and innovation capabilities on business performance in cafes in Semarang City, where competitive advantage serves as a mediator. The research population consisted of 221 cafes registered with the Semarang City Cafe Association (ASOKAS). The research was conducted using a census method, involving all members of the population. This study utilized Structural Equation Modeling (SEM) for data analysis, implemented through AMOS 26. The findings of this research reveal that competitive advantage contributes positively and significantly to business performance, business strategy reveals a significant positive effect on business performance, business strategy reveals a significant positive effect on competitive advantage, innovation capability significantly and positively affects business performance, and also significantly enhances competitive advantage. The conclusion of this study is that competitive advantage, business strategy, and a positive impact on café business performance in Semarang City.

Keywords: Business performance; Business strategy; Innovation capability; Competitive advantage

1. Introduction

In running a business, improving business performance represents a company's primary objective., whether it is a large-scale or small-scale business. Significant business growth today has resulted in intense competition. This situation has encouraged business players to adopt various strategic approaches to strengthen their business performance. Business performance is a crucial aspect that is very important for every organization. (Correia et al., 2020; Kaydos, 2020). Good business performance brings a number of significant benefits to a company (Valdez-Juárez & Castillo-Vergara, 2021). Strong business performance also strengthens the company's competitiveness, enabling it to attract more customers and business partners, as well as enhance its reputation (Haseeb et al., 2019). A deep understanding of business performance and efforts to improve it are crucial aspects when facing challenges in a competitive business environment.

Business performance is important for the food and beverage sector. One of the growing food and beverage industries is the cafe business. The cafe business or caffeine-based products have experienced rapid growth in recent years. Similarly, in the city of Semarang, the cafe business has grown every year. Based on findings in the field, not all cafes in Semarang receive high numbers of customers; only a few cafes appear to be crowded with visitors. This is why some cafes are unable to meet their expected sales turnover. In fact, one of the keys to business success in improving business performance is sales turnover.

A solution that can be offered to build good business performance for cafe businesses in Semarang can be done by designing the right business strategy. The ability of an organization to achieve superior results in these aspects is the main objective of every business strategy that is designed (D.-C. Chen & Chen, 2021). In an ever-changing world, organizations need to have the flexibility and adaptability to change in line with changes in the industry, technology, and consumer preferences (Onufrey & Bergek, 2021). Business strategies that are successful today may not be relevant or effective in the coming years. Therefore, organizations must continuously monitor and evaluate their business strategies, and be bold enough to make the necessary changes to remain competitive.

Furthermore, when supported by a good competitive advantage strategy, it can help improve business performance because a competitive market requires organizations to have advantages that differentiate them from their competitors (Farhikhteh et al., 2020). Competitive advantage strategies help organizations effectively position themselves in crowded markets, understand how best to deal with competitors, and ultimately win valuable market share (Liao et al., 2015; Ali & Anwar, 2021; Ijomah et al., 2023). By designing and implementing the right competitive advantage strategy, organizations can secure their position in fierce business competition and achieve better business performance.

Innovation capabilities likewise serve as a key driver in improving business performance (Sanchez-Henriquez & Pavez, 2021). Through innovation, organizations are able to preserve their competitive edge and react to evolving market trends, and provide added value to customers. Innovation serves as a core determinant of organizational performance (Huang & Li, 2018; Darmawan & Grenier, 2021). Among SMEs, innovation is instrumental in reinforcing competitive strength and enhancing business performance (Kumar et al., 2021). Success in innovation gives enabling organizations to maintain their competitiveness in a rapidly changing market (Usman et al., 2018; Aminova & Marchi, 2021; J. Huang et al., 2021). By innovating, companies can respond to changing trends and market preferences more quickly and effectively.

Based on the above description, improving business performance is a vital aspect that must be the main focus for every business actor, including the café industry in Semarang City, which is experiencing rapid growth but faces high levels of competition. The conditions in the field, which show an imbalance between the number of cafés and the level of consumer visits, emphasize the need for a more appropriate strategy in managing and developing the business. Therefore, this research is very important to analyze how business strategies, competitive advantage strategies, and innovation capabilities can affect the improvement of café business performance in Semarang City.

2. Literature Review or Related Research

2.1. Business performance

Business performance refers to a company's ability to achieve its targets and desired results in its operations (Latifah et al., 2021). A business with competent corporate performance can compete and survive in a competitive business environment. The key to achieving optimal performance involves effective management of the company's human, financial, and operational resources. Business performance is the ability of a company to achieve its predetermined targets and objectives (Hanaysha et al., 2022). Good business performance reflects a company's ability to generate significant profits and maintain its position in the market.

2.2 Competitive Advantage

A company's competitive advantage can be described as its ability to plan, provide services, and market products that are superior in quality and price compared to its competitors (Basterretxea & Martínez, 2012). Without a competitive advantage, a company will only be able to earn a standard return, which is the expected rate of return from other investments with a similar level of risk (Khan et al., 2021). Competitive advantage refers to a competitive strategy that is difficult for competitors to replicate, namely creating products that truly have unique regional value and are produced consistently, thereby preventing competitors from attracting consumers' attention.

2.3 Business Strategy

A business strategy is a plan or direction that an organization will take in carrying out its business mission to achieve its business vision (Latifah et al., 2021). Business strategy is the planning or actions taken by an organization to achieve its business objectives. It involves determining the direction and priorities to be taken in order to achieve the company's vision

and mission. Business strategy includes various decisions related to resource management, market positioning, product or service innovation, and how to compete in a competitive market.

2.4 Innovation Capability

Innovation capability is an organization's ability to generate innovative concepts and implement them to transform into superior products or services (Zhang & Zhang, 2022). Innovation capability is an organization's ability to generate and implement new concepts that provide added value to customers and the organization itself (Tidd & Bessant, 2020). Innovation capabilities also include the ability to create more efficient and productive business processes. According to Chesbrough (2020), Organizations with innovative capabilities are better able to survive in highly competitive situations and win the market. The ability to continuously generate new ideas, products, or processes opens up opportunities to respond quickly to market dynamics and consumer needs.

3. Proposed Method

This research utilizes an explanatory quantitative approach, as it focuses on uncovering the causal relationships among variables, namely the role of business strategy, competitive advantage, and innovation capability on business performance in cafés in Semarang City. The population in this study consists of all café businesses registered with the Semarang City Café Association (ASOKAS), totaling 221 business units. Given the relatively small population size and the possibility of reaching the entire population, this study uses a census method, whereby all members of the population are included in the research sample. Thus, every café owner or manager in Semarang City who is registered with ASOKAS became a respondent within this research. The forms of data used utilized both primary and secondary data. The primary data were collected directly from respondents using a questionnaire containing statements related to research variable indicators, including business strategy, competitive advantage, innovation capability, and business performance. The questionnaire was designed using a seven-point interval scale (1–7), ranging from "strongly disagree" to "strongly agree," to measure respondents' perceptions of each statement. The questionnaire was distributed online using Google Forms, which were disseminated through each café's official social media accounts. Meanwhile, this study obtained secondary data through various sources, such as company documentation, websites, books, and scientific articles relevant to the research topic.

This study employed Structural Equation Modeling (SEM) for data analysis, conducted with the aid of AMOS 26. The SEM approach was selected due to its ability to simultaneously examine complex interrelationships among latent variables, encompassing both direct and indirect impacts. The SEM analysis was conducted in two main stages: the measurement model and the structural model. Through the measurement model, the validity and reliability of the constructs were evaluated through Confirmatory Factor Analysis (CFA), whereas the structural model was employed to evaluate the causal the associations among the research variables as well as the model's overall goodness of fit (GOF). Through this approach, it is hoped that an empirical model will be obtained that can accurately describe the influence of business strategy, competitive advantage, and innovation capabilities on the business performance of cafes in the city of Semarang.

4. Results and Discussion

The respondents in this study were café owners or managers, as they play a strategic role in operational decision-making and business management. Data were obtained through an online questionnaire (Google Form) distributed to all ASOKAS members, and of the total 221 questionnaires sent, 210 were returned and deemed suitable for analysis. Based on the data processing results, the majority of respondents were male (67.1%), had a diploma or bachelor's degree (78.1%), and held managerial positions (75.7%), indicating that café management in Semarang City is dominated by educated and experienced individuals in the managerial field.

4.1. SEM Assumption Test

First, test the normality of data which aims to evaluate whether the data used in the analysis follows a normal distribution or not. As shown in Table 1 the data normality test results are outlined.

Table 1. Normality Test Results

Variable	min	max	skew	c.r.	kurtosis	c.r.
KB5	3	7	0.155	0.916	0.115	0.339
KB4	4	7	0.359	2.125	0.06	0.178
KB3	4	7	0.115	0.68	-0.177	-0.524
KB2	4	7	0.32	1.893	-0.03	-0.09
KB1	4	7	0.244	1.445	-0.066	-0.195
KBS5	4	7	0.331	1.958	0.051	0.15
KBS4	4	7	0.376	2.227	-0.146	-0.431
KBS3	4	7	-0.08	-0.471	-0.813	-2.406
KBS2	1	7	-1	-5.915	3.203	9.475
KBS1	4	7	0.331	1.956	0.042	0.125
KI4	4	7	0.257	1.521	-0.038	-0.112
KI3	4	7	0.191	1.127	-0.026	-0.078
KI2	4	7	0.106	0.629	-0.207	-0.613
KI1	4	7	0.343	2.027	-0.128	-0.379
SB5	4	7	0.257	1.522	-0.339	-1.003
SB4	3	7	0.37	2.19	0.121	0.359
SB3	1	7	-0.307	-1.818	2.366	6.998
SB2	3	7	0.054	0.319	-0.307	-0.909
SB1	3	7	0.18	1.063	0.446	1.319
Multivariate					0.009	0.002

As shown in Table 1, the multivariate normality test confirms that the data adhere to the normality assumption, since the obtained value of 0.002 is within the permissible range of ±2.58.

Second, an outlier test was conducted to detect the presence of extreme or outlier data that could affect the analysis results. Outliers can be identified using the Mahalanobis distance method with using a p-value criterion of $p > 0.001$. In this context, there are 19 critical questions that require special attention. Subsequently, using Excel software and applying the CHISQ.INV.RT formula to calculate the probability and measured variables, the threshold value is 43.82. This indicates that all data exceeding (>) this value, i.e., exceeding 43.82, can be considered as situations where the value is outside the normal range or an outlier. The outlier test results are as follows.

Table 2. Hasil Pengujian Outliers

Observation number	Mahalanobis d-squared	p1	p2
103	37.332	0.007	0.781
105	36.436	0.009	0.584
171	35.785	0.011	0.419
192	33.723	0.02	0.599
19	33.657	0.02	0.417
121	31.969	0.032	0.651
3	31.73	0.034	0.558
80	31.472	0.036	0.48
188	31.246	0.038	0.403
190	30.85	0.042	0.386
123	30.443	0.046	0.385
115	30.342	0.048	0.3
6	29.892	0.053	0.327
94	29.658	0.056	0.297

194	28.705	0.071	0.524
102	28.142	0.081	0.632
7	28.086	0.082	0.554
100	27.827	0.087	0.558
110	27.114	0.102	0.742
142	27.078	0.103	0.675
69	27.026	0.104	0.61
29	26.767	0.11	0.632
111	26.041	0.129	0.828
…	…	…	dst

Table 2 shows that the Mahalanobis distance of all 210 processed data does not exceed 43.82, with the highest value reaching 37.332. Therefore, it can be concluded that there are no data in this output that can be considered outliers.

Finally, the Data Sufficiency Test (Hoelter Index) was conducted by looking at the Hoelter index output table. The table shows index values that focus on the adequacy of the number of respondents involved in the research.

Table 3. Hoelter Index

Model	HOELTER 0.05	HOELTER 0.01
Default model	215	232
Independence model	21	22

As shown in the preceding table, the critical value of N at a significance level of 5% is 215, while at a significance level of 1% it is 232. These figures illustrate that at a 5% confidence level, the acceptance of the model depends on whether the sample size reaches 215, and at a 1% level, the model can be deemed valid provided that the sample size reaches 232. If the sample size exceeds 232 (at a 1% level) or exceeds 215 (at a 5% level), then the model can be rejected. The Hoelter index provides an indication of data quality and whether the sample used is adequate to apply the model to a broader population. With a total research sample of 210, this number is lower than the desired Hoelter value at a 5% significance level. Therefore, it can be concluded that the sample from this model is capable of achieving the expected level of goodness of fit.

4.2. Construct Reliability and Validity Test

First, validity testing aims to assess the degree to which the assessment instrument is capable of measuring the intended construct. The table below presents the results of the construct validity analysis testing using AMOS:

Table 4. Validity Test Results

Variable	Indicator	Loading Factor	Limit	Description
Business Strategy	SB_1	0.732		Valid
	SB_2	0.806		Valid
	SB_3	0.818	>0,50	Valid
	SB_4	0.764		Valid
	SB_5	0.704		Valid
Innovation Capability	KI_1	0.663		Valid
	KI_2	0.717	>0,50	Valid
	KI_3	0.758		Valid
	KI_4	0.784		Valid
Competitive Advantage	KBS_1	0.691		Valid
	KBS_2	0.784		Valid
	KBS_3	0.707	>0,50	Valid
	KBS_4	0.723		Valid
	KBS_5	0.785		Valid
Business Performance	KB_1	0.875	>0,50	Valid
	KB_2	0.883		Valid

KB3	0.762		Valid
KB4	0.55		Valid
KB5	0.767		Valid

The validity test results involving 210 respondents and 19 questions showed that all questions had a loading factor value exceeding 0.50. Therefore, it can be concluded that each question in the questionnaire has an adequate level of validity.

Second, the reliability test indicates the consistency of the measurement instrument. The following table shows the findings of the construct reliability test:

Table 5. Reliability test

Variable	CR	Limit	VE	Limit	Description
Business Strategy	0.876		0.587		Reliable
Innovation Capabilities	0.821	> 0.7	0.536	> 0.5	Reliable
Competitive Advantages	0.857		0.546		Reliable
Business Performance	0.881		0.603		Reliable

Reliability is achieved if the Construct Reliability (C.R) value is above 0.7 and the Variance Extracted (VE) exceeds 0.5. In testing using 210 respondents, it was seen that the C.R and VE values for the four the research variables surpassed their designated threshold values, namely 0.7 and 0.5. Thus, it can be concluded that all research instruments show good reliability, so they are reliable and can be used in the context of this study.

4.3 Structural Model Analysis (Full Model) with SEM

After verifying that SEM meets several assumptions, such as normal distribution of data, freedom from outliers, and sufficient data samples, a full SEM model analysis was conducted. The following presents an overview and the results of the full SEM model analysis:

Table 6. Goodness of Fit Results for Full Model

Goodness of fit index	Cut-off value	Research Model	Model
Chi-square	Expected < Chi Square (x2table), with sig a = 0.05 and df = 146, then x2 table = 175.1976	170.52	Fit
Probability	≥ 0.05	0.081	Fit
RMSEA	≤ 0.08	0.028	Fit
GFI	≥ 0.90	0.926	Fit
AGFI	≥ 0.90	0.904	Fit
CMIN/DF	≤ 2.0	1.168	Fit
TLI	≥ 0.90	0.985	Fit
CFI	≥ 0.90	0.987	Fit

Referring to Table 6, the results of the full SEM model suitability evaluation can be obtained with a chi-square value of 170.52 and a significance level of 0.081. These results indicate that the model has a good fit. Furthermore, there are RMSEA values of 0.028, GFI of 0.926, AGFI of 0.904, CMIN/DF of 1.168, TLI of 0.985, and CFI of 0.987, all of which conform to the established SEM cut-off values. The overall results of the research model feasibility test show suitability and meet the criteria required for acceptance.

3.4. Hypothesis Testing

When the model fulfills the predefined criteria and is considered suitable, the next procedure is hypothesis testing. The standardized regression weights provide information about the hypothesis analysis, showing the magnitude of the relationships among variables. The the related values are displayed in the subsequent table.

Table 7. Hypothesis Testing

No.	Hypothesis	Estimate	S.E.	C.R.	P	Results
H1	Competitive Advantage on Business Performance	0.384	0.103	4.691	***	Positively significant

H2	Business Strategy on Business Performance	0.197	0.09	2.556	0.011	Positively significant
H3	Business Strategy on Competitive Advantage	0.299	0.081	3.426	***	Positively significant
H4	Innovation Capability on Business Performance	0.229	0.094	2.862	0.004	Positively significant
H5	Innovation Capability on Competitive Advantage	0.270	0.084	2.988	0.003	Positively significant

The results show that all hypotheses proposed were accepted because each variable showed a significant and positive relationship. Competitive advantage was proven to have a significantly positive impact on business performance with a coefficient value of 0.384 and C.R 4.691 (p<0.000), which means that greater competitive advantage is associated with improved business performance (H1 accepted). Business strategy also exerts a positive and significant influence on business performance, with a coefficient of 0.197 and C.R 2.556 (p=0.011), and likewise exerts a significant effect on competitive advantage, with a coefficient of 0.299 and C. R 3.426 (p<0.001), so that the better the business strategy, the higher the performance and competitive advantage (H2 and H3 accepted). Furthermore, innovation capability has a positively significant effect on business performance with a coefficient of 0.229 and C. R 2.862 (p=0.004), and affecting competitive advantage, indicated by a coefficient of 0.270 and C.R 2.988 (p=0.003), indicating that an increase in innovation capability can drive an increase in performance and competitive advantage (H4 and H5 accepted).

5. Comparison

Competitive advantages have a positively significant impact on business performance. Competitive pricing, exploration of opportunities, protection against competitive pressures, organizational flexibility, and strong customer relationships enable a business to gain a strong competitive advantage. By implementing competitive advantage and emphasizing good customer relationships, cafes have been proven through various measurement parameters to increase enduring profitability, sales expansion, resource liquidity, investment potential, and loyal customer behavior, which support their good performance. Research conducted by Kiyabo & Isaga (2020) also supports the above statement that competitive advantage plays a role in boosting business performance. Business edge also enables companies to create added value for customers through a satisfying and unique consumption experience (Seow et al., 2025; Waktola et al., 2024). Cafés that are able to maintain their competitive advantage through product differentiation, superior service, and the organization's adaptability to market dynamics will find it easier to achieve a strong competitive position.

The relationship between business strategy and business performance, which is both positive and significant. The implementation of good business strategies by cafés, such as competitive analysis, product market strategy, product competitiveness, service quality excellence, and low-price strategic initiatives, has been proven to enable companies to perform well. If a café implements the above and emphasizes competitive products, it has been proven from various measurement parameters that it can increase long-term profitability, sales growth, resource liquidity, investment capacity, and customer loyalty that support its good performance. Research conducted by Hartato & Handoyo (2021) also supports the above statement that business strategy has a positive and significant impact on business performance. An effective business strategy enables companies to adjust to changes in the market environment, understand consumer behavior, and make the most of existing opportunities (Rehman et al., 2023). By combining in-depth market analysis, product innovation, and consistent pricing and service quality management, cafés can increase their competitiveness while strengthening their position in the market.

The correlation linking business strategy and competitive advantage is positive and significant. By implementing competitive analysis, product market strategy, competitive products, high service quality, and low pricing strategies that support the company's innovation capabilities, a café company can enhance its competitive advantage. Therefore, if a company implements the above and emphasizes the application of competitive products in

its business, as evidenced by various measurement parameters including competitive pricing, exploration of opportunities, protection against competitive threats, organizational flexibility, and customer relationships, it can support competitive advantage. These findings align with previous studies Ali & Anwar (2021) which states that business strategy contributes positively and significantly to strengthening the firm's competitive edge edge. Effective business strategies also encourage innovation, both in terms of products and processes, enabling companies to adapt to dynamic customer demands and market trends (Wang et al., 2021). In the context of a competitive café industry, adaptive and innovation-based business strategies not only help companies cope with market pressures, but also enable the creation of business edge which are challenging for competitors to imitate.

Innovation capability demonstrates a significant positive association with business performance. The implementation of good innovation capabilities by café businesses, including the total patents filed and the number of new products introduced, the reliability of production processes and technology, and business process efficiency, has been proven to enable companies to perform well. Where a cafe implements the above and emphasizes business process efficiency, it has been proven from various measurement parameters that it can increase long-term profit performance, sales expansion, availability of liquid resources, investment potential, and loyalty of customers that support its good performance. Q. Chen et al. (2021) also reported that same result, namely that innovation capabilities positively affect company performance. Innovation not only has an impact on the creation of new products that suit consumer tastes, but also on improving operational efficiency and the quality of services provided (Hanaysha et al., 2022; Wongsansukcharoen & Thaweepaiboonwong, 2023). By continuing to innovate in production processes, menu development, and customer service strategies, cafés can maintain their relevance and create sustainable added value.

Firms' innovation capabilities exert a significant positive influence on attaining competitive advantage. A café business that implements good innovation capabilities, including the total patents filed and the number of new products introduced, the reliability of production processes and technology, and business process efficiency, has been proven to enable the company to perform well. Whereas, if a café implements the above and emphasizes business process efficiency, it has been proven from various measurement parameters that it can increase competitive pricing, explore opportunities, defend against competitive threats, enhance flexibility, improve customer relations, and support competitive advantage. Ferreira et al. (2020) which reveals that innovation plays a significant positive role in enhancing a company's business edge. Innovation is not only related to new product development, but also includes process innovation, business models, and service strategies that provide added value to customers (Alghamdi & Agag, 2024). Cafés that continue to innovate will be able to adapt to market dynamics, introduce new concepts and experiences to consumers, and develop a strong brand image that differentiates them from competitors.

6. Conclusion

Based on the results of the study, it can be concluded that competitive advantage, business strategy, and innovation capabilities have a positive and significant effect on business performance in cafés in Semarang. The implementation of effective business strategies through competitive analysis, competitive product development, good service quality, and appropriate pricing strategies has been proven to improve business performance. In addition, innovation capabilities, which include new product development, production process efficiency, and the use of modern technology, play an important role in strengthening competitive advantage and increasing long-term profitability.

This study has several limitations, including a scope limited to café businesses in the Semarang area, meaning that the results cannot be generalized to other sectors or regions. In addition, this study employs a quantitative methodology, with data collected via questionnaires, which has the potential to cause bias in respondents' perceptions of the real conditions of the company. Other variables that may also affect business performance, such as market orientation, organizational culture, and digital technology adoption, were not included in this research model. For future research, It is suggested that future research extend the study to other business sectors and more diverse regions to obtain more representative results. Subsequent research could also use mixed methods to offer a more comprehensive

understanding of the relationships among variables. In addition, the addition of mediating or moderating variables such as entrepreneurial orientation, digital capability, or customer satisfaction could enrich the conceptual model and provide an in depth perspective on the factors shaping business performance in the current competitive landscape.

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