

Coffee Shop SMEs' Competitive Advantage: The Role of Entrepreneurial Competence and Business Networks

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ABSTRACT

Although SMEs drive job creation and national sectoral growth, coffee shop SMEs in Indonesia continue to face intense competition that challenges their sustainable advantage. Based on the Resource-Based View and Relational View, this study proposes that innovation capability is a crucial mechanism that transforms entrepreneurial competence and business networks into competitive advantage. This study analyzed survey data from 250 independent coffee shop SMEs in five major Indonesian cities, selected via purposive sampling, using Structural Equation Modeling (SEM) to test the hypothesized paths. Results indicate that both entrepreneurial competence and business networks have a significant positive effect on competitive advantage and innovation capability. Innovation capability emerged as the strongest predictor of competitive advantage. Mediation analysis further reveals that innovation capability fully mediates these relationships, as the indirect effects surpassed the direct effects, highlighting its central role in achieving a superior market position. This research contributes by testing an integrated model within the specific context of Indonesian coffee shop SMEs and introducing contextual dimensions like local coffee bean utilization and community collaboration as key differentiators. These also findings suggest that SME policies and managerial interventions should prioritize developing innovation capabilities and building targeted networks with suppliers, local communities, and digital platforms to achieve sustainable competitive advantage.

Key words: Independent beverage ventures; Innovation capability development; Strategic interfirm relationships; Market differentiation strategy; Resource-based strategic management.

1 INTRODUCTION

Indonesia has the largest number of small and medium enterprises (SMEs) in the ASEAN region (The ASEAN Secretariat & UNCTAD, 2024). In 2023, SMEs in Indonesia reached approximately 66 million, successfully absorbing 97% of the workforce, contributing 60.3% to Gross Domestic Product (GDP), and 14.4% to national exports (The ASEAN Secretariat & UNCTAD, 2024). In contrast, in neighboring countries, SMEs only absorb between 35% and 85% of the workforce. However, in terms of economic performance, Indonesia is lower than other countries such as Myanmar, where SMEs contribute up to 69.3% to local GDP. This disparity suggests that, despite their large presence, the overall performance and competitiveness of Indonesian SMEs remain relatively low.

Among Indonesia's SMEs sectors, the coffee shop industry exhibits rapid growth and stands as one of the most dynamic segments within the food and beverage field. According to the Ministry of Trade of the Republic of Indonesia (2022), over 30,000 coffee shops were operating nationwide in 2022, expanding by more than 10% annually. This trend aligns with rising national coffee consumption, which is projected to reach 368,000 tons in 2024 (Central Bureau of Statistics, 2024). Despite this continuous growth, coffee shop SMEs still struggle to maintain their competitiveness amidst intense competition, facing both local players and national/

international coffee shop chains (Fauzi et al., 2023). This situation underscores that competitive advantage is no longer merely an option but an urgent necessity, enabling coffee shop SMEs to survive and achieve sustainable development.

Competitive advantage is a fundamental determinant of SME sustainability (Rubio-Andrés et al., 2024). Conceptually, competitive advantage is defined as a firm's ability to achieve and maintain a superior position in the market, enabling it to consistently outperform competitors (Barney et al., 2021). From a resource-based perspective, such advantage arises from the possession of resources and capabilities that are valuable, rare, inimitable, and non-substitutable (Barney et al., 2021). Meanwhile, from a positioning perspective, competitive advantage can be built through product differentiation or cost leadership strategies that create a unique position within the industry (Gómez et al., 2022; Iyer et al., 2019). The achievement of competitive advantage fundamentally depends on the entrepreneurial competence of the business owner, which enables the identification of strategic opportunities, the management of critical resources, and dynamic adaptation to changes in the business environment (Aloulou et al., 2024; Sakib et al., 2022; Teece, 2018).

The concept of entrepreneurial competence has undergone significant definitional evolution in the international literature. Crespí et al. (2022) define it as an individual's ability to identify opportunities, manage resources, and build new organizations, with a focus on functional skills

(marketing, finance, and operations). Meanwhile, Cortellazzo et al. (2020) expand this scope by distinguishing between business competence (general managerial skills) and specific entrepreneurial competence (creativity, risk tolerance, and opportunity orientation). Furthermore, Martínez and Ventura (2020) emphasize the behavioral aspect, stating that entrepreneurial competence includes knowledge, skills, and behaviors that enable an individual to create value through innovation and adaptation. The latest perspective from Bastian and Zucchella (2022) integrates the cognitive dimension by stating that this competence also includes metacognitive abilities to learn from experience and adjust strategies under uncertainty.

Another factor that contributes to the competitive advantage of coffee shop SMEs is business networks (Singh et al., 2022). Business networks are defined as systems of interpersonal and inter-organizational relationships that facilitate the flow of resources, information, and opportunities (Forkmann et al., 2018). Cristofaro et al. (2024) expand on this perspective by emphasizing strategic functions: business networks are structures of relationships that enable firms to access knowledge, technology, and markets not available internally. Singh et al. (2022) further highlight the process dimension: business networks encompass formal and informal relationships that are continually built and managed to reduce business uncertainty and create shared value. Audretsch et al. (2023) integrate elements of collaboration: business networks are ecosystems of relationships that enable SMEs to share risks, combine competencies, and accelerate innovation through ongoing interaction. In the context of Indonesian coffee shop SMEs, business networks serve as external support that strengthens business position, for example through access to exclusive bean suppliers (Audretsch et al., 2023), collaboration with local coffee communities (Singh et al., 2022), and partnerships with digital platforms for market expansion (Cenamor et al., 2019; Xie et al., 2022). Business networks are an essential component of the competitive advantage ecosystem in an increasingly integrated industry (Cristofaro et al., 2024).

Innovation capability acts as a dynamic mediator, transforming the resources derived from entrepreneurial competency and business networks into the market differentiation needed for competitive advantage (Somwethee et al., 2023). In this process, entrepreneurial competency facilitates the identification of innovative opportunities and the allocation of critical resources, while business networks provide access to exclusive knowledge and strategic collaborations that accelerate innovation development (Kim & Jin, 2024; Singh et al., 2022). Innovation capability enables coffee shop SMEs to convert the potential of competency and network into a competitive advantage that is difficult for competitors to imitate (Tajeddini et al., 2024). Empirical

studies confirm that the synergy between entrepreneurial competency and business networks only has a significant impact on competitive advantage when mediated by high innovation capacity, especially in consumption-based industries such as coffee shops (Audretsch et al., 2023; Singh et al., 2022). Furthermore, network-based innovation strengthens the position of SMEs through value-added product differentiation and operational efficiency, thereby creating a sustainable advantage amidst competitive market dynamics (Chandran et al., 2023).

Several previous studies have identified the partial influence of entrepreneurial competence (Sakib et al., 2022; Somwethee et al., 2023) and business networks (Audretsch et al., 2023; Singh et al., 2022) on SMEs' competitive advantage, as well as the mediating role of innovation capability (Singh et al., 2022; Somwethee et al., 2023; Tajeddini et al., 2024). However, studies examining the mechanism of these research variables in the specific context of coffee shop SMEs in developing countries remain limited (Vu et al., 2022). Specifically, a research gap persists in understanding how dynamic interactions among variables shape sustainable competitive advantage in industries with high competitive intensity, such as coffee shops (Vu et al., 2025). Therefore, this research aims to test an integrated model examining the influence of entrepreneurial competence and business networks on coffee shop SMEs' competitive advantage, with innovation capability as a mediating variable.

1.1 Competitive Advantage

This study defines competitive advantage as a company's ability to achieve and sustain superior performance by integrating unique internal resources, advantageous external positions, and adaptive capabilities (Barney et al., 2021; Pitelis et al., 2024). This definition synthesizes several theoretical perspectives. While the traditional Resource-Based View (RBV) and the positioning school offer valuable insights into internal resources and external strategy, they have been criticized for being static and deterministic, respectively (Alghamdi & Agag, 2024; Pitelis et al., 2024). The dynamic capabilities perspective addresses this by emphasizing adaptability, though it can be broad and difficult to operationalize. Furthermore, this study acknowledges the roles of inter-organizational networks and knowledge as key sources of advantage (Audretsch et al., 2023; Durst et al., 2023).

Researchers have different perspectives on indicators for measuring competitive advantage (Alghamdi & Agag, 2024; Moreira et al., 2024; Tsakalerou et al., 2025). The traditional financial performance-based approach emphasizes indicators such as profitability, market share, and sales growth as primary metrics (Alghamdi & Agag, 2024), while others emphasize intangible assets such as customer loyalty or brand

reputation (Osakwe & Yusuf, 2021). The Resource-Based View, on the other hand, proposes non-financial indicators such as product uniqueness, operational efficiency, and innovation capability (Barney et al., 2021; Moreira et al., 2024), but Pitelis et al. (2024) consider this approach prone to abstraction and measurement challenges. Furthermore, the dynamic perspective highlights the importance of adaptability indicators such as responsiveness to market changes and supply chain flexibility (Teece, 2018), but is criticized for neglecting long-term stability (Pitelis et al., 2024). Others also emphasize knowledge-based indicators such as the effectiveness of internal knowledge transfer (Durst et al., 2023). However, for the context of this research, the indicators used to measure competitive advantage are: (a) sales growth, (b) relative market share, (c) customer loyalty, (d) cost efficiency, and (e) speed of product innovation, which combines financial, operational, and dynamic perspectives according to the characteristics of coffee shop SMEs (Audretsch et al., 2023).

1.2 Entrepreneurial Competency

Entrepreneurial competency is narrowly defined as a combination of technical, business, and entrepreneurial skills limited to operational managerial functions (Gunawan, 2024), an approach criticized for ignoring cognitive dimensions and adaptive behavior (Bastian & Zucchella, 2022; Botha & Pietersen, 2022). Tittel and Terzidis (2020) broaden the scope by distinguishing between business competencies (general managerial abilities) and specific entrepreneurial competencies (creativity, risk tolerance), criticized by Bernadó and Bratzke (2024) for relying too heavily on functional classifications that do not adequately reflect environmental dynamics. Furthermore, the behavioral school emphasizes process and action aspects (such as the ability to identify opportunities and mobilize resources) (García-Cabrera et al., 2023), but is considered too abstract to be measured empirically (Sakib et al., 2022). This theoretical difference reaches the core of the debate on whether entrepreneurial competency is innate or learnable: Diallo (2019) supports the role of genetics in entrepreneurial behavior, while de Sousa et al. (2024) proves that 80% of competency can be developed through structured training and practical experience. Although various perspectives have been explained, this study defines entrepreneurial competency as a dynamic integration of knowledge, skills, and behavior that enables individuals to identify opportunities, manage resources innovatively, and adapt to uncertain business environments (Bernadó & Bratzke, 2024; García-Cabrera et al., 2023; Tittel & Terzidis, 2020).

Measuring entrepreneurial competency involves diverse academic perspectives highlighting different dimensions. Botha and Pietersen (2022) and García-Cabrera et al. (2023) emphasize behavioral indicators such as opportunity identification and resource mobilization, while Newman et

al. (2019) focuses on cognitive aspects such as self-efficacy and tolerance of ambiguity. On the other hand, Tittel and Terzidis (2020) propose an integrated approach between specific business and entrepreneurial skills, while Sakib et al. (2022) add contextual dimensions such as local cultural adaptation. Bernadó and Bratzke (2024) complement this with metacognitive indicators such as learning from failure. For this study, the indicators used to measure entrepreneurial competency are: (a) opportunity identification ability, (b) resource allocation effectiveness, (c) strategic adaptability, and (d) entrepreneurial self-efficacy.

1.3 Business Networks

The concept of business networks has evolved from a simple perspective as a collection of relationships to a multidimensional strategic framework. Möller et al. (2020) defined it as a system of interpersonal relationships that facilitate the flow of resources and information, but this view was expanded by Audretsch et al. (2023), who emphasized its strategic function in accessing external knowledge and technology. Singh et al. (2022) added a process dimension by highlighting the role of formal and informal networks in reducing business uncertainty, while Cristofaro et al. (2024) introduced the element of collaboration as an ecosystem that enables risk sharing and innovation. In the context of SMEs, Singh et al. (2022) positioned networks as a mechanism for exclusive resource access, while Durst et al. (2023) highlighted their role in knowledge transfer, and Xie et al. (2022) emphasized the importance of digital partnerships for market expansion.

Business network measurement encompasses diverse perspectives that highlight different dimensions. Guercini et al. (2024) emphasizes indicators of interpersonal relationship strength and resource flows, while Audretsch et al. (2023) focus on access to external knowledge and technology. Haneberg (2021) measures the intensity of formal and informal interactions in reducing uncertainty, while Cristofaro et al. (2024) highlight the depth of collaboration and risk sharing. On the other hand, Singh et al. (2022) assess access to exclusive resources, Durst et al. (2023) emphasize the effectiveness of knowledge transfer, and Xie et al. (2022) measure digital partnership engagement. For this study, the indicators used to measure business networks are: (a) partner diversity (number of collaboration types), (b) interaction intensity (frequency of communication/month), (c) access to exclusive resources (percentage of products from the network), (d) knowledge transfer effectiveness (speed of innovation adoption), and (e) digital engagement (level of digital platform utilization).

1.4 Innovation Capability

The concept of innovation capability has undergone significant evolution in the strategic management literature.

Motamedimoghadam et al. (2024) defined it as the multidimensional ability to transform knowledge and ideas into valuable new products, processes, or services, but this view was further enhanced by Fainshmidt et al. (2019) who emphasized the role of dynamic capabilities in integrating internal and external assets for adaptive innovation. On the other hand, Knudsen et al. (2023) focused on implementation dimensions such as product development speed and market responsiveness, while Farzaneh et al. (2022) highlighted the importance of ambidexterity, the ability to balance exploration and exploitation, as the core of innovation capability. In the context of SMEs, Livieratos et al. (2022) added the dimension of open innovation through external collaboration, and Zhang (2022) emphasized the relevance of incremental innovation for operational efficiency. For this study, innovation capability is defined as the systematic capacity of SMEs to identify, develop, and implement new ideas, whether products, processes, or marketing through the integration of internal knowledge, external collaboration, and dynamic adaptation to market changes, with the aim of creating unique value that increases competitiveness.

Measuring innovation capability involves various perspectives. Motamedimoghadam et al. (2024) emphasize indicators of innovative vision and resource allocation, while Fainshmidt et al. (2019) focus on sensing (detecting opportunities) and seizing (capturing opportunities) capabilities. Knudsen et al. (2023) measure innovation output such as the number of new products, while Farzaneh et al. (2022) highlight the balance between exploration and exploitation. Livieratos et al. (2022) assess the intensity of external collaboration. For this study, the indicators used to measure innovation capability are: (a) frequency of new product launches, (b) speed of innovation implementation, (c) level of external collaboration, (d) exploration-exploitation balance, and (e) efficiency of innovation resource allocation (Rubio-Picón et al., 2023).

1.5 Theoretical Framework and Hypothesis Development

The relationships between variables in this study demonstrate the complex mechanisms that shape the competitive advantage of coffee shop SMEs. Entrepreneurial competence directly influences competitive advantage through the ability to identify opportunities and allocate resources efficiently (Sakib et al., 2022; Teece, 2018), while business networks contribute directly through access to external resources and strategic collaboration (Audretsch et al., 2023; Gliga & Evers, 2023). However, these two variables also have an indirect influence through innovation capability: entrepreneurial competence drives innovation by facilitating creativity and adaptation (Bastian & Zucchella, 2022; García-Cabrera et al.,

2023), while business networks accelerate innovation through knowledge and technology transfer (Durst et al., 2023; Singh et al., 2022). Innovation capability further becomes a crucial determinant of competitive advantage by creating product differentiation and operational efficiency (Alghamdi & Agag, 2024; Tajeddini et al., 2024). Furthermore, innovation capability functions as a full mediator that transforms the potential of internal competencies and external networks into sustainable market advantages, where without innovation, the impact of entrepreneurial competencies and business networks on competitive advantage becomes insignificant (Somwethee et al., 2023; Tsakalerou et al., 2025). The following are the hypotheses proposed in the study:

H₁ : Entrepreneurial competence has a positive effect on competitive advantage.

H₂ : Business networks have a positive effect on competitive advantage.

H₃ : Entrepreneurial competence has a positive effect on innovation capability.

H₄ : Business networks have a positive effect on innovation capability.

H₅ : Innovation capability has a positive effect on competitive advantage.

H₆ : Innovation capability mediates the effect of entrepreneurial competence on competitive advantage.

H₇ : Innovation capability mediates the effect of business networks on the competitive advantage.

2 MATERIAL AND METHODS

This study adopted the Structural Equation Modeling (SEM) approach as the primary analytical framework for testing the causal relationship model between latent variables (Kline, 2016). The SEM approach was chosen because it can handle the complexity of the model with four latent constructs measured in multiple dimensions, as well as direct and indirect effects (Hair et al., 2022). The SEM implementation used AMOS Software with a two-stage process: (a) Measurement Model Analysis (CFA) to test validity and reliability; (b) hypothesis testing through a structural model with path significance evaluation and bootstrapping mediation analysis (Hayes, 2022). This approach allows empirical confirmation of the role of innovation capability as a mediator in linking entrepreneurial competencies and business networks to the competitive advantage of coffee shop SMEs.

The population of this study was all independent coffee shop SMEs (not franchises) operating in Indonesia with a minimum operating period of 2 years, spread across five major cities with rapid coffee industry growth (Jakarta, Bandung, Yogyakarta, Surabaya, and Medan) selected based on the representativeness of heterogeneous consumer markets and

the densest concentration of SMEs (BPS-Statistics Indonesia, 2022). From this list, a final sample was selected based on the following inclusion criteria: (1) SMEs are officially registered with the local Cooperative and SME Office; (2) have a minimum of 5 employees; (3) managers are willing to be respondents; and (4) have a history of product or service innovation in the last 2 years. To identify and recruit potential respondents, contact information for business owners was obtained from the Ministry of Trade. These owners were subsequently contacted and invited to participate in the survey.

Data collection was conducted through a structured questionnaire with a 5-point Likert scale that measures four research constructs, where the instrument was developed based on adaptations from previous theoretical studies: competitive advantage measured by 5 indicators (Alghamdi & Agag, 2024; Osakwe & Yusuf, 2021; Tsakalerou et al., 2025), entrepreneurial competence with 4 indicators (Bastian & Zucchella, 2022; Cortellazzo et al., 2020; Sakib et al., 2022), business networks with 5 indicators (Audretsch et al., 2023; Cenamor et al., 2019; Singh et al., 2022), and innovation capabilities with 5 indicators (Moreira et al., 2024; Somwethee et al., 2023; Tajeddini et al., 2024). Data collection was conducted over a three-month period, from May to July 2025, using a mixed-mode method. This method consisted of face-to-face surveys conducted in five research cities, where researchers met directly with coffee shop owners who had been contacted beforehand. At the same time, online questionnaires were distributed through collaborations with local MSME associations in each area to broaden participation outreach.

3 RESULTS

3.1 Respondent Profiles

A comprehensive overview of the profiles of 250 coffee shop SMEs and their owners/managers is presented in Table 1. The data coverage includes business location, business age, number of employees, gender of owner/manager, and formal education.

Innovation history and business network involvement are key variables in this study, reflecting the adaptive capacity of coffee shop SMEs and their openness to external collaboration. Table 2 presents the distribution of SMEs based on the types of innovations they have implemented (product, process, and marketing) and the key strategic partners within their business ecosystem. This data is crucial for analyzing the relationship between innovation practices and business networks and SME competitive advantage, as well as identifying the most dominant network involvement patterns in the Indonesian coffee shop industry.

Table 1: Profile Coffee Shop SMEs Respondents (N=250).

Characteristics	Category	Frequency	Percentage
Business location	Jakarta	71	28.4%
	Bandung	64	25.6%
	Yogyakarta	37	14.8%
	Surabaya	44	17.6%
	Medan	34	13.6%
Business Age	2-5 years	136	54.4%
	5-10 years	76	30.4%
	>10 years	38	15.2%
Number of employees	5-10 employees	129	51.6%
	11-20 employees	79	31.6%
	>20 employees	42	16.8%
Gender of owner/manager	Female	204	81.6%
	Male	46	18.4%
Formal education	Junior High School	15	6.0%
	High School	41	16.4%
	Bachelor's degree	160	64.0%
	Master's Degree	34	13.6%

Source: Author's data analysis using (AMOS 22).

Table 2: Innovation History and Primary Partner Types of Coffee SMEs (N=250).

Characteristics	Category	Frequency	Percentage
Innovation History	Product Innovation	215	86.0%
	Process Innovation	176	70.4%
	Marketing Innovation	118	47.2%
Primary Partner Types	Coffee Bean Suppliers	224	89.6%
	Local Coffee Communities	157	62.8%
	Digital Platforms	212	84.8%
	SMEs Associations	98	39.2%

Source: Author's data analysis using (AMOS 22).

3.2 Measurement Model

As shown in Table 3, the Confirmatory Factor Analysis (CFA) was conducted on each variable construct. This analysis evaluated the validity and reliability of the four main variables. The CFA results for each construct are presented in the following tables, which include standardized factor loading (>0.70), Average Variance Extracted (AVE) (>0.50), Composite Reliability (CR) (>0.70), and a goodness-of-fit test for each measurement model. This evaluation serves as the basis for ensuring the validity and reliability of the research instrument before proceeding to the structural model analysis (Hair et al., 2022).

Table 3: Confirmatory Factor Analysis.

Construct	Indicator	Items	Factor Loading	CR	AVE
Entrepreneurial Competency	Opportunity identification ability	EC1; EC2	0.779; 0.841	0.939	0.605
	Resource allocation effectiveness	EC3; EC4	0.736; 0.792		
	Strategic adaptability	EC5; EC6	0.833; 0.731		
	Entrepreneurial self-efficacy	EC7; EC8	0.761; 0.729		
Business Network	Partner diversity (number of collaboration types)	BN1; BN2	0.724; 0.788	0.924	0.550
	Interaction intensity (frequency of communication/month)	BN3; BN4	0.716; 0.731		
	Access to exclusive resources (percentage of products from the network)	BN5; BN6	0.854; 0.733		
	Knowledge transfer effectiveness (speed of innovation adoption)	BN7; BN8	0.729; 0.704		
	Digital engagement (level of digital platform utilization)	BN9; BN10	0.715; 0.722		
Innovation Capability	Frequency of new product launches	IC1; IC2	0.836; 0.774	0.944	0.629
	Speed of innovation implementation	IC3; IC4	0.731; 0.805		
	Level of external collaboration	IC5; IC6	0.841; 0.792		
	Exploration-exploitation balance	IC7; IC8	0.758; 0.817		
	Efficiency of innovation resource allocation.	IC9; IC10	0.739; 0.828		
Competitive Advantage	Sales growth	CA1; CA2	0.834; 0.826	0.941	0.615
	Relative market share	CA3; CA4	0.821; 0.827		
	Customer loyalty	CA5; CA6	0.725; 0.732		
	Cost efficiency	CA7; CA8	0.777; 0.801		
	Speed of product innovation	CA9; CA10	0.769; 0.721		
Chi Square= 191,838; df= 132; P-value= .000; RMSEA= .090; GFI= .922; CFI= .955; TLI= .938					

Source: Author's data analysis using (AMOS 22).

The Confirmatory Factor Analysis (CFA) results revealed the most critical indicators within each construct. For Entrepreneurial Competency, ‘opportunity identification ability’ (EC2) had the highest loading ($\beta = 0.841$), underscoring the importance of market awareness for success in the dynamic coffee industry (Sakib et al., 2022). For the Business Network construct, ‘access to exclusive resources’ (BN5) emerged as the most significant factor ($\beta = 0.854$), aligning with the view that unique resources are a primary benefit of strategic partnerships for coffee shop SMEs (Audretsch et al., 2023). Within Innovation Capability, the ‘frequency of new product launches’ (IC1) showed the highest loading ($\beta = 0.836$), highlighting that tangible outputs like new menu items are a clear manifestation of an innovative culture (Tajeddini et al., 2024). Finally, for Competitive Advantage, ‘sales growth’ (CA1) was the strongest indicator ($\beta = 0.834$), confirming that financial performance remains a primary measure of a firm’s superior market position (Alghamdi & Agag, 2024). The goodness-of-fit indices (GFI/CFI/TLI ≥ 0.90) indicated an adequate model fit, although the RMSEA was marginal. Overall, the instrument was deemed accurate for further structural analysis.

3.3 Hypothesis Test

After ensuring the validity and reliability of the instrument, the research hypothesis was tested using a structural

model analysis using SEM-AMOS 26. This test includes direct and indirect influences between variables to confirm the causal relationships in the research model. The results of the analysis will empirically answer the research objectives by testing the seven formulated hypotheses, the full structural model of the effects among research variables can be seen in the image below.

Figure 1 illustrates the structural model that was tested to examine the relationships between entrepreneurial competence, business networks, innovation capability, and competitive advantage. The results of the hypothesis testing for the direct and indirect effects are comprehensively presented in Table 4. The table provides the standardized path coefficients (β), critical ratios (C.R.), and p-values for each of the seven proposed hypotheses.

4 DISCUSSION

The structural model highlights a coherent mechanism through which entrepreneurial competence and business networks shape the competitive advantage of coffee shop SMEs in Indonesia. Both constructs show significant direct associations with competitive advantage, yet their strongest contributions are transmitted through innovation capability. Entrepreneurial competence and business networks exhibit substantial effects on innovation capability ($\beta = 0.547$ and β

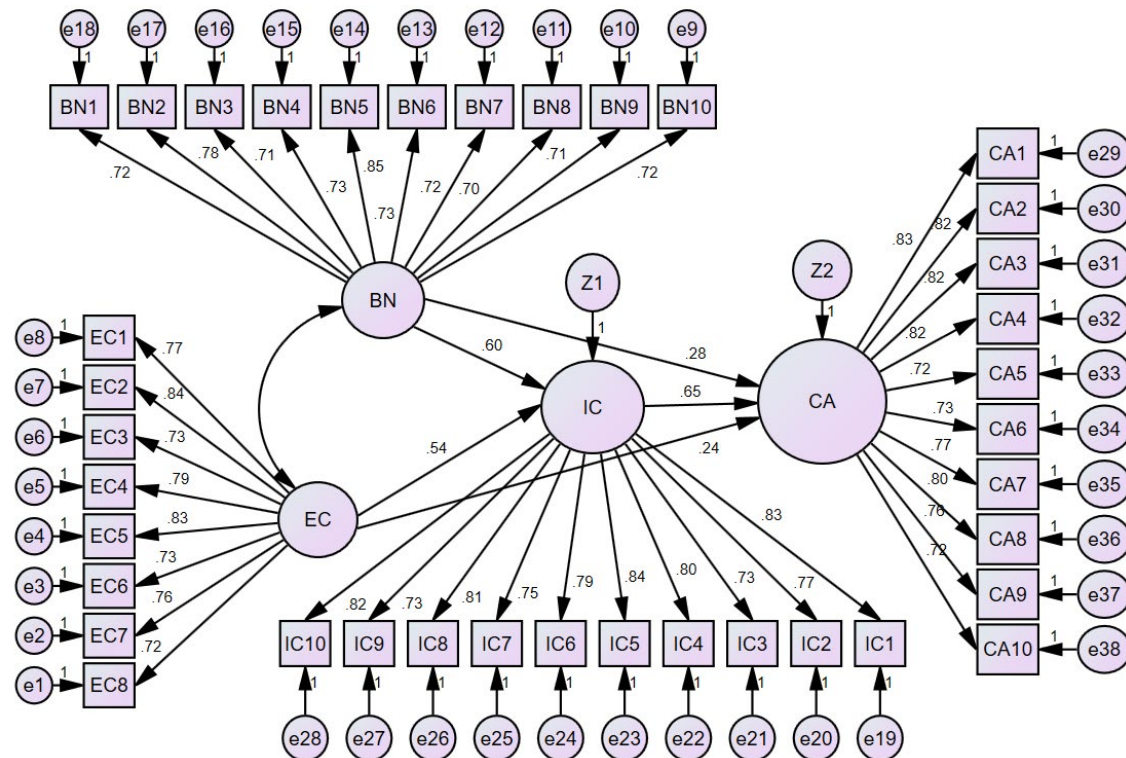


Figure 1: Full Structural Model.

Source: Author's data analysis using (AMOS 22).

Table 4: Hypothesis Test.

Variable					Standardize (β)	C.R	P-Value	Result
Direct								
EC	→	CA			0.243	2.008	0.045	H ₁ accepted
BN	→	CA			0.289	2.388	0.017	H ₂ accepted
EC	→	IC			0.547	4.521	0.000	H ₃ accepted
BN	→	IC			0.607	5.017	0.000	H ₄ accepted
IC	→	CA			0.657	5.430	0.000	H ₅ accepted
Indirect								
EC	→	IC	→	CA	0.359		0.004	H ₆ accepted
BN	→	IC	→	CA	0.399		0.001	H ₇ accepted

Source: Author's data analysis using (AMOS 22).

= 0.607, respectively; $p < 0.001$), while innovation capability emerges as the most powerful predictor of competitive advantage ($\beta = 0.657$; $p < 0.001$). The indirect effects via innovation capability (0.359 and 0.399; $p < 0.01$) exceed the direct effects on competitive advantage ($\beta = 0.243$ and $\beta = 0.289$). This indicates that turning internal competences and external relationships into concrete innovation outcomes is central to sustaining superior market positions.

The evidence on entrepreneurial competence supports the resource-based argument that owner managers' capabilities function as critical strategic assets in small firms (Barney et al., 2021; Teece, 2018). Opportunity identification ability emerges

as the most salient dimension, suggesting that the capacity to recognise emerging consumption trends, target profitable niche segments, and reconfigure offerings accordingly is a key stimulus for innovation. This is consistent with prior work showing that opportunity focused competences foster novel menus, service concepts, and experiential formats that differentiate small beverage businesses from larger chains (Margiono & Feranita, 2021; Sakib et al., 2022). In Indonesian coffee shops, such competence is visible in the creative use of local beans, flavour infusions based on indigenous ingredients, and hybrid space designs that combine coworking functions, community events, and lifestyle-oriented branding.

Business networks also contribute meaningfully to competitive advantage, both directly and through innovation capability. Access to exclusive resources, particularly privileged relationships with coffee bean suppliers, is the most influential indicator of the network construct. This aligns with the relational view, which emphasises that SMEs can overcome resource constraints by embedding themselves in networks that provide specialised inputs, market intelligence, and complementary capabilities (Audretsch et al., 2023; Cristofaro et al., 2024; Forkmann et al., 2018). Strong ties with suppliers, local coffee communities and digital platforms indicate that competitive advantage is created within an ecosystem rather than by individual firms acting alone. These relationships provide early information on new crops and flavour profiles, opportunities to design promotional events with community groups, and digital channels that extend market reach.

The mediating role of innovation capability clarifies how competences and networks are transformed into market outcomes. The dominance of product innovation, such as signature menus and seasonal offerings, together with substantial process and marketing innovation, suggests that many coffee shop SMEs actively use their knowledge base and relational assets to redesign value propositions rather than competing mainly on price. The high loading for the frequency of new product launches shows that visible outputs, especially new menu items, are central expressions of an innovative orientation. Taken together, the findings indicate that innovation capability functions as the main channel through which strategic competences and network resources are converted into differentiation that improves performance (Somwethee et al., 2023; Tajeddini et al., 2024).

A further distinctive feature of the findings is the strong dominance of female owners and managers, who constitute 81.6% of the sample. This pronounced gender disparity may reflect characteristics of the consumer service sector, which is often perceived as more closely aligned with traditional female gender roles and therefore attracts a higher number of female entrepreneurs (Essers et al., 2025). The SME form also tends to offer greater flexibility in work arrangements and in managing domestic responsibilities, which makes such ventures attractive for women seeking to balance family duties with entrepreneurial activities (Oladipo et al., 2023). In addition, the pattern is consistent with evidence of rising female participation in Indonesia's creative economy (UNCTAD, 2022). Together, these observations provide a gendered lens on coffee shop SMEs, documenting an unusually high concentration of female owners and managers and extending discussions of feminised service sectors to independent coffee businesses in an emerging economy.

Considered as a whole, the results portray competitive advantage in experience-based consumer industries such as coffee shops as the outcome of an interplay between

entrepreneurial competences, relational embeddedness, innovation practices and gendered patterns of participation. Competitive positioning appears to depend less on isolated personal abilities or individual relationships and more on how effectively these elements are orchestrated into coherent innovation efforts that sustain sales growth, customer loyalty, cost efficiency and speed of product development (Bastian & Zucchella, 2022; Durst et al., 2023).

From a theoretical perspective, the model refines the application of the resource based and relational views by showing that entrepreneurial competence and business networks influence competitive advantage predominantly through an innovation driven pathway. This supports arguments that static conceptualisations of resources and dyadic relationships are insufficient in dynamic consumer markets, where advantage increasingly depends on the capacity to reconfigure offerings and collaborations over time (Alghamdi & Agag, 2024; Tsakalerou et al., 2025). The results also add a gender sensitive dimension by showing that these mechanisms operate within a sector that is strongly dominated by female entrepreneurs. In this way, the study offers an integrated view in which internal competences, external networks, innovation processes and the gender composition of owners and managers are treated as interrelated components of a broader competitive advantage system.

At a practical level, the empirical pattern has clear managerial implications. For owners and managers, strengthening competitive advantage calls for investment in entrepreneurial development, particularly in opportunity recognition and strategic adaptability, alongside the cultivation of high-quality networks with suppliers, coffee communities and digital platforms. These efforts need to be embedded in structured innovation routines, such as regular experimentation with new menu items, systematic use of customer feedback, and continuous improvement of service and process design. For policy makers and ecosystem builders, the findings suggest that support for coffee shop SMEs should go beyond access to finance and generic training and include innovation-oriented networking platforms and capability building programmes that help entrepreneurs translate relational and cognitive assets into sustained competitive advantage within Indonesia's evolving coffee industry.

5 CONCLUSIONS

Integrating Resource-Based and Relational Views, this study of Indonesian coffee shop SMEs finds innovation capability translates entrepreneurial competence and networks into competitive advantage. The model includes gender and local context, advising managers to invest in these assets while policymakers support women entrepreneurs. While the reliance on data from a single point in time prevents proving cause and effect, the study provides a foundation for future longitudinal and comparative research.

6 AUTHORS CONTRIBUTIONS

Conceptual Idea: Faiq, M.; Amin, S.; Methodology design: Faiq, M.; Rosita, S.; Data collection: Faiq, M.; Data analysis and interpretation: Faiq, M.; Amin, S.; Khalik, I.; Rosita, S.; and Writing and editing: Faiq, M.; Amin, S.; Khalik, I.; Rosita, S.

7 DATA AVAILABILITY STATEMENT

Data available upon request to authors

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