


BUSINESS ORIENTATION AND INNOVATION CAPABILITY IN IMPROVING OPERATIONAL PERFORMANCE

Bayu Ilham Pradana^A, Rini Safitri^B



ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 20 February 2023</p> <p>Accepted 11 May 2023</p>	<p>Purpose: This research aims to better understand how Business Orientation and Innovation Capability affect Operational Performance in MSME Coffee Shops.</p>
<p>Keywords:</p> <p>Business Orientation; Innovation Capability; Operational Performance; Coffee Shop.</p>	<p>Theoretical framework: The one of the most impacted sectors during Covid-19 pandemic is Micro, Small, and Medium Enterprises (MSME), leading to a decline in national economy, such as in coffee shops, which adopt franchise concept and are established throughout Malang City. To date, drinking coffees is perceived as more than just fulfilling needs, as it becomes a new lifestyle.</p>
	<p>Design/methodology/approach: This study, in particular, is considered as an explanatory research with a quantitative approach. Data analysis was conducted by using statistical methods based on the objectives of this study. This study applied the analytical tool of SmartPLS 3.0 to prove whether there is an effect of Business Orientation on Innovation Capability and Operational Performance at coffee shops in Malang City.</p> <p>Findings: The result of this research suggests that Business Orientation shows significant effect towards Innovation Capability and Operational Performance. Innovation Capability mediates the correlation between Business Orientation and Operational Performance. Innovation Capability becomes the competitive advantage for many industries due to its role in enhancing quality, efficiency, speed and flexibility.</p> <p>Research, Practical & Social implications: This study is a suggestion for coffee shop MSMEs to develop the innovation capability because of its role in improving quality, efficiency, speed and flexibility in a business. Based on the raised in this study, Coffee Shops in Malang are capable of innovating the products and market. Building organizational innovation is demanded to improve performance organization and strategy by conducting surveys or research on opportunities and threats, thus SMEs could make the right decisions in utilizing new opportunities.</p> <p>Originality/value: The value of the study that Business Orientation and Innovation Capability could serve as the drive for Operational Performance. However, entrepreneurial orientation is more significant in having the ability to innovate than those who do not have the ability in entrepreneurship. Likewise, if a company emphasizes proactiveness in its business activities, it will automatically encourage high performance but does not rule out the possibility of being universally applied seeing that MSMEs have the same characteristics.</p> <p>Doi: https://doi.org/10.26668/businessreview/2023.v8i5.1136</p>

^A Master in Management. Department of Management, Faculty of Economics, University of Brawijaya. Indonésia.

E-mail: bayuilham@ub.ac.id Orcid: <https://orcid.org/0000-0003-1486-2616>

^B Master in Management. Department of Management, Faculty of Economics, UIN Maulana Malik Ibrahim Malang. Indonésia. E-mail: rini.safitri@uin-malang.ac.id Orcid: <https://orcid.org/0000-0003-0395-7492>

ORIENTAÇÃO EMPRESARIAL E CAPACIDADE DE INOVAÇÃO NA MELHORIA DO DESEMPENHO OPERACIONAL

RESUMO

Objetivo: Esta pesquisa visa entender melhor como a Orientação para os Negócios e a Capacidade de Inovação afetam o Desempenho Operacional em Cafeterias MPME.

Referencial teórico: Um dos setores mais impactados durante a pandemia do Covid-19 é o das Micro, Pequenas e Médias Empresas (MPME), levando a um declínio na economia nacional, como nas cafeterias, que adotam o conceito de franquia e se estabelecem em toda Malang Cidade. Até hoje, beber café é percebido como mais do que apenas satisfazer necessidades, pois se torna um novo estilo de vida.

Desenho/metodologia/abordagem: Este estudo, em particular, é considerado uma pesquisa explicativa com abordagem quantitativa. A análise dos dados foi realizada por meio de métodos estatísticos baseados nos objetivos deste estudo. Este estudo aplicou a ferramenta analítica do SmartPLS 3.0 para provar se existe um efeito da Orientação de Negócios na Capacidade de Inovação e Desempenho Operacional em cafeterias na cidade de Malang.

Resultados: O resultado desta pesquisa sugere que a Orientação para os Negócios mostra um efeito significativo para a Capacidade de Inovação e Desempenho Operacional. A Capacidade de Inovação medeia a correlação entre a Orientação para os Negócios e o Desempenho Operacional. A capacidade de inovação torna-se uma vantagem competitiva para muitas indústrias devido ao seu papel na melhoria da qualidade, eficiência, velocidade e flexibilidade.

Implicações de pesquisa, práticas e sociais: Este estudo é uma sugestão para as MPMEs de cafeterias desenvolverem a capacidade de inovação devido ao seu papel na melhoria da qualidade, eficiência, velocidade e flexibilidade em um negócio. Com base no levantado neste estudo, os Coffee Shops em Malang são capazes de inovar os produtos e o mercado. A construção da inovação organizacional é exigida para melhorar a organização e a estratégia de desempenho, realizando pesquisas ou pesquisas sobre oportunidades e ameaças, para que as PMEs possam tomar as decisões corretas ao utilizar novas oportunidades.

Originalidade/valor: O valor do estudo de que a Orientação Empresarial e a Capacidade de Inovação podem servir como impulso para o Desempenho Operacional. No entanto, a orientação empreendedora é mais significativa em ter capacidade de inovar do que aqueles que não têm capacidade de empreendedorismo. Da mesma forma, se uma empresa enfatizar a proatividade em suas atividades empresariais, isso automaticamente incentivará o alto desempenho, mas não descarta a possibilidade de ser aplicado universalmente, visto que as MPMEs têm as mesmas características.

Palavras-chave: Orientação Empresarial, Capacidade de Inovação, Desempenho Operacional, Coffee Shop.

ORIENTACIÓN EMPRESARIAL Y CAPACIDAD DE INNOVACIÓN EN LA MEJORA DEL DESEMPEÑO OPERATIVO

RESUMEN

Propósito: Esta investigación tiene como objetivo comprender mejor cómo la Orientación Empresarial y la Capacidad de Innovación afectan el Desempeño Operativo en las Cafeterías MIPYME.

Marco teórico: uno de los sectores más afectados durante la pandemia de Covid-19 es el de las micro, pequeñas y medianas empresas (MIPYME), lo que lleva a un declive en la economía nacional, como en las cafeterías, que adoptan el concepto de franquicia y se establecen en todo Malang. Ciudad. Hasta la fecha, beber café se percibe como algo más que satisfacer necesidades, ya que se convierte en un nuevo estilo de vida.

Diseño/metodología/enfoque: Este estudio, en particular, se considera como una investigación explicativa con enfoque cuantitativo. El análisis de datos se realizó utilizando métodos estadísticos basados en los objetivos de este estudio. Este estudio aplicó la herramienta analítica de SmartPLS 3.0 para probar si existe un efecto de la orientación empresarial en la capacidad de innovación y el rendimiento operativo en las cafeterías de la ciudad de Malang.

Hallazgos: El resultado de esta investigación sugiere que la Orientación Empresarial muestra un efecto significativo hacia la Capacidad de Innovación y el Desempeño Operacional. La capacidad de innovación media la correlación entre la orientación comercial y el desempeño operativo. La capacidad de innovación se convierte en una ventaja competitiva para muchas industrias debido a su papel en la mejora de la calidad, la eficiencia, la velocidad y la flexibilidad.

Implicaciones de investigación, prácticas y sociales: este estudio es una sugerencia para que las MIPYME de cafeterías desarrollen la capacidad de innovación debido a su papel en la mejora de la calidad, la eficiencia, la velocidad y la flexibilidad en un negocio. Con base en lo planteado en este estudio, las cafeterías en Malang son capaces de innovar los productos y el mercado. Se exige construir innovación organizacional para mejorar el

desempeño de la organización y la estrategia mediante la realización de encuestas o investigaciones sobre oportunidades y amenazas, por lo que las PYME podrían tomar las decisiones correctas al utilizar nuevas oportunidades.

Originalidad/valor: El valor del estudio que la Orientación Empresarial y la Capacidad de Innovación podrían servir como motor para el Desempeño Operacional. Sin embargo, la orientación empresarial es más significativa en tener la capacidad de innovar que aquellos que no tienen la capacidad de emprendimiento. Asimismo, si una empresa enfatiza la proactividad en sus actividades comerciales, automáticamente incentivará el alto desempeño pero no descarta la posibilidad de ser aplicado universalmente dado que las MIPYMES tienen las mismas características.

Palabras clave: Orientación Empresarial, Capacidad de Innovación, Desempeño Operativo, Cafetería.

INTRODUCTION

It has been 2 years since the first announcement of COVID-19 pandemic in Indonesia dated back on March 2nd, 2020. Ever since the COVID-19 pandemic hit Indonesia, the government had introduced some regulations to maintain the order in the society, such as Isolation, lockdown and limited movement (*Pembatasan Sosial Berskala Besar* or PSBB). Later, the governments also announced People's Activity Restriction Enforcement (*Pemberlakuan Pembatasan Kegiatan Masyarakat* or PPKM) for Java and Bali, acknowledged as Micro PPKM and enforced with similar term ever since.

COVID-19 pandemic has plunge most countries to recession, indicated by negative or contracted economic growth in national and global scale. In terms of national economy, Indonesia has experienced a contraction during the 2nd quarter of 2020 reaching up to 5.3% (Sasongko, 2020). Latest data from Indonesia's Central Agency of Statistics (*Badan Pusat Statistik* or BPS) reported that on February 2022, unemployment rate in the country has reached approximately 5.83% from total population of 208.54 million people. The concern regarding such unemployment lies in the fact that 14% of unemployed people are those who have graduated from Diploma and Bachelor program. Cited in Abidin (2022), the Ministry of SME and Cooperatives of Jakarta, Teten Masduki stated that becoming an entrepreneur is an excellent choice during COVID-19 pandemic. It is based on the reason that numerous companies downsized during the pandemic. Moreover, the entrepreneur rate in Indonesia was only 3.47%, which was lower compared to the neighbouring ASEAN countries such as Singapore (8.76%), Thailand (4.26%), and Malaysia (4.74%) (Nurmayanti, 2020). As such, the government attempts to increase the amount of SME to 10-14% by creating new policies and regulations, thereby also decreasing the amount of unemployment by opening more job opportunities amidst the wave of recessions.

One of the most impacted sectors during COVID-19 pandemic is Micro, Small, Medium Enterprises (MSME), contributing to national economic growth. It is evident that MSME's role in national economic growth is pivotal. Data from the Ministry of Cooperatives and Small & Medium Enterprises (*Kementerian Koperasi dan Usaha Kecil dan Menengah* or KUKM) in 2018 reported that there are 64.2 million MSMEs in Indonesia, amounting to 99.99% from the total entrepreneurs in the country. All MSMEs in Indonesia are expected to employ up to 117 million of worker, creating 97% of employment rate in entrepreneurial sectors. The contribution of MSME towards Gross Domestic Income (GDI) is 61.1%, while the remaining 38.9% are derived from large scale industries consisting of 5,550 businesses or 0.01% of total entrepreneurs.

MSME are dominated by the micro scale entrepreneur amounting to 98.68% of the sector, with 89% of labour absorption rate. However, micro scale entrepreneur rate only contributes to 37.8% of GDI. The aforementioned data suggests that Indonesia has a potential for strong economy due to massive amount of MSMEs in the country, indicating potentially numerous workplaces for the people. The government and business owners are expected to raise these micro entrepreneurs to medium ones in order to strengthen the national economy. It is reported that micro enterprises also has a very fast turnover rate using domestic products which fulfil the primary needs of the people. Since the government has noticed this potential (from MSMEs), it leads to the creation of new policies to improve operational capacity for micro and small enterprise, thus becoming medium enterprise.

One of the most important MSMEs include food and beverages sectors. In Malang City for example, there are numerous MSMEs operating in food and beverages sector, such as the coffee shops. To date, some people perceive that drinking coffee is more than just a necessity, which is also a lifestyle. This trend, in turn, creates variant of coffees with their unique compositions, providing a wide array of options for the customer during their coffee break. In Malang City, there is a significant increase in the amount of coffee shops since 2019 reaching more than 140 cafes, each with their own unique beverages.

This growth of interest in cafe begins with the introduction of an iconic American's Starbucks, which has hundreds of branch in Indonesia. The raise of international cafe in Indonesia has brought attention to entrepreneurs, inspiring those to adopt this franchise system in order to create domestic cafe in Malang City. Dozens of cafe have been built ever since 2015, offering a wide array of beverages and distinct service to attract more customers. This

phenomenon leads younger entrepreneurs to start their own cafe business in Malang City, thereby creating opportunities for business.

Referring to such introduction, this research was conducted to observe the Impact of Business Orientation and Innovation Capability towards Operational Performance (A Study in Malang City's MSME Coffee Shops). The objectives of this study are to understand:

1. Whether Business Orientation affects Operational Performance.
2. Whether Innovation Capability affects Operational Performance.
3. Whether Business Orientation affects Operational Performance with Innovation Capability as a mediating variable.

LITERATURE REVIEW

Business Orientation

An entrepreneurial orientation refers to the creative and innovative quality of a company that acts as a resource, guide, and reference for investigating and capturing the possibilities for success. The company's business orientation basically reflects the mechanisms to pursue its goals and set goals (Lynch, 2012). Porter (year) describes entrepreneurial orientation as a tactic that helps businesses compete more successfully within similar market. Hence, the entrepreneurial orientation level affects the success of the company. The four aspects of entrepreneurial orientation include processes, practices, and decision making that lead to novelty, as well as innovation, proactive actions, and taking risks. Intention and action serve as important dynamic processes involved in the purpose of this activity to generate new business. Strong entrepreneurial organizations even lead to more willingness in taking risks when running their businesses.

In an organization, if the founders and executors of the company have a strong and experienced business orientation, the company is assumed to be successful. Entrepreneurial orientation becomes one of several factors which influences product market novelty or innovation. In the initial process of development, a company often comes up with proactive innovations and breakthroughs to compete with its competitors. Theoretically, aspects such as proactivity, innovation, and decision-making become the important factors when having an entrepreneurial orientation. Strategic orientations are considered as a critical organizational resource that helps firms to achieve sustainable competitive advantage (Bahari, Saufi, Zainol, Samad, & Yaziz, 2023). Furthermore, a company's ability to recognize and seize opportunities to succeed is demonstrated by its business orientation.

Today's competitive and economic environment has been constantly changing, from which the attention is completely shifted to the coffee shop to retain physical and intangible resources by improving its performance and building its excellence as well as competitiveness. The main organizational tool, which is market orientation, is used to improve business performance and enhance competitive advantage. Similarly, by viewing customer needs as the most important organizational philosophy, market orientation becomes the driver for increasing efficient business performance. Therefore, it is deemed important to state that market orientation helps organizations perform better and gain competitive advantage. Market orientation is defined as a set of organizational capabilities to serve certain customers and focus on the company's competitors. The link between competitor orientation, customer orientation, and performance is an example of an intangible capability. Therefore, market orientation affects the company's performance. Company orientation which includes market orientation has a positive and significant effect on the hotel performance. There was a positive and significant relationship between small business organizational performance and market orientation, indicating that market orientation affected the expected operation of companies.

Innovation Capability

The term “capability” refers to utilizing coordinated resources to achieve desired results. Companies' abilities and skills are required to transform inputs into outputs, meanwhile companies' capacity is required to combine real and virtual resources through organizational procedures to achieve goals (Bahri, Meirani, & Rufaidah, 2019). In addition, capability generates fresh concepts to navigate external opportunities in order to generate long-term benefits. Similarly, another study (Ranatiwi & Mulyana, 2019) clarified that capability is essential for long-term success, or as a value chain, which includes the main and support activities that generate customer value. The innovation capabilities concept refers to a firm's capacity to turn new concepts into innovations (Lawson & Samson, 2001). According to Laksana, Apriliado & Kusmantini (2022), the idea of talent for innovation refers to how businesses turn their ideas into innovations. In an increasingly competitive global economy, innovation may be viewed as a vital success factor. Market orientation, technological orientation, and innovation strategy all influence a company's innovative capabilities (Vijayakumar & Chandrasekar, 2022). The 2 (two) factors are required to determine the reasons for variation in the process of building innovation capability, including company size and operating experience, and 7 (seven) factors, including research and development, quality of

human resources, interaction and communication with external parties, technology strategy, new product development, marketing capabilities, and production and operations capacity.

Innovation capability refers to the ability to create and develop the most up-to-date and high-quality innovations in a product and to meet various market difficulties. Supporting such definition, Terziovski (2010) argues that innovation capability offers opportunities for the birth of successful innovations. Innovation Capability is defined as the ability to create something new products to meet market demand and use technology in the process as an adaptive effort to the presence of technology. When emerging, opportunities are created by rivals intentionally or unintentionally.

Innovation often serves as the foundation for entrepreneurship as it gives businesses a competitive advantage. On the other hand, entrepreneurial activity helps the market adopt innovations. The secret to maintaining competitiveness in a highly volatile environment lies in innovation performance as the main engine of a country's economic growth. The capacity for innovation directly affects one's capacity to compete on an individual, corporate, regional, and national scale. Innovation often results in new methods of doing things, and new goods and procedures that increase prosperity. Elaborating further, Lawson & Samson (2001) described innovation as a competitive advantage resulting from original ideas that produce quality, efficiency, speed, and adaptability that are beneficial to business. Implementation potentially occurs in a variety of areas, including design, procedures, and technology improvements. An organization is capable of modifying the operation, the use of production inputs, and the outputs to increase productivity and financial success. Hence, product innovation, process innovation, marketing innovation, and organizational innovation become the four categories of innovation criteria identified by the OSLO Manual (2005) along with changes in business practices which are covered under these criteria.

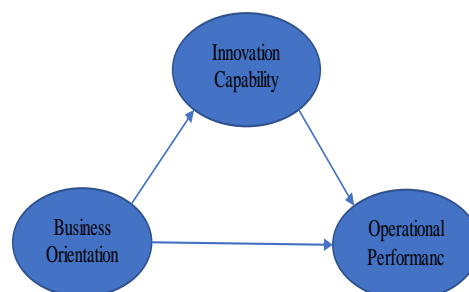
Operational Performance

Basically, the company's operational success depends on selecting the right strategy based on external factors, from which the goal is to use its resources as efficiently and effectively as possible (Neely, 2007). The capacity to achieve goals and objectives becomes another definition of corporate performance. Adaptability and profitability to create and maintain social relationships could contribute to improving performance (Widarni & Bawono 2022). In addition, organizational performance is related to the organizational success matrix in desiring goals. Companies measure and evaluate the organizational effect of the quantity of

new supplier contracts by implementing quantitative and qualitative criteria to develop organizational performance. Thus, one of the key elements for successful business performance is through innovation (Celtekligil & Adiguzel, 2019).

Performance is deemed important in an industrial environment, especially for individuals employed by small and medium enterprises (MSMEs) to sustain rapid economic growth of a country. However, small and medium enterprises face significant difficulties in sustaining their long-term performance to compete in a dynamic market, thereby requiring businesses to advance innovation and improve performance. As a result, the performance of MSME employees is expected to constantly develop or improve in order to compete in a constantly changing market. The importance of innovation performance to increase competitiveness is highlighted as a new growth engine. As such, a new concept, procedure, or piece of creativity is deemed innovative by the appropriate admissions unit. Organizational uptake, or the capacity of employees to generate knowledge, becomes a significant factor in influencing innovation performance. Absorptive capacity has been considered a key antecedent of innovation performance attracting much interest from researchers, according to a number of studies by examining its nature and its effect in organizations. In general, the three techniques are employed in businesses related study, including exploratory learning, transformative learning, and exploitative learning. Research on SMEs focusing on a strategic orientation with greater absorption will improve the performance of SMEs. These results warrant additional study by dynamic capability theory researchers, focusing on the implications of absorptive capacity in leveraging strategic direction for SMEs' success. The results of various previous studies indicated that absorptive capacity affects the innovation outcomes.

Figure 1 Research Model



Source: Prepared by the authors (2022)

H1: The Effect of Innovation Capability on Operational Performance

According to Ranatiwi & Mulyana (2018), the ability to innovate demonstrates a good and significant impact on performance. It can be concluded that performance increases along with the ability to innovate. However, according to Tatik (2009), organizational performance will increase if the capacity for innovative thinking and anticipatory learning is higher. Additionally, according to Darna and Fatimah (2014), the performance of small and micro companies is significantly and profitably influenced by their capability to innovate, denoting that increased performance will have a positive impact by expanding innovation capacity.

H2: The Effect of Business Orientation on Innovation Capability

According to Mustofa, Mulyono & Rahman (2022), the more inventive a business is, whether presenting new goods or adapting to changes in consumer tastes, the more successful the business will be. The more a business owner or product maker can use a new technology, explore market openings, promote, or market new items, the more innovative they will be.

H3: Effect of Business Orientation on Operational Performance

According to Susanti (2018), entrepreneurial orientation contributes to the operational performance of MSEs. This finding is also supported by the research of Mustari, Arisah, Thaeif, Fatmawati & Hasan (2021) reporting that entrepreneurial orientation greatly influences the performance of MSMEs. In influencing business performance, it is necessary to understand entrepreneurial orientation by studying its characteristics. Developing an entrepreneurial orientation attitude by business actors could improve business performance. A more entrepreneurially oriented attitude is required to improve company performance.

DATA AND METHODOLOGY

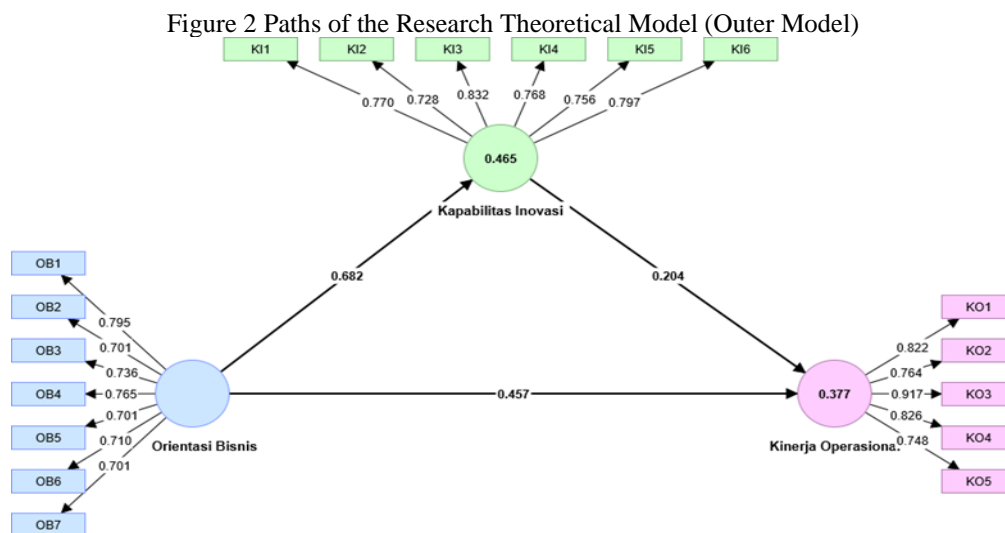
This study, in particular, is considered as an explanatory research with a quantitative approach. Business actors from Coffee Shop in Malang City were also included as a sample. The sampling technique was performed by purposive sampling (which was from business actors as mentioned) to create substantial results in a real-time based, due to having special knowledge about research. Data analysis was conducted by using statistical methods based on the objectives of this study. This study applied the analytical tool of SmartPLS 3.0 to prove whether there is an effect of Business Orientation on Innovation Capability and Operational Performance at coffee shops in Malang City. Further, this study applied path analysis (regression analysis) to interpret the causality relationship between predefined variables. Explicitly, the path diagram provides a causal relationship between variables based on the

theory. Methods used in PLS uses the bootstrapping or random multiplication. Therefore, the assumption of normality did not disturb the PLS. Particularly, the three stages are required in the analysis of PLS, including:

1. Measurement Model (Outer Model)
2. Structural Model (Inner Model)
3. Research Hypothesis Testing

RESULTS AND DISCUSSION

Research data was analyzed with SmartPLS 3.0 software. The outer model test was employed in this study by using the SmartPLS 3.0 software to ensure that the measurements are practical (valid and reliable). In measurement stage, instrument precision and accuracy is the validity of the instrument. This test was conducted to assess the level of research validity instrument to clarify whether all the concepts and ideas contained in the definition of the context of representation in the tool.



Source: Prepared by the authors (2022)

Based on the following **Table 1**, values of loading factor indicate a value greater than 0.7. Other items in the Innovation Capability, Operational Performance, and Business Orientation variables are explained by their respective indicators, which is considered to be convergent valid.

Reliability refers level of accuracy or consistency of the research instrument. An instrument is said to be reliable if it has composite reliability >0.7 and Cronbach's alpha of >0.6

for all constructs (Hair et al., 2017). Here are the results of reliability tests obtained from calculations using software:

Table 1. Reliability Test Results

Variable	Composite Reliability (>0.7)	Cronbach's Alpha (>0.6)	Information
Innovation Capability	0.90	0.87	Reliable
Operational Performance	0.91	0.88	Reliable
Business Orientation	0.89	0.86	Reliable

Source: Prepared by the authors (2022)

Testing using composite reliability aims determine whether the construct has high reliability or not. Thus, if value of composite reliability greater than 0.7, this shows that the construct is reliable. Based on **Table 1**, all constructs have met the requirements for composite reliability of >0.7 and all variables have a value of >0.7. Hence, it is concluded that the variables in this study have high reliability. In addition, reliability is seen through Cronbach's alpha, from which the value (more than 0.6) was used to determine the reliability of a construct. Based on **Table 1**, it is apparent that all variables have a Cronbach's alpha value of more than 0.6, thus the variables in this study indicate good reliability.

The results of the calculation of the Goodness of Fit Index (GoF) is used to determine the contribution made by exogenous variables to endogenous variables. In the PLS analysis, the results of the calculation from the Goodness of Fit Index (GoF) obtained through the Q-Square. The calculation results that exceed 0 are considered to have a good predictive value. In this study, the predicted values produced by the model and its parameter estimation calculated from the following formulas:

$$\text{GoF} = \sqrt{AVE \times R^2}$$

$$\text{GoF} = \sqrt{0,556 \times 0,421}$$

$$\text{GoF} = \sqrt{0,234}$$

$$\text{GoF} = 0,484$$

The calculation result indicates 0.484 or 48.4%, illustrating that the data contribution that can be explained by the model is 48.4% and the remaining 51.6% is explained by other variables that are not included in the model and error.

Hypothesis test

Based on the outer model results and inner model tests, this research has fulfilled the requirements for hypothesis testing. In this study, hypothesis testing was performed by using bootstrapping on SmartPLS 3.0 software, divided into two parts: testing the direct effect and testing the indirect effect.

Live Effect Test

The implementation of direct influence testing is applied to test hypotheses 1 and 2 in this study, utilizing path coefficients by focusing on the t-statistics value which is more than t-table (1.96) and the p-value (<0.05), indicating that the hypothesis can be accepted. This result demonstrates that there is a significantly positive effect between the variables that have been tested. The results of direct influence hypothesis testing using path coefficients are presented in the following **Table 2**:

Table 2. Direct Effect Test Results

	Original Sample (O)	T-Statistics (O/STDEV)	P-Values
Innovation Capability -> Operational Performance	0.204	2,381	0.017
Business Orientation -> Innovation Capability	0.682	11,986	0.000
Business Orientation -> Operational Performance	0.457	5,455	0.000

Source: Prepared by the authors (2022)

H1: The Effect of Innovation Capability on Operational Performance

The effect of Innovation Capability on Operational Performance is formulated in Hypothesis 1. From the analysis results, the t-statistics value is $2.381 > 1.96$ and the p-value is $0.017 < 0.05$. This result shows that Innovation Capability has a significantly positive effect on Operational Performance, thereby concluding that Hypothesis 1 is accepted.

H2: The Effect of Business Orientation on Innovation Capability

The effect of Business Orientation on Innovation Capability is formulated in Hypothesis 2. From the results of the analysis, the t-statistics value is $11.986 > 1.96$ and the p-value is $0.000 < 0.05$. This result shows that Business Orientation has a significant positive effect on Innovation Capability, thereby concluding that Hypothesis 2 is accepted.

H3: Effect of Business Orientation on Operational Performance

The effect of Business Orientation on Operational Performance is formulated in Hypothesis 3. From the results of the analysis, the t-statistics value is $5.455 > 1.96$ and the p-

values is $0.000 < 0.05$. This result shows that Business Orientation has a significant positive effect on Operational Performance, thereby concluding that Hypothesis 3 is accepted.

Indirect Influence

Table 3. Indirect Effect Test Results

	Original Sample (O)	T-Statistics (O/STDEV)	P-Values
Business Orientation -> Innovation Capability -> Operational Performance	0.139	2,293	0.022

Source: Prepared by the authors (2022)

H4: The Effect of Business Orientation on Operational Performance through Innovation Capability

The effect of Business Orientation on Operational Performance through Innovation Capability is formulated in Hypothesis 4. From the analysis results, the t-statistics value is $2.293 > 1.96$ and p-value is $0.022 < 0.05$. This result shows that Business Orientation has a significant positive effect on Operational Performance through Innovation Capability, thereby concluding that Hypothesis 4 is accepted.

This study aims to examine how business orientation affects innovation capability and operational performance, generating the following results, which are:

1. The Operational Performance Variable is significantly influenced by the Innovation Capability Variable, indicating that Operational Performance could be improved with Innovation Capability.
2. The Business Orientation Variable has a significant influence on the Innovation Capability Variable, indicating that Business Orientation could develop Innovation Capability.
3. The Business Orientation Variable has a significant influence on the Operational Performance Variable, indicating that Business Orientation could improve Operational Performance.

To sum up, the Business Orientation Variable has a significant influence on the Operational Performance Variable through the Innovation Capability Variable, indicating that Business Orientation and Innovation Capability could drive an increase in Operational Performance.

This finding further indicates that Business Orientation and Innovation Capability could drive an increase in Operational Performance. In addition, the Innovation Capability has a significant effect on performance operations, indicating that this variable could improve productivity, efficiency and effectiveness of the company. As aforementioned, the term innovation is defined as a concept, product, information and technology, organizations, behaviors, values, and new practices that are not yet widely known, accepted, and used or applied by the majority of business actors or competitors, and that can be used or encouraged to change in all aspects, both physical (production) and non-physical (HR), in order to realize improvements in the quality of and performance of the company's operations. Innovation is thought to generate new ideas and knowledge in capturing advantage of market opportunities. Meanwhile, the product innovation capability generates new knowledge or technology to develop new product. In particular, innovation includes 4 dimensions, including: product innovation, process innovation, market innovation and organizational innovation. Based on the case study as raised in this study, Coffee Shops in Malang are capable of innovating the products, by developing new products with technology, improving design and modifying product in order to match the tastes of the market or consumers. Innovation process was typically carried out by SMEs through the integration of production, inventory, distribution and logistics. Efforts by SMEs to improve market innovation capability were indicated by building good relationships with customers and conducting market segmentation to determine the characteristics of the products to be offered to customers. Building organizational innovation is demanded to improve performance organization and strategy by conducting surveys or research on opportunities and threats, thus SMEs could make the right decisions in utilizing new opportunities.

Several research results and entrepreneurship literature reported that entrepreneurial orientation is more significant in terms of having the ability to innovate than without having the ability in entrepreneurship. Importantly speaking, a person's proactiveness to strive for achievement serves as another indication of personal entrepreneurial orientation. Likewise, if a company emphasizes proactiveness in its business activities, the company thus has carried out entrepreneurial activities automatically encouraging high performance. Companies with high entrepreneurial activity are demonstrated from the high enthusiasm despite obstacles and challenges. Business actors who dare to take risks are people who take advantage of opportunities that are faced with uncertain conditions, and these risk obstacles will be able to be faced with an entrepreneurial spirit. The main role of high organizing entrepreneurship is to

optimize risk measurement and risk taking. The concept of risk is that a high risk will get a high return which of course needs to be measured at the level to be taken. On the other hand, organizations with an entrepreneurial mindset will spur innovation to achieve competitive advantage. Thus, a proactive approach in exploring the market is deemed necessary to gain access to a larger market in the midst of potential competition.

CONCLUSION

Business Orientation and Innovation Capability could serve as the drive for Operational Performance. However, entrepreneurial orientation is more significant in having the ability to innovate than those who do not have the ability in entrepreneurship. Likewise, if a company emphasizes proactiveness in its business activities, it will automatically encourage high performance. In particular, coffee shops in Malang are perceived to be capable of innovating their products, by developing new products with the assistance of technology, improving the design and modifying the product in order to match the tastes of the market or consumers. Furthermore, it is suggested that building organizational innovation needs to be conducted to improve performance organization and strategy through surveys or research on opportunities and threats, thus SMEs could make the right decisions in utilizing new opportunities. Future study is encouraged by adding new variables that have not been discussed in this study in relation with the aforementioned variables and objects.

REFERENCES

- Abidin, I. S. (2022). 14 persen pengangguran Indonesia lulusan diploma dan sarjana. Mengapa? Retrieved from <https://unair.ac.id/14-persen-pengangguran-indonesia-lulusan-diploma-dan-sarjana-mengapa/>
- Bahari, N., Saufi, R. A., Zainol, N. R., Samad, N. S. A., & Yaziz, M. F. A. (2023). Entrepreneur's Personality Traits and Firm Performance of Malaysian Smes: Mediated by Market Orientation. *International Journal of Professional Business Review*, 8(1), e01260. <https://doi.org/10.26668/businessreview/2023.v8i1.1260>
- Bahri, K. N., Meirani, N., & Rufaidah, P. (2019). Application of TIROCA Model at PT SPINDO. *International Journal of Applied Business and International Management (IJABIM)*, 4(1), 59-70. <https://doi.org/10.32535/ijabim.v4i1.383>
- Celtekligil, K., & Adiguzel, Z. (2019). Evaluation of data sharing in production firms and innovation orientation in the effect of management capability on operational performance. *Procedia Computer Science*, 158, 781-789. <https://doi.org/10.1016/j.procs.2019.09.115>

Darna & Fatima. (2014). Model peningkatan kinerja melalui peningkatan kapabilitas inovasi pada Usaha Kecil Dan Mikro (UKM) yang dikelola oleh kaum perempuan. Retrieved from <https://adoc.pub/model-peningkatan-kinerja-melalui-peningkatan-kapabilitas-in.html>

Kemenkop-UKM. 2020. Minister of Cooperatives and SMEs Presents the KUKM Economic Recovery Scheme in Period and Post COVID-19. Retrieved at: <http://www.depkop.go.id/read/menkop-dan-ukm-paparkan-skema-pemulihan-ekonomi-kumkm-di-masa-dan-pasca-covid-19>

Ministry of cooperatives and SMEs. 2018. Statistics of Micro, Small and Medium Enterprises for 2018.

Laksana, D. H., Apriliado, S., & Kusmantini, T. (2022). Influence of Market Orientation, Learning Orientation, and Innovation Capabilities and Their Impact on Competitive Advantage and Company Performance. *Journal of the Community Development in Asia (JCDA)*, 5(2), 11-23. <https://doi.org/10.32535/jcda.v5i2.1492>

Lawson, B., & Samson, D. (2001). Developing innovation capability in organisations: a dynamic capabilities approach. *International journal of innovation management*, 5(03), 377-400. <https://doi.org/10.1142/S1363919601000427>

Lumpkin, G T., and Dess, GG 1996. Clarifying the Entrepreneurial Orientation Construct and Linking it to Performance. *Academy of Management Review*, Vol.21 (1), page 135-172. <https://doi.org/10.5465/amr.1996.9602161568>

Lynch J, RJ Mason, AKC Beresford, PA Found, 2012. An examination of the role for Business Orientation in an uncertain business environment. *int. J. Production Economics* 137, page 145–156. <https://doi.org/10.1016/j.ijpe.2011.11.004>

McClelland, Winter. 1971. *Motivating Economic Achievement*. New York: Macmillan Company.

Mukson., Ihkwan, S., Riono, SB, 2021. Orientation of Entrepreneurship and Innovation in Improving the Company's Performance through Business Strategy. *JKBM (Journal of Business and Management Concepts)*, Vol. 8(1), page 37-46. <https://doi.org/10.31289/jkbm.v8i1.5483>

Mustari, M., Arisah, N., Thaief, I., Fatmawati, F., & Hasan, M. (2021, July). Pengaruh Orientasi Kewirausahaan dan Orientasi Pasar terhadap Kinerja UMKM di Kota Makassar. In *Seminar Nasional Teknologi Pendidikan*, 1(8), 165-177.

Mustofa, M. S., Mulyono, K. B., & Rahman, M. F. (2022). STRATEGI BELAJAR WIRUSAHAWAN DALAM MEMBANGUN KAPABILITAS INOVASI BISNIS DI KOTA SEMARANG. *Konservasi Pendidikan*, (1), 1-25. <https://doi.org/10.1529/kp.v1i1.34>

Neely, A. (2007). *Business performance measurement: Unifying theory and integrating practice*. New York: Cambridge University Press.

Nurmayanti. (2020). Rasio Kewirausahaan Indonesia Baru 3,47 Persen, Tertinggal dari Malaysia dan Thailand. Retrieved from

<https://www.liputan6.com/business/read/4388954/rasio-kewirausahaan-indonesia-baru-347-persen-tertinggal-dari-malaysia-dan-thailand>.

Ranatiwi, M., & Mulyana, M. (2018). Dampak jejaring kolaborasi dan kapabilitas inovasi terhadap kinerja. *Jurnal Ekonomi Dan Bisnis*, 19(1), 49-58.

Sasongko, D. (2020). UMKM bangkit, ekonomi Indonesia terungkit. Retrieved from <https://www.djkn.kemenkeu.go.id/artikel/baca/13317/UMKM-Bangkit-Ekonomi-Indonesia-Terungkit.html>

Susanti, D. A. (2018). Kemampuan Menyusunan Laporan Keuangan, Latar Belakang Pendidikan, Orientasi Wirausaha Dan Kredit Dampaknya Terhadap Kinerja Operasional UMKM. *JBE (Jurnal Bingkai Ekonomi)*, 3(1), 59-66.

Tatik, N. (2009). Entrepreneur orientation and Social Capital: Organizational Performance Improvement Strategies, (Doctoral Dissertation. UNDIP, Semarang)

Terziovski, M. (2010). Innovation practice and its performance implications in small and medium enterprises (SMEs) in the manufacturing sector: A Resource-based Perspective. *Strategic Management Journal*, 31(8), 892-900, 0143-2095. <https://doi.org/10.1002/smj.841>

Vijayakumar, V., & Chandrasekar, K. . (2022). Moderating Role of Commercial Capabilities on Firm Performance Through Innovative Capability in Manufacturing Msmes. *International Journal of Professional Business Review*, 7(3). <https://doi.org/10.26668/businessreview/2022.v7i3.0620>

Widarni, E. L., & Bawono, S. (2022). Improving the Quality of Human Resources through the Application of Good Psychology and Human Capital. *Asia Pacific Journal of Management and Education (APJME)*, 5(3), 25-36. <https://doi.org/10.32535/apjme.v5i3.1550>