

UDC 332

**THE INFLUENCE OF ENTREPRENEURIAL SELF EFFICACY ON BUSINESS PERFORMANCE MEDIATED BY INNOVATION AND COMPETITIVE ADVANTAGE VARIABLES: A STUDY OF COFFEE SHOPS IN MALANG RAYA**

**Pratama Reza Adi\*, Rahayu Mintarti, Moko Wahdiyati**

Department of Management, Faculty of Economics and Business,  
University of Brawijaya, Malang, Indonesia

\*E-mail: [rezaadipra@gmail.com](mailto:rezaadipra@gmail.com)

**ABSTRACT**

This research analyzes the influence of (1) entrepreneurial self-efficacy (X1) on business performance (Y1); (2) entrepreneurial self-efficacy (X1) on innovation (Z1); (3) innovation (Z1) on business performance (Y1); (4) entrepreneurial self-efficacy (X1) on competitive advantage (Z2); and (5) competitive advantage (Z2) on performance (Y1). This study adopts an explanatory research design with a quantitative approach, and it uses four variables: entrepreneurial self-efficacy (X), innovation (Z1), competitive advantage (Z2), and business performance (Y). Samples consist of 104 individuals. The results of the study indicate that (1) entrepreneurial self-efficacy does not have a significant influence on business performance; (2) entrepreneurial self-efficacy has a significant influence on innovation; (3) innovation has a significant influence on business performance; (4) entrepreneurial self-efficacy does not have a significant influence on competitive advantage, competitive advantage does not have a significant influence on business performance; (5) entrepreneurial self-efficacy significantly influences business performance when mediated by innovation; and (6) entrepreneurial self-efficacy does not have a significant impact on business performance when mediated by competitive advantage.

**KEY WORDS**

Public service, Malang, business, advantage.

Tourism and the creative economy will continue playing a central and strategic role in increasing government income, foreign change, and national employment rates. The creative industry, especially coffee shops or café (*kedai kopi*) as part of the food and beverages sub-industry, shows a good increasing trend as seen from the sales of Ready-to-Drink (RTD) coffee beverages. This increase, however, also goes along with increasing competition between coffee shops and human resource management in the business. Coffee shops used to serve a minimalist menu, yet they have evolved into a sophisticated business with attractive café designs, unique coffee servings, and various products. Coffee shops were originally a place for people to drink coffee. Yet, they have become a place to fulfill people's lifestyles, from hanging out with friends and families to doing school assignments.

In the coffee shop industry context, business performance is critical to sustaining success and growth. Coffee shops, which successfully faces challenges and can adapt to changing trends and customer preferences, tends to have strong and sustainable performance. According to Cornelius (2007), business performance is an important thing that every company must achieve because performance reflects its ability to manage and allocate resources. The indicators often used to assess business performance are the rate of return to owners and company value.

One of the factors that influence business performance is self-efficacy. Self-efficacy is a person's skill, including the belief to do something well. According to Bandura (1997), self-efficacy refers to individual beliefs about their ability to mobilize their motivation, cognitive resources, and actions needed to carry out tasks in certain contexts successfully. Entrepreneurs with good entrepreneurial self-efficacy can improve business performance because they strongly believe in their success in doing business to develop motivation and create effective programs for business development.

Another supporting factor that can play a role in improving business performance is innovation. According to Naranjo Valencia et al. (2015), innovation improves business performance; they also claim that organizational learning is the most important for their development. Hu et al. (2017) found that product innovation significantly and positively affects coffee shop business performance. Innovation in the coffee shop business can be in the form of new product development, better service, or more effective methods of coffee shop management. Innovations carried out properly and effectively can improve the performance of the coffee shop business by increasing customer satisfaction, customer loyalty, and profits (profit) earned.

Intense competition in the coffee shop industry requires managers and owners to increase their competitive advantage to develop their companies. Udaya et al. (2013) state that competitive advantage is obtaining a higher average profit than competitors, so the company is considered one step ahead. Han et al. (2019) found that competitive advantage in terms of service and product has a significant positive effect on the performance of the coffee shop business in South Korea. Sunyoto (2015) mentions that competitive advantage can be achieved by developing products innovatively and more profitably compared to competitors.

The trend of start-up companies that cause conventional giant companies to lose money and even go bankrupt is an example of the importance of innovation in a competitive environment. Innovation can have a significant effect on improving organizational performance (Lazarevic, 2007). The entrepreneurial theory of innovation identifies entrepreneurs as the main drivers of economic development through innovation adoption (Schumpeter, 1952). Thus, entrepreneurs foster innovation by introducing new products or production methods, opening up new markets or sources of new materials, and creating new organizational structures in the industry.

## LITERATURE REVIEW

### Performance

Business performance or company performance is a result achieved within a certain period. Measurement and assessment of financial performance are interconnected with each other. Performance measurement measures the company's efficiency and effectiveness in operating its business during the accounting period. According to Rudianto (2013), financial performance is the result or achievement that has been achieved by company management in managing company assets effectively during a certain period. Companies need financial performance to find out and evaluate the level of success of the company based on the financial activities that have been carried out. There are several indicators used to measure performance in research (Lee et al. 2016), namely profitability, sales volume, business growth, and achievement of expectations

### Entrepreneurial Self-efficacy (ESE)

Social cognitive theory by Albert Bandura (1986) explains that interactions between environmental, personal, and behavioral factors influence human behavior. In social cognitive theory, entrepreneurial self-efficacy is defined as an individual's belief in his ability to identify business opportunities and manage resources to achieve business goals. This theory explains that the interaction between environmental, personal, and behavioral factors influences an individual's belief in his ability to become an entrepreneur. In entrepreneurial self-efficacy, developing individual confidence to become an entrepreneur must consider existing environmental factors. An environment that supports entrepreneurship can provide experience, skills, and knowledge for individuals to develop entrepreneurial self-efficacy. Conversely, an environment that does not support entrepreneurship can make individuals lose confidence in their ability to become entrepreneurs.

McGee et al. (2009) define entrepreneurial self-efficacy as an individual's belief in their ability to build a new business successfully. Stjakovie and Luthan's entrepreneurial self-efficacy is important in starting and developing new businesses. This attitude is a significant

factor in entrepreneurial success during the early stages of starting a company. The construction of entrepreneurial self-efficacy is very recent; its role in determining and explaining entrepreneurial action is significant (Bandura, 1986; Zhao, Seibert, and Hills, 2005). Therefore, understanding entrepreneurial self-efficacy is very important because it explains the behavior of those who are willing to become entrepreneurs and those who are already entrepreneurs (Li and Jing, 2008).

### Innovation

Freeman (2004) considers innovation as companies' efforts through the use of technology and information to develop, produce, and market products that are new to the industry. In other words, innovation is modifying or discovering ideas for continuous improvement and development to meet customer needs. Ahmed and Shepherd (2010) mention that corporate innovation can result in R&D (Research and Development), production, and marketing approaches and ultimately lead to the commercialization of these innovations. In other words, innovation is the process of realizing a new idea different from the previous one, using new and different methods and technology to improve quality or lower costs to meet or exceed company targets.

Ahmed and Shepherd (2004) further mention that innovation is not only limited to objects or goods produced but also includes attitudes, behaviors, or movements toward a process of change in all forms of social life. So, in general, innovation means an idea, product, information technology, institution, behavior, value, and new practices that are not yet widely known, accepted, and used or applied by the majority of people in a particular locality, which can be used or encourage changes in all aspects of people's lives to improve the quality of each individual and all members of the community concerned.

### Competitive Advantage

Porter argued that there are two types of competitive advantage: cost advantage and differentiation advantage. Cost advantage is obtained when a company can produce products or services at a lower cost than its competitors. Meanwhile, differentiation advantage is obtained when a company can produce products or services that are unique or different from its competitors to attract consumer interest. According to Kotler and Armstrong (2015), competitive advantage is an advantage over competitors obtained by delivering greater customer value through lower prices or by providing more benefits following higher pricing. Noe et al. (2010), competitive advantage is a company's ability to make products or service offerings that customers value more than competing companies. Competitive advantage relates to capabilities, assets, skills, and capabilities that enhance a company's ability to compete effectively in an industry. Bakker (2009) articulated competitive advantage through humans as a people-based strategy; with this strategy, employees will feel like company owners and give their best energy for the company's progress.

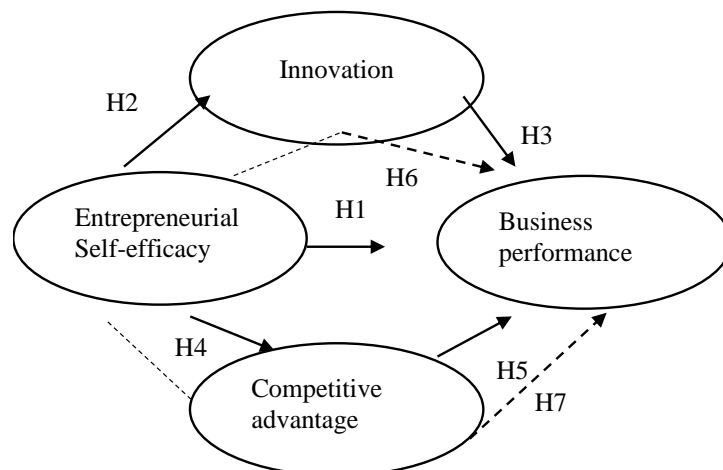


Figure 1 – The Conceptual Model:

- H1: There is a significant effect of entrepreneurial self-efficacy on business performance;
- H2: There is a significant effect of entrepreneurial self-efficacy on innovation;
- H3: There is a significant effect of innovation on business performance;
- H4: There is a significant effect of entrepreneurial self-efficacy on competitive advantage;
- H5: There is a significant effect of competitive advantage on business performance;
- H6: There is a significant effect of entrepreneurial self-efficacy on business performance mediated by innovation;
- H7: There is a significant effect of entrepreneurial self-efficacy on business performance mediated by competitive advantage.

## METHODS OF RESEARCH

This study uses a quantitative research approach with an explanatory or causal design that aims to explain how one variable influences or is responsible for changes in other variables. The population in this research is coffee shops in Malang Raya, whose number has yet to be discovered. We used a purposive sampling of coffee shop owners in Malang with a total of 106 samples. Three data collection techniques are used in this study: interviews, questionnaires, and documentation. This study uses Structural Equation Modeling (SEM) for data analysis.

## RESULTS OF STUDY

Based on the descriptive analysis, most respondents were male (n=70, 66%), and the highest average age of respondents was 24-28 (n=40, 37.7%). Undergraduate and postgraduate education was the highest level of education for respondents (n=45, 42.5%), the main occupation of the respondents was dominated by private employees (n=66, 62.3%), the length of the business establishment was dominated by 1-2 years (n=63, 59.4%).

Table 1 – Descriptive Analysis Results

Sex		
Male	70	66%
Female	36	34%
Total	106	100%
Age		
19 – 23 years	42	39.6%
24 – 28 years	40	37.7%
29 – 33 years	13	12.3%
34 – 38 years	6	5.7%
>39 years	5	4.7%
Total	106	100%
Highest Education Background		
Junior High	4	3.8%
Senior High	39	36.8%
<i>Diploma</i>	18	17%
Undergraduate/postgraduate	45	42.5%
Total	106	100%
Main Occupation		
Students	32	30.2%
Private employees	66	62.3%
Entrepreneurs	6	5.7%
Civil servants	1	0.9%
Lecturers	1	0.9%
Total	106	100%
Business Establishment		
1-2 years	63	59.4%
3-4 years	32	30.2%
>5 years	11	10.4%
Total	106	100%

### Validity and Reliability Tests

The results showed that all factor values, such as composite reliability, AVE (Average Variance Extracted), entrepreneurial self-efficacy (X), business performance (Y), innovation (Z1), and competitive advantage (Z2), met the specified conditions. Therefore, it can be concluded that all indicators and items in this study are valid and reliable.

Table 2 – Validity and Reliability

n/n	Cronbach's Alpha	rho_A	Composite Reliability	AVE
X	0.937	0.942	0.948	0.697
Y	0.943	0.947	0.953	0.719
Z1	0.953	0.955	0.961	0.755
Z1	0.931	0.950	0.943	0.631

### R-Square

The results showed that the R-Square level of business performance variable was 0.737, competitive advantage was 0.756, and innovation was 0.786.

Table 3 – R-Square

Variable	R-Square
Business Performance	0.737
Competitive Advantage	0.756
Innovation	0.786

### Direct Effect

Testing the direct effect aims to see a causal relationship or the effect of exogenous variables on endogenous variables in this study. The test criteria state that if the p-value is at a significant level (alpha = 5%), it can be concluded that the exogenous variables have a significant effect on the endogenous variables. The results are presented in Table 4.

Table 4 – Hypothesis Testing Results

Hypotheses	Path Coefficient	P-Values	Note
H1	0.298	0.054	Not significant
H2	0.887	0.000	Significant
H3	0.443	0.002	Significant
H4	0.870	0.000	Significant
H5	0.148	0.259	Not significant
H6	0.393	0.002	Significant
H7	0.128	0.264	Not significant

## DISCUSSION OF RESULTS

### *The Effect of Entrepreneurial Self-efficacy on Business Performance*

In entrepreneurship, entrepreneurial self-efficacy is an individual's belief in their ability to recognize business opportunities, develop business ideas, organize the necessary resources, perform entrepreneurial actions, and overcome challenges and obstacles that arise during the business process. In this study, entrepreneurial self-efficacy is associated with no significant effect on business performance. The results confirm this relationship, as shown by the p-value = 0.054 and the path coefficient value of 0.298. The results of this study support Li, Y., Zhang, Y., & Zhang, J. (2017). This study found that ESE does not significantly affect business performance in new technology-based businesses in China. Jantunen et al. (2005) also stated in their research that ESE does not significantly affect international performance in companies with entrepreneurial orientation and strong dynamic capabilities.

One of the factors that may influence the relationship between ESE and business performance is business complexity. Complex businesses require higher expertise and skills, so a high ESE level alone is insufficient to achieve good business performance. In addition,

the business environment can also affect the relationship between ESE and business performance. If the business environment is not conducive, such as a lack of support from the government or very tight competition, then a high ESE may not be enough to overcome these obstacles. Although ESE has an important role in entrepreneurship, it cannot be used as the sole determining factor for business performance. Therefore, in building a successful coffee shop business, it is important to consider other factors such as business complexity, business environment, and other psychological factors such as motivation and self-confidence.

### **The Effect of Entrepreneurial Self-efficacy on Innovation**

Entrepreneurial self-efficacy is related to innovation. Innovation is a concept used to describe the process of creating and implementing new ideas in an organization or environment. In this study, entrepreneurial self-efficacy is associated with a significant effect on innovation. The research results have confirmed this relationship which is indicated by the  $p$ -value = 0.000 and the path coefficient value of 0.887. This shows that the entrepreneurial spirit of the coffee shop owner is in line with the various innovation efforts being made. Several previous studies have shown that ESE has a positive effect on innovation. For example, research conducted by Wang and Wu (2015) on 217 entrepreneurs in Taiwan found that ESE is positively related to innovation. The results of this study indicate that the higher a person's ESE level, the more likely he is to innovate.

Research by Jerez-Gómez, Céspedes-Lorente, and Valle-Cabrera (2005) on 223 small and medium-sized companies in Spain found that ESE affects product and process innovation. The results of this study indicate that the higher the ESE level of business owners, the more likely they are to innovate products and processes. In their research, Klongthong Worosak et al. (2020) explained that entrepreneurial self-efficacy and innovation have a positive relationship with financial aspects and corporate customers. Entrepreneurial self-efficacy also has a significant positive effect on innovation and can impact business performance.

In the context of coffee shops, ESE is also considered important in shaping innovation related to products, services, and processes. A coffee shop owner with a high ESE level will feel more confident creating new products, developing better services, and increasing operational efficiency through innovative processes. For example, a study by Lim and Lee (2012) on 228 coffee shop owners in South Korea found that ESE positively affects innovation. The results of this study indicate that coffee shop owners with a high level of ESE tend to be more innovative in creating new products and developing better services. In addition, this study also shows that ESE has a positive effect on business success and the financial performance of coffee shops.

### **The Effect of Innovation on Business Performance**

The link between innovation and business performance has become a major concern in the business world. Companies must continuously innovate to survive in an increasingly tight market along with increasing competition and increasingly complex consumer needs. Innovation can be the key to success for companies in creating competitive advantage. In this study, innovation is associated with a significant effect on business performance. The research results have confirmed this relationship which is indicated by the  $p$ -value = 0.002 and the path coefficient value of 0.443. This shows that innovation is very important to maintain and improve business performance from various aspects. The study conducted by Wang and Ahmed (2007) shows that innovation positively affects the company's financial performance. Their research results show that more innovative companies tend to have better financial performance than less innovative companies. This shows that innovation can make a significant contribution to achieving business goals.

Lee Craig et al. (2016) explained that restaurant innovation activity and ESE owners positively affected performance. Innovation can also improve business performance through improving product quality and operational efficiency. In a study by Jia et al. (2016), product and process innovation positively impacted the company's operational performance. In the

coffee shop business, innovation can be in the form of changes in the method of processing coffee beans, creating a more diverse menu, and applying technology to improve operational efficiency. By continuously innovating, coffee shops can maintain and increase their competitive advantage in the market. One example of research showing a significant positive effect between innovation and coffee shop business performance is research conducted by Lee and Hsu (2018). In their research, Lee and Hsu found that product innovation, process innovation, and marketing innovation positively influence the business performance of coffee shops in Taiwan. The results of this study indicate that innovation is an important factor in improving coffee shop business performance.

### **The Effect of Entrepreneurial Self-efficacy on Competitive Advantage**

ESE is believed to impact an individual's decision to start a business and their ability to face the challenges and difficulties associated with the business. In addition, ESE can also be an important factor in creating a competitive advantage for a company. ESE relates to competitive advantage through the ability of individuals or groups to identify opportunities and take risks in running a business. In this study, entrepreneurial self-efficacy is associated with a significant effect on competitive advantage. The research results have confirmed this relationship which is indicated by the  $p$ -value = 0.000 and the path coefficient value of 0.870. This shows that the entrepreneurial spirit that exists in coffee shop owners consistently influences them to continue to create a competitive advantage to win the competition with competitors. Liñán and Chen's (2009) research shows that ESE significantly and positively impacts the competitive advantage of small and medium businesses in Spain. The results of this study indicate that companies owned by individuals with high ESE levels have a better ability to create new products or services, improve operational efficiency, and expand markets.

Schaper and Volery (2014) researched small business owners in Australia. They found that ESE positively affects competitive advantage through the ability to adapt to changes in the business environment. This study measures adaptability by measuring how business owners can adapt to rapid and unexpected changes in the business environment. Huang et al. (2013) researched small and medium business owners in Taiwan and found that ESE positively affects competitive advantage through innovation and product differentiation. ESE has been found to have a positive relationship with achieving business goals, including creating a competitive advantage. The coffee shop business is a type of business that is highly dependent on competitive advantage to win the competition in an increasingly tight market. Several previous studies have shown that ESE positively affects competitive advantage in the coffee shop business. For example, research by Chen and Huang (2015) found that ESE has a positive effect on product innovation, and product innovation has a positive effect on competitive advantage.

### **The Effect of Competitive Advantage on Business Performance**

Competitive advantage and business performance have a close relationship in the business world. Competitive advantage helps a company create added value and differentiate itself from competitors in the market. With a competitive advantage, companies can produce and sell products at a better price, higher quality, or unique features. In the long run, competitive advantage will impact business performance. In this study, the associated competitive advantage has no significant effect on business performance. The research results have confirmed this relationship which is indicated by the  $p$ -value = 0.259 and the path coefficient value of 0.148. This shows that the competitive advantage built by coffee shop owners has not significantly improved coffee shop business performance. Several studies found that competitive advantage does not always have a significant positive impact on business performance. This can happen because competitive advantage is only one factor that influences business performance, and many other factors, such as management quality, marketing strategy, and financial management, also play a role.

Yen et al. (2011) found that competitive advantage has only a small effect on the financial performance of companies in the telecommunications sector in Taiwan. This is due

to other factors, such as government regulations and increasingly fierce competition in the industry. Likewise, research conducted by Hult et al. (2004) show that competitive advantage has only a limited positive impact on business performance in the manufacturing sector in the United States. Zhang et al. (2020) found that competitive advantage does not significantly affect business performance at coffee shops in China. The results of this study indicate that even though a coffee shop has a strong competitive advantage, it does not guarantee that its business performance will increase. Another study conducted by Triyono and Nugroho (2020) in Indonesia also yielded similar findings. They found that competitive advantage did not significantly affect business performance at coffee shops in Yogyakarta.

### **The Effect of Entrepreneurial Self-efficacy on Business Performance Mediated by Innovation**

The effect of entrepreneurial self-efficacy on business performance mediated by innovation is an important aspect of understanding the factors that influence business success. High ESE gives business owners the confidence to overcome challenges and take risks in developing innovations. The research results have confirmed this relationship which is indicated by the  $p$ -value = 0.393 and the path coefficient value of 0.002. High ESE also has a positive impact on the ability of business owners to generate new ideas. High self-confidence will increase confidence in one's ability to produce innovation through products, processes, and business strategies.

Smith et al. (2018) revealed that ESE significantly and positively affects business performance mediated by innovation in the information technology sector through a survey of startup business owners in the technology industry. Johnson et al. (2019) also explained that ESE was also found to positively affect business performance mediated by innovation in the tourism sector. Brown et al. (2020) examined the effect of ESE on business performance mediated by innovation in the food and beverage sector. In this study, a survey of restaurant and cafe business owners found that entrepreneurial self-confidence positively influences innovation efforts such as developing new menus, improving service quality, and creative marketing strategies.

Coffee shop owners with high entrepreneurial self-confidence tend to be better able to identify innovation opportunities, such as developing unique drink variants, creating an enjoyable atmosphere, or using technology in ordering or payment systems. In this context, high ESE can motivate coffee shop owners to dare to take risks and try new things to improve product quality and customer experience.

### **The Effect of Entrepreneurial Self-efficacy on Business Performance Mediated Competitive Advantage**

A high level of self-confidence in entrepreneurship can motivate individuals to take risks, face challenges, and take innovative steps in managing a business. The effect of ESE on business performance becomes more complex when competitive advantage mediates it. The research results have confirmed this relationship which is indicated by the  $p$ -value = 0.128 and the path coefficient value of 0.264. Several studies have shown that the effect of ESE on business performance can be influenced by mediating factors such as competitive advantage. In this context, competitive advantage reflects the competitive advantage possessed by an organization compared to its competitors.

Research by Wang et al. (2017) involving small and medium entrepreneurs found that although Entrepreneurial Self Efficacy positively affects business performance, this effect is not mediated by Competitive Advantage. Other factors, such as marketing strategy, resource management, or customer relations, may dominate business performance more than competitive advantage factors.

Another study by Li et al. (2019) also found similar results in the construction industry context. The results of the study show that ESE does not have a significant effect on business performance through Competitive Advantage mediation. This indicates that other factors, such as project quality, operational efficiency, or customer satisfaction, may dominate business performance in the sector.



The results of this study indicate that these factors may have a more significant effect on coffee shop performance than the coffee shop owner's level of self-confidence. Coffee shop owners need to realize that the success of their business depends not only on their level of entrepreneurial confidence but also on their ability to develop and leverage competitive advantage in a highly competitive industry such as the coffee shop industry. Efforts to create differentiation through product innovation, superior coffee quality, or unique customer experiences can become more important factors in improving coffee shop performance.

## CONCLUSION

The results of the study show that entrepreneurial self-efficacy has no significant effect on business performance. One of the factors that may influence the relationship between ESE and business performance is business complexity. The results also show that entrepreneurial self-efficacy has a significant effect on innovation. In the context of coffee shops, ESE is also considered important in shaping innovation related to products, services, and processes. A coffee shop owner with a high ESE level will feel more confident creating new products.

Innovation has a significant effect on business performance. By continuously innovating, coffee shops can improve product quality and operational efficiency and expand the market. This can help coffee shops to maintain and increase their competitive advantage in an increasingly tight market. Entrepreneurial self-efficacy significantly affects competitive advantage in the coffee shop business. ESE plays an important role in creating a competitive advantage in the coffee shop business through various factors, such as product innovation, product quality, customer service, branding, and marketing innovation. Competitive advantage has no significant effect on business performance. Although competitive advantage does not always significantly impact business performance, companies must still strive to create and maintain competitive advantage.

The results also show that entrepreneurial self-efficacy significantly affects business performance mediated by innovation. Research linking ESE with innovation-mediated business performance can provide insight and guidance for coffee shop owners to improve their business performance. However, remember that industry context factors and the specific characteristics of coffee shops will also influence the implementation and outcomes of such influence.

Entrepreneurial self-efficacy does not significantly affect business performance if it is mediated by competitive advantage. In this case, competitive advantage in the coffee shop industry can mean the competitive advantages of certain coffee shops, such as innovation in coffee menus, superior coffee quality, superior customer service, or presence in strategic locations. The results of this study indicate that these factors may have a more significant effect on coffee shop performance than the coffee shop owner's level of self-confidence. Coffee shop owners need to realize that the success of their business depends not only on their level of entrepreneurial confidence but also on their ability to develop and leverage competitive advantage in a highly competitive industry such as the coffee shop industry.

## RECOMMENDATIONS

### Theoretical Recommendations

Further research can increase the variables used in research, especially those related to aspects that can influence the development of the coffee shop business. Further research can examine coffee shops based on consumer needs and map all aspects related to coffee shop selection preferences by consumers. Brand strength is another interesting topic to study since the intense competition in the coffee shop business needs the right branding, which can become the business identity of a coffee shop that can be maintained sustainably.

### Practical Recommendations

Coffee shops in Malang Raya must build a brand image for customers to remember easily. Coffee shops are also expected to carry out regular performance analyses to help identify problems or deficiencies in their business, as well as help identify opportunities to improve business performance. Sales, operational costs, and customer feedback must be monitored to help determine what action to take. Finally, coffee shops can apply technology to improve operational efficiencies by using digital ordering and payment systems and leveraging data to analyze market and consumer needs.

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