

## ENTREPRENEURIAL AND MARKET ORIENTATION ON COFFEE SHOPS PERFORMANCE MEDIATED BY COMPETITIVE ADVANTAGE

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### ABSTRACT

**Background:** The growth of coffee culture has changed coffee shops into lifestyle and social spaces, leading to the rapid growth of coffee shops in Medan. This rapid expansion has created a competitive environment where many coffee shops face challenges in sustaining business performance, with sales declining and even shutting down recently.

**Purpose:** This study aims to examine the influence of entrepreneurial orientation and market orientation on the business performance of coffee shops in Medan, with competitive advantage as a mediating variable.

**Design/methodology/approach:** A quantitative approach was used, with data collected through Google Forms from 100 coffee shop entrepreneurs in Medan using purposive sampling and analyzed using PLS-SEM.

**Findings/Results:** The results indicate that entrepreneurial orientation and competitive advantage significantly influence business performance, while market orientation does not significantly influence business performance. Competitive advantage mediates the relationship between entrepreneurial and market orientation on business performance.

**Conclusion:** Competitive advantage serves as a key mechanism through which entrepreneurial and market orientations influence business performance.

**Originality/value (State of the art):** This study introduces a structured framework by exploring the mediating role of competitive advantage in the relationship between entrepreneurial orientation, market orientation, and business performance

**Keywords:** business performance, coffee shops, competitive advantage, entrepreneurial orientation, market orientation

### How to Cite:

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## INTRODUCTION

Indonesia is an agrarian country with strong plantation potential, where coffee serves as a key export commodity contributing to national economic growth. According to the Ministry of Agriculture (2025), Indonesia is the world's fourth-highest coffee producer, following Brazil, Vietnam, and Colombia. Beyond its economic role, coffee has evolved into an integral part of daily life, reflecting changes in modern consumption patterns. The increasing demand for coffee has driven rapid growth in the number of coffee shops across Indonesia. This development is also evident in Medan, North Sumatra, which has become a hub for coffee cuisine, offering diverse coffee varieties and preparation methods alongside a growing number of coffee shops (Zannibar et al. 2023). However, despite the industry's rapid growth, many coffee shops in Medan still experience difficulties in maintaining stable business performance.

Previous studies indicate that coffee shops face business performance challenges, particularly during the early stages of operation. Several coffee shops in Medan were reported to close within less than three years, reflecting the difficulty of maintaining business sustainability in an increasingly competitive market (Ismoyo et al. 2025). In addition, many coffee shop entrepreneurs experienced unstable profit growth, indicating that maintaining consistent financial performance remains a major challenge (Manalu, 2023). This condition is also reflected in the writer's direct observations, which found declining sales trends among several coffee shops in Medan. According to Iffan and Marhamah (2021), business performance success can be reflected through increased sales volume.

Previous studies identify entrepreneurial orientation and market orientation as important determinants of business performance. However, the findings remain inconsistent. Most prior studies focus on direct relationships and rarely examine the role of competitive advantage as a mediating variable. In addition, empirical research on small service-based businesses, such as coffee shops, in non-metropolitan cities, particularly in Medan, is still limited. This creates both a theoretical gap in explaining how strategic orientations translate into performance and a contextual gap related to local entrepreneurial settings. Therefore, this study aims to examine the mediating role of competitive advantage

in the relationship between entrepreneurial orientation, market orientation, and business performance among coffee shop entrepreneurs in Medan.

Entrepreneurial orientation reflects innovativeness, proactiveness, and risk-taking, which enables businesses to identify opportunities and create unique value in competitive markets. In the coffee shop industry, innovation in products, services, and business concepts is essential to attract consumers and maintain competitiveness (Rich Product Corporation, 2025). Previous studies found that many coffee shops in Medan still lack product differentiation and innovation, limiting their ability to compete effectively (Azzahra, 2024; Manalu, 2023). Many businesses tend to imitate competitors rather than develop proactive strategies and distinctive market positioning (Pinem, 2024). Entrepreneurial orientation encourages businesses to generate unique value compared to competitors.

Market orientation emphasizes understanding customer needs, monitoring competitors, and responding to market changes effectively. According to Fadillah et al. (2025), customer feedback and satisfaction are important sources of market information that help businesses improve their products and services. Nevertheless, many coffee shops in Medan still fail to consistently evaluate customer preferences and adapt their offerings accordingly. Azzahra (2024) found that many coffee shop owners struggle to follow changes in consumer trends, limiting their ability to deliver products and experiences aligned with market expectations. As a result, consumers tend to switch to competitors that better satisfy their preferences (Iman et al. 2022). Market orientation helps businesses understand customer needs and market dynamics to deliver superior products and services compared to competitors.

This study addresses the gap in the literature by examining the mediating role of competitive advantage in the relationship between entrepreneurial orientation, market orientation, and business performance within Indonesia's coffee shop industry. Previous studies predominantly focused on manufacturing sectors, large enterprises, or metropolitan business settings, leaving small service-based businesses in emerging local markets underexplored. By investigating coffee shop entrepreneurs in Medan, this research extends the application of strategic orientation models to a

context where established frameworks may not be fully applicable and provides insights into business performance in emerging market environments.

This study is expected to provide a deeper understanding of how entrepreneurial orientation and market orientation influence business performance through competitive advantage among coffee shop businesses in Medan. In addition, the findings are expected to contribute to the strategic management literature and provide practical insights for coffee shop entrepreneurs in improving competitiveness and business performance.

## METHODS

This research uses a quantitative method for both data collection and analysis. The data are obtained from primary and secondary sources. Primary data are collected through interviews and questionnaire distribution, while secondary data are gathered from journals, theses, books, articles, and websites. This study also incorporates both descriptive and causal research approaches to explain the variables. Descriptive research is applied to present and describe data regarding the characteristics of the coffee shops and the current condition of their business performance. Meanwhile, the causal research approach is implemented to analyze the influence of entrepreneurial orientation and market orientation on business performance, with competitive advantage as a mediating factor.

The population for this study includes all coffee shops located in Medan. The sample size was determined using the Lemeshow formula because the total population could not be identified with certainty, as the coffee shops were widely dispersed across different areas of the city. This formula is considered appropriate for this study because it allows researchers to obtain a representative minimum sample size with a defined confidence level and margin of error. Hanum et al. (2024) stated that the Lemeshow formula is especially suited for scenarios where the population cannot be fully identified or is too extensive to survey completely. Based on this method, a minimum of 96 respondents is required for the study. To account for potential errors, the sample size was rounded up to 100 respondents.

This study used non-probability sampling, specifically purposive sampling, which selects participants based on criteria determined by the researcher. The use of purposive sampling may cause sampling bias because it does not provide equal selection opportunities for all members of the population. Selected respondents may not entirely represent the broader characteristics of coffee shop entrepreneurs in the city. The research objects are micro and small-sized coffee shops, with sample criteria including those located in Medan that have been operating for more than one year and remain active in 2025, and whose owners or managers are involved in decision-making and are willing to complete the questionnaire. The data collection process involved distributing questionnaires via Google Forms to coffee shop entrepreneurs over a period of more than three weeks.

This study uses Partial Least Squares Structural Equation Modelling (PLS-SEM) using SmartPLS4 software to analyze the relationships between variables. According to Hair et al. (2021), PLS-SEM is a multivariate analysis method suitable for research with complex theoretical models, especially when the data set is small or non-normally distributed, and it focuses on predicting relationships between variables.

### **H1: Entrepreneurial orientation has an influence on the competitive advantage of coffee shops in Medan**

Entrepreneurial orientation reflects a firm's ability to innovate, act proactively, and take calculated risks in responding to market opportunities. Entrepreneurial orientation strengthens a firm's ability to differentiate itself and sustain its position in highly competitive markets. Previous studies show that businesses with strong entrepreneurial orientation are more capable of creating unique products and adapting to market changes, which contributes to competitive advantage and stronger market positioning (Utama et al. 2020).

### **H2: Market orientation has an influence on the competitive advantage of coffee shops in Medan**

Market orientation enables businesses to better understand customer needs and monitor competitors' weaknesses, allowing firms to develop superior products and services that create greater customer value. When customer orientation, competitor orientation, and cross-functional coordination are consistently integrated, firms can respond more effectively to market dynamics,

resulting in sustained competitive advantage. Previous studies indicate that businesses with strong market orientation are more capable of building competitive advantage through improved responsiveness, product quality, and customer satisfaction (Nugraha & Sukaatmadja, 2020).

### **H3: Entrepreneurial orientation has an influence on the business performance of coffee shops in Medan**

Entrepreneurial orientation enables businesses to identify new market opportunities more effectively. Entrepreneurial orientation enhances performance by enabling firms to translate opportunities into effective strategic actions, resulting in better sales growth, efficiency, and overall organizational outcomes. Prior studies suggest that businesses with strong entrepreneurial orientation are more capable of developing innovative products and responding quickly to market changes, which contributes to higher sales growth and improved business performance (Charlesman & Astuti, 2025).

### **H4: Market orientation has an influence on the business performance of coffee shops in Medan**

Market orientation emphasizes understanding customer needs and responding effectively to market changes. Market orientation contributes to performance by ensuring that business decisions are consistently guided by customer insights and market conditions, enabling firms to achieve better and more sustainable performance outcomes. Prior studies indicate that businesses with strong market orientation are more capable of improving customer satisfaction, loyalty, market share, and overall business performance through products and strategies that align with customer preferences (Charlesman & Astuti, 2025).

### **H5: Competitive advantage has an influence on the business performance of coffee shops in Medan**

Competitive advantage enables businesses to achieve superior performance through unique value, stronger market positioning, and greater operational efficiency. Competitive advantage plays a central role in improving performance by strengthening a firm's ability to compete effectively in the market and sustain its outcomes over time. Prior studies indicate that firms with strong competitive advantage are more capable

of increasing profitability, attracting customers, and sustaining long-term business growth compared to competitors (Devi et al. 2025).

### **H6: Entrepreneurial orientation has an influence on the business performance of coffee shops in Medan mediated by competitive advantage**

Prior studies by Lestari (2025) indicated that the higher the entrepreneurial orientation, the stronger the competitive advantage formed, which in turn improves business performance. This suggests that competitive advantage serves as a mediator between the influence of entrepreneurial orientation on business performance.

### **H7: Market orientation has an influence on the business performance of coffee shops in Medan mediated by competitive advantage**

Prior studies by Putri et al. (2025) indicated that businesses with strong market orientation are better able to create superior value and differentiation by responding effectively to customer needs and market dynamics. These capabilities strengthen competitive advantage, which subsequently contributes to improved business performance.

Figure 1 presents the conceptual framework of this study, illustrating how entrepreneurial orientation and market orientation influence business performance directly and indirectly through competitive advantage. The framework emphasizes the mediating role of competitive advantage in explaining how strategic orientations are transformed into superior business performance. This framework contributes to the existing literature by integrating relationships into a single mediation model within the context of small service-based businesses.

## **RESULTS**

### **Outer Model Test**

The outer model evaluation was performed to ensure the reliability and validity of the constructs (Figure 2). Construct validity was confirmed through assessments of convergent and discriminant validity using their respective measurement criteria.

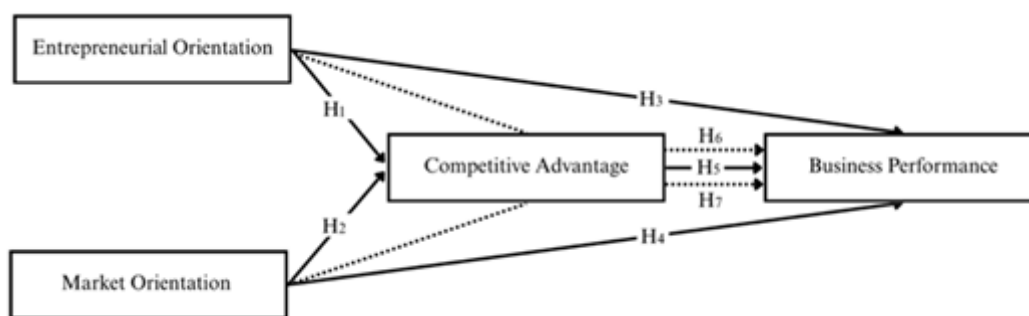


Figure 1. Conceptual framework

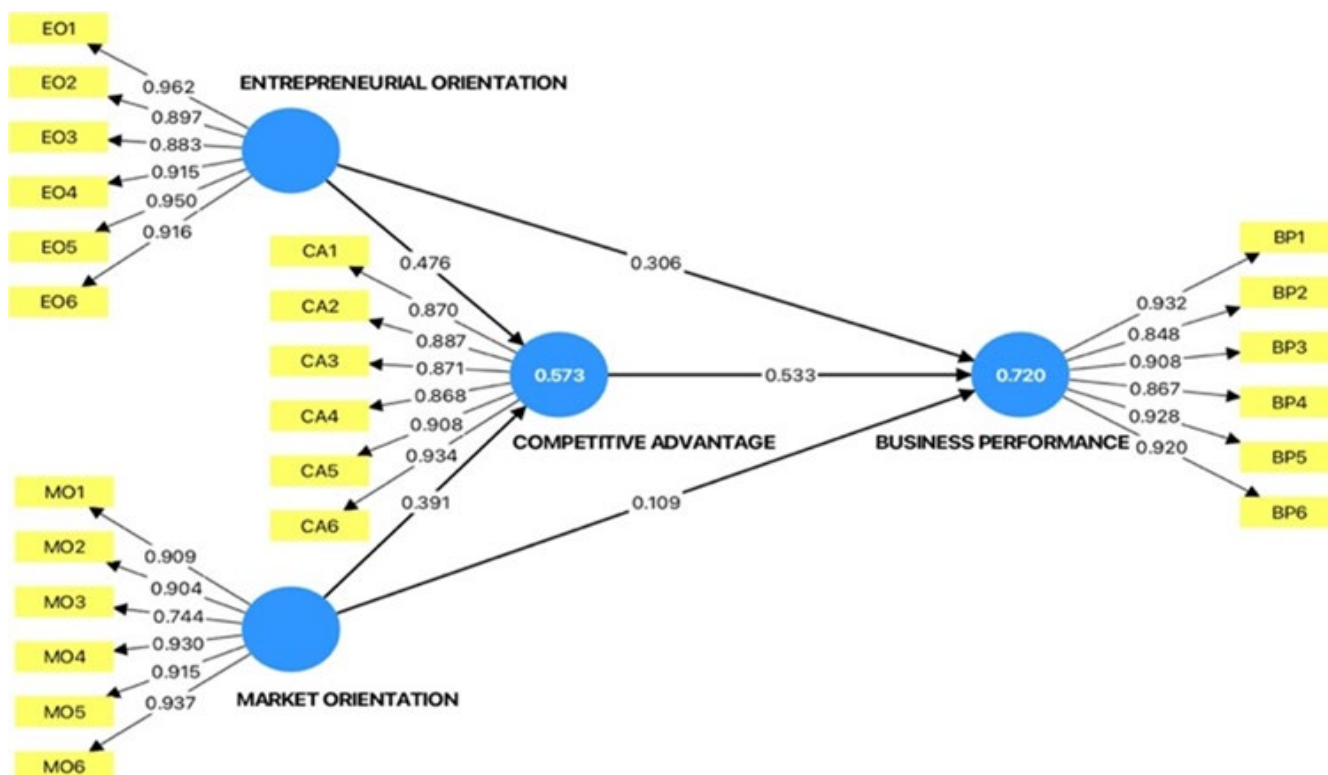


Figure 2. Outer model test

Convergent validity was confirmed with all indicator loadings factors above 0.7 and AVE values exceeding 0.5 (Table 1). The constructs showed strong reliability, as Cronbach's Alpha and Composite Reliability met the required standards, with values for all variables exceeding 0.6 and 0.7 (Table 1). Discriminant validity was supported by the Fornell-Larcker results (Table 2) and HTMT results (Table 3), where square roots of AVE values were greater than inter-construct correlations, and all HTMT values were less than 0.9.

### Inner Model Test

Table 4 presents the R-Square Test results, which show that 56.4% of the variance in competitive advantage can be explained by entrepreneurial orientation and market orientation, indicating a moderate relationship. Furthermore, 71.1% of the variance in business performance can be explained by entrepreneurial orientation and market orientation, indicating a strong relationship. The Q-Square Test values of 58.0% and 55.8% indicate that the model has good predictive relevance for competitive advantage and business performance.

Table 1. Convergent validity and construct reliability tests

Variables	Statements	Convergent Validity		Construct Reliability	
		Loading Factor	AVE	Cronbach's Alpha	Composite Reliability
Entrepreneurial Orientation (EO)	EO1	0.962	0.848	0.964	0.971
	EO2	0.897			
	EO3	0.883			
	EO4	0.915			
	EO5	0.950			
	EO6	0.916			
Market Orientation (MO)	MO1	0.909	0.796	0.948	0.959
	MO2	0.904			
	MO3	0.744			
	MO4	0.930			
	MO5	0.915			
	MO6	0.937			
Competitive Advantage (CA)	CA1	0.870	0.792	0.947	0.958
	CA2	0.887			
	CA3	0.871			
	CA4	0.868			
	CA5	0.908			
	CA6	0.934			
Business Performance (BP)	BP1	0.932	0.812	0.953	0.963
	BP2	0.848			
	BP3	0.908			
	BP4	0.867			
	BP5	0.928			
	BP6	0.920			

Table 2. Results of Fornell–Larcker Discriminant Validity Tests

	(Y)	(Z)	(X1)	(X2)
Business Performance (Y)	0.901			
Competitive Advantage (Z)	0.810	0.890		
Entrepreneurial Orientation (X1)	0.725	0.679	0.921	
Market Orientation (X2)	0.608	0.639	0.521	0.892

Table 3. Results of Heterotrait–Monotrait Ratio (HTMT) Discriminant Validity Tests

	(Y)	(Z)	(X1)	(X2)
Business Performance (Y)				
Competitive Advantage (Z)	0.849			
Entrepreneurial Orientation (X1)	0.751	0.711		
Market Orientation (X2)	0.626	0.662	0.525	

Table 4. Results of R-Square and Q-Square Tests

	R-square	R-square Adjusted	Q <sup>2</sup> predict
Competitive Advantage (Z)	0.573	0.564	0.580
Business Performance (Y)	0.720	0.711	0.558

## Hypothesis Testing

Table 5 shows the results of hypothesis testing using the PLS-SEM. A significant relationship is indicated when the T-statistic value is greater than 1,96 and the p-value is below 0,05. The results show that entrepreneurial orientation has a positive and significant influence on competitive advantage and business performance, while market orientation has a positive and significant influence on competitive advantage, but not on business performance. Competitive advantage also has a significant positive influence on business performance and serves as a mediator between the influence of both entrepreneurial orientation and market orientation on business performance.

### The Influence of Entrepreneurial Orientation on Competitive Advantage

The results show that entrepreneurial orientation has a significantly positive influence on the competitive advantage of coffee shops in Medan. These findings align with Utama et al. (2020), who stated that entrepreneurial orientation allows businesses to identify opportunities, take risks, and adapt strategies, creating a competitive advantage that strengthens their market position. This is further supported by Musa et al. (2022), who confirmed that entrepreneurial orientation has a positive and significant influence on competitive advantage, serving as a key tool to enhance competitive capabilities.

This indicates that firms with higher entrepreneurial orientation are more capable of building distinctive market positions through the development of unique value offerings and continuous strategic renewal. Such behavior enables firms to create differentiation that is difficult for competitors to replicate, thereby strengthening their competitive position in the market. Competitive advantage is formed through strategic uniqueness rather than operational similarity, where firms that actively seek new business opportunities are better positioned to stand out in competitive environments. Coffee shops in Medan with strong entrepreneurial orientation are more capable of creating a competitive advantage through continuous product experimentation and business model innovation. This includes developing signature beverages, introducing seasonal menus, and adopting new service concepts that distinguish them from similar competitors in the local market.

### The Influence of Market Orientation on Competitive Advantage

The results show that market orientation has a significant and positive influence on the competitive advantage of coffee shops in Medan. These findings align with Nugraha and Sukaatmadja (2020), who stated that market orientation enables businesses to achieve a strong competitive advantage by effectively using customer information in their business strategies, allowing them to develop offerings that better meet market needs and preferences than competitors. This finding is further supported by Sari et al. (2022), who mentioned that market orientation has a positive and significant influence on competitive advantage.

Table 5. Results of Hypothesis Tests

Relationship	Original Sample (O)	T-Statistics	P-Values	Hypothesis
EO → CA	0.476	5.914	0.000	Accepted
MO → CA	0.391	5.620	0.000	Accepted
EO → BP	0.306	3.869	0.000	Accepted
MO → BP	0.109	1.521	0.128	Rejected
CA → BP	0.533	6.079	0.000	Accepted
EO → CA → BP	0.253	4.001	0.000	Accepted
MO → CA → BP	0.208	4.182	0.000	Accepted

Note: Entrepreneurial Orientation (EO); Market Orientation (MO); Competitive Advantage (CA); Business Performance (BP)

This indicates that firms that systematically understand customer needs and monitor market trends are better able to build competitive positioning through value alignment with consumer expectations. Competitive advantage is strengthened when firms are able to translate market intelligence into offerings that are more relevant and preferred by customers compared to competitors. In this context, differentiation is achieved through accuracy in meeting market demand rather than product novelty alone. Coffee shops in Medan with strong market orientation strengthen their competitive advantage by systematically using customer feedback to refine product offerings and service quality. For example, adjustments in taste preferences, pricing strategies, and store ambience based on customer reviews help them achieve better alignment with market demand.

### **The Influence of Entrepreneurial Orientation on Business Performance**

The results show that entrepreneurial orientation has a significantly positive influence on the business performance of coffee shops in Medan. These findings align with Sandityo & Muafi (2023), who explained that a strong entrepreneurial orientation can directly improve performance, and the more effectively it is applied, the greater its positive impact on overall business performance. This finding is also supported by Lestari (2025), who stated that entrepreneurial orientation has a positive and significant influence on business performance.

This suggests that firms with stronger entrepreneurial orientation are more effective in improving performance outcomes through their ability to respond quickly to emerging market opportunities and adjust business strategies accordingly. This relationship highlights that performance improvement is driven not only by resource ownership but also by strategic agility in capturing market opportunities. Firms that are more responsive to environmental changes are better able to sustain business performance. Entrepreneurial orientation drives the creation of added value that enhances sales, profits, customer growth, and overall performance. Entrepreneurially oriented coffee shops in Medan tend to achieve higher business performance due to their ability to quickly capture emerging opportunities, such as trending beverage concepts or collaboration with local brands. This responsiveness contributes to increased customer traffic and sales growth compared to more conservative businesses.

### **The Influence of Market Orientation on Business Performance**

The results show that there is no significant influence of market orientation on the business performance of coffee shops in Medan. These findings align with Agus et al. (2023), who found that market orientation has a positive but insignificant influence on business performance. They also explained that as global competition intensifies and customer needs evolve, market orientation becomes increasingly crucial for business operations, and businesses must continuously align with it to maintain high and long-term performance. Similarly, Mutianto & Hidayati (2024) found that market orientation has a positive but insignificant influence on business performance.

This indicates that customer and market understanding alone is insufficient to directly improve performance outcomes without being translated into stronger competitive positioning or value creation. Market orientation functions more effectively as an indirect mechanism rather than a direct driver of performance. Information derived from customers must first be transformed into strategic actions that generate differentiation before it can impact sales and profitability. This condition explains why market orientation does not automatically lead to improved performance in the absence of a competitive advantage as a mediating mechanism. Market orientation does not directly enhance business performance in coffee shops in Medan, suggesting that customer information alone is insufficient to drive performance outcomes without being effectively operationalized into business strategy and value creation.

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

The results show that competitive advantage has a significant and positive influence on the business performance of coffee shops in Medan. These findings align with Soegihono & Yuniawan (2023), who stated that competitive advantage plays a key role in improving business performance, as businesses that maintain high quality with efficient costs and competitive prices tend to perform better. This finding is further supported by Sefanya & Ie (2024), who found that competitive advantage has a positive and significant influence on business performance.

This indicates that firms with stronger competitive advantage are more capable of achieving superior performance through their ability to deliver unique value, maintain customer preference, and sustain market positioning. Competitive advantage operates as a direct performance driver because it influences customer choice and strengthens firm competitiveness in the marketplace. Competitive advantage significantly improves business performance in coffee shops in Medan by enhancing differentiation through unique branding, consistent product quality, and memorable customer experiences. Coffee shops with stronger positioning tend to attract repeat customers and achieve more stable revenue growth.

### **The Influence of Entrepreneurial Orientation on Business Performance Mediated by Competitive Advantage**

The results show that entrepreneurial orientation has a significantly positive influence on the business performance of coffee shops in Medan, mediated by competitive advantage. These findings align with Devi et al. (2025), who found that competitive advantage mediates the relationship between entrepreneurial orientation and business performance. A strong competitive advantage enables coffee businesses to compete more effectively. Without it, even with a high level of entrepreneurial orientation, innovation, and risk-taking alone, may not directly improve performance without the right competitive strategies. This is supported by Sukmamedian (2021), who also confirmed the mediating role of competitive advantage in this relationship.

This indicates that entrepreneurial behavior alone does not directly determine performance outcomes but must first be transformed into a competitive position in the market. Entrepreneurial orientation enables firms to recognize opportunities, respond to market changes, and develop new value offerings. However, its impact on performance is realized when these strategic actions result in competitive advantage, such as better differentiation, stronger customer preference, and improved market positioning. Without this mechanism, entrepreneurial efforts may not fully translate into measurable performance gains.

### **The Influence of Market Orientation on Business Performance Mediated by Competitive Advantage**

The results show that market orientation has a significant and positive influence on the business performance of coffee shops in Medan, mediated by competitive advantage. Therefore, even though market orientation does not directly affect business performance, its influence indirectly improves performance through the mediating role of competitive advantage. These findings align with Putri et al. (2025), who mentioned that market orientation encourages businesses to adapt quickly to customer needs, market changes, and competitor strategies. This responsiveness helps build differentiation and enhance overall business performance. Furthermore, this finding is further supported by Sugiarto & Hargyatni (2024), who revealed that market orientation has a significant and positive influence on business performance through competitive advantage.

This indicates that market orientation enables firms to gather and utilize customer information, monitor competitor actions, and respond to market changes effectively. However, its impact on business performance becomes significant only when this market knowledge is transformed into a competitive advantage, such as better product offerings, improved service quality, and stronger customer value. Through this mechanism, firms are better able to attract and retain customers, which ultimately enhances business performance.

The managerial implications of this study suggest that coffee shop owners in Medan need to strengthen their entrepreneurial and market orientations to build a competitive advantage and improve business performance. This can be achieved through continuous innovation, proactive business strategies, and responsiveness to market trends, along with a consistent effort to understand and respond to customer needs and preferences. In addition, developing competitive advantage through product differentiation, service quality, and superior customer value is essential, as it serves as the key mechanism that translates strategic orientations into improved business performance in a highly competitive industry.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

The performance of coffee shop businesses in Medan could be enhanced by improving entrepreneurial orientation, while market orientation independently does not show a direct influence on business performance. However, with competitive advantage mediating the relationship, both entrepreneurial orientation and market orientation significantly contribute to business performance. This finding is in line with previous studies that emphasize the importance of competitive advantage as a key mechanism in translating strategic orientations into performance outcomes. Nevertheless, unlike several prior studies that report a direct effect of market orientation on performance, this study shows that such influence is not significant in the context of coffee shops in Medan, suggesting that market orientation is more effective when it operates through competitive advantage. Overall, these results confirm that strengthening entrepreneurial orientation and market orientation through competitive advantage is essential for improving the performance of coffee shops in Medan.

### Recommendations

This study has several limitations related to its scope and variables. The analysis focuses only on coffee shop businesses in Medan; therefore, the findings may not be generalized to other sectors. In addition, this study examines only entrepreneurial orientation, market orientation, competitive advantage, and business performance, while other factors such as entrepreneurial competence, entrepreneurial leadership, innovation capability, and digital capability may also influence business performance. From a practical perspective, this study recommends that coffee shop owners strengthen entrepreneurial and market-oriented practices while continuously building a competitive advantage to improve business performance in an increasingly competitive market.

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