

## THE EFFECT OF STRATEGIC PLANNING AND ENTREPRENEURIAL ORIENTATION ON THE PERFORMANCE OF COFFEE SHOP BUSINESS THROUGH INNOVATION AS INTERVENING VARIABLE

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### ABSTRACT

*Coffee shops are among small and medium enterprises that are currently rising in Indonesia, despite the disruptions and various challenges during the Covid-19 pandemic. Small and medium-sized enterprises have proven to be able to survive the 1998 economic crisis and even contribute to the national economic recovery. This study discusses the effect of strategic planning and entrepreneurial orientation on the performance of small and medium enterprises through the mediation of innovation. This study used an explanatory approach, with a sample of 79 coffee shop managers in East Java determined by the technique of purposive sampling. Data were collected using a questionnaire and then analyzed using the Partial Least Square (PLS) method processed in the Smart-PLS 3.0 program. The results demonstrated that strategic planning and entrepreneurial orientation had a positive and significant effect on business performance and innovation. In addition, innovation is proven to mediate the effect of strategic planning on performance, as well as the effect of entrepreneurial orientation on business performance. The findings of this study broaden the concept of resource-based theory by combining it with the theory of synoptic planning, which suggests that the company's strategy must be carefully planned while considering the entrepreneurial orientation and the ability of the managers in expanding the business through innovation.*

Keywords: Strategic planning, entrepreneurial orientation, performance, innovation, coffee shop.

### INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are crucial for the economy of Indonesia, especially with the evidence that they were able to survive the economic crisis in 1998 and 2008 (Bank Indonesia and LPPI, 2015:5), and were successful to contribute to the recovery of the national economy. (Suliyastuti, 2004:45). Throughout the time, the government supports the development of small and medium enterprises, such as by releasing Act Number 20 of 2008 concerning Micro, Small, and Medium Enterprises, providing access for the capital loan, training, and marketing. However, the development of small and medium enterprises has been stagnant, resulting in many failures. Small and medium enterprises have difficulty in expanding their market share as they also have to compete with foreign products (Hamid & Susilo, 2011). Other problems include limited access and intervention to markets, capital, technology, and weak management systems (Tambunan, 2001; Ardiana, 2010).

Coffee shops are among small and medium enterprises that are currently rising in Indonesia. This development is reflected in the increase in the number of coffee outlets and coffee consumption reported by the TOFIN research (2019). The number of coffee shops in Indonesia in August 2019 reached more than 2,950 outlets, an increase of almost three times compared to 2016 which was 1,000. Furthermore, the increase in domestic coffee consumption according to the Global Agricultural Information Network (2019) in 2019/2020 reached 294,000 tons, which is 13.9 percent higher compared to 2018/2019 which was 258,000 tons. The reason behind this phenomenon is the lifestyle change that is greatly shaped by the younger generation. Coffee shops are considered a favorite place for gathering, co-working, doing assignments, or just relaxing. Each coffee shop emerges with its own "contemporary" concept with various innovations in services and their products. However, problems are still visible in the management and the service of the coffee shops, such as weak business plans, poor management, and mistakes in choosing managers/employees (Coffeeland.co.id, 2020). Another mistake is the lack of business strategy, resulting in the uncertainty of the business orientation (Clayton, 1996).

Currently, small businesses also have to struggle to survive due to the Covid-19 pandemic which greatly affected the economy and human life in general. Purnomo (2020:171), explained that the Covid-19 pandemic forces MSMEs and the informal sector to redesign the service system as there are lots of restrictions and limitations in human activities, which also declines the number of public consumptions, and weaken the investment. This condition is certainly experienced by Coffee Shop entrepreneurs. Minister of Industry Agus Gumiwang Kartasasmita (2020) stated that Covid-19 had affected small and medium industries, including the coffee business sector, whose turnover had decreased by 90 percent. This is mainly due to activity restrictions, where cafes and restaurants are forced to limit their opening hours and services. Kurniawan et al. (2020) explained that the coffee beverage industry is greatly affected by the pandemic, until recently on which the government has implemented a New Normal policy. New normal is a great time for the economic activity to run again, despite the social restrictions. This has become a moment for the coffee shop business to start reviving, which is reflected by the rise of coffee shop business in urban areas.

The theory of synoptic planning suggests that strategic decisions should be based on thorough analysis and a systematic approach to decision making (Dror 1983). Business performance in small businesses is influenced by several factors, such as the nature and character of the entrepreneur, educational background, and the main functions of business management; production, marketing, finance, and personnel. Lambing (as cited in Djawahir, 2008) explained that factors that determine business growth are manager personality, skills in management, and goals. Meanwhile, Hisrich (2008) revealed that entrepreneurship is a process and effort in creating something different and innovative by considering financial, psychological, and social risks to achieve the desired results of monetary satisfaction, personal satisfaction, and independence. Therefore, the factors that can improve business

performance include aspects of nature, character (passion), and management ability in an entrepreneurial orientation (risk-taking, proactive, innovative).

A strategic plan is a formal roadmap that describes how the company is being navigated strategically (Olsen, 2007). Strategic planning consists of various breakthroughs and reflects a trend of positive business performance in a long term (Hardjo, 2017). The important role of strategic planning in small business development has been widely proven through various empirical studies (Donkor, et al., 2018; Rizan M., et al., 2019; Skokan et al., 2013; Kotamataki, et al., 2010; Rizan, et al., 2019; Mosoti, et al., 2014; Rosyafah, et al., 2017; Hakimpoor, 2014; Mosoti, 2014; and Rofiaty, et al., 2020), which strengthens Armstrong's theory (in Hopkins, 1997) that the implementation of strategic planning has a significant effect on business performance. On the other hand, several studies have reported the opposite, where that strategic planning has no significant effect on business performance (Kraus, et al., 2016; Adriana, et al., 2011; and French, et al., 2004).

Several studies have reported the significance of the relationship between entrepreneurial orientation (entrepreneurial orientation) on performance (Soares, et al., 2019; Shu, C. et al. 2019; Cho, Y. et al., 2018; Fadda, 2017; Mustikowati, et al., 2014; Arshad, et al., 2013; Khalili, et al., 2013; Nanda, et al., 2018; Rofiaty, 2019; and Putra, et al., 2020). In general, it is stated that the entrepreneurial orientation greatly determines business performance, because it represents a passion for driving the risk-taking, proactive, and innovative functions in a business. However, some studies report on the contrary, that the relationship between variables is not significant (Jia, et al., 2013; Slater, et al., 2000; and Renko, et al., 2009). The discrepancy in the findings of previous research is an important note that must be confirmed through this study.

This study discusses the model of a causal relationship between strategic planning and entrepreneurial orientation toward the performance of a small and medium business. The mediation role of innovation in the model is also discussed. According to Altindag (2011), innovation is associated with company performance and growth through increased efficiency, productivity, quality, competitive position, and market share. Innovation is constructed by ideas, methods, series of knowledge, relevance, and product development (Lueke & Katz, 2003). Hajar (2015) reports that strategic planning has a positive and significant effect on innovation and performance, and innovation itself has a positive and significant effect on performance, which will ultimately affect business performance. This idea explains the basic modeling of business strategy planning and entrepreneurial orientation to optimize company performance in the small industrial sector with innovation as an alternative. This study provides empirical evidence regarding the effect of strategic planning and entrepreneurial orientation on the performance of coffee shop business in Indonesia, and how is it mediated by innovation. The findings can be considered as a recommendation for coffee shop managers to improve business performance.

## LITERATURE REVIEW

### Strategic Planning

Strategic planning plays an important role as the main activity in supporting business performance. This idea is now being emphasized, not only by academics but also by professionals. Whittaker (2002) suggested that one of the factors that influence business performance is strategic planning. Erica Olsen (2007) described a strategic plan as a formal roadmap that describes how a company is being navigated through a certain strategy. Gibb & Scott (1985) suggested small companies implement strategic planning to achieve optimal business performance. Herter (1995) also explicitly stated that business players must start a business with effective and comprehensive strategic planning. Strategic planning is a systematic effort to build interaction between key stakeholders to increase the responsiveness toward the business environment (Suklev & Debarliev, 2012). Strategic planning is fundamental and is a standard paradigm and method in strategic management (Mosoti & Murabu, 2014). From a practical point of view, strategic planning is considered important in the development of the organizational life cycle and for creating competitiveness (Al-Shaikh, 2001). Strategic planning is studied using the theoretical basis of Armstrong (in Hopkins, 1997) and adopting the measurement developed by Cohen (2001), Kohtamaki, et al. (2010), Adriana, et al. (2011), Sandada (2015) and Boateng, et al. (2015) which include determination of vision, determination of mission, setting and development of goals, internal (strengths and weaknesses) and external (opportunities and threats) environmental audits, strategy selection, strategy implementation, and evaluation of strategic options.

### Entrepreneurial Orientation

A business must have a clear direction of positive development, thus a business manager must understand how to navigate the business (Sritua Arief in Clapham, 1991). According to Frisen and Miller (1984), a business can achieve good performance if the manager has a passion for market innovations, dares to take the risks, innovative and proactive. Entrepreneurial orientation can be understood as a strategy to compete more effectively in the marketplace (Porter, 2008). Entrepreneurial orientation is a combination of creativity, innovation, and courage in taking and facing risks through hard work (Carson, 2008). Entrepreneurial orientation can be determined based on four dimensions; passion, proactive, innovation, and risk-taking. Passion is a sense of enthusiasm accompanied by strong emotions to reach certain goals. Proactive reflects the company's swift actions to grab every opportunity and anticipate the constraints. Innovativeness reflects the tendency to engage and support new ideas, novelty, experiments, and creative processes. Risk-taking, on the other hand, represents a willingness to commit resources to undertake activities and projects regardless of the uncertainty of the result (Miller, 1983).

### Innovation

Industrial development forces businesses to develop strategies and effective service systems and good products. Innovation plays an important and central role in almost all organizations (Mejia et al., 2008). Innovation is explained in the article "*The Importance of Innovation in Business*" (northeastern.edu) as a driving factor for business growth that keeps it relevant. Innovation is the key to increasing the revenue of the company (Okay et al., 2009), thus it is crucial for the growth of the business. In addition, innovation determines the characteristics of businesses that are different from one another. Innovation is the process of finding or implementing new ideas in new situations, which is different from the concept of novelty. A new idea from a person could be an obsolete idea for another person in another context (Helmi & Hadi 2004). Rogers (as cited in Suwarno, 2008) described innovation

as an idea, practice, object that is considered new by an individual. Damanpour (in Hendroyono, 2005) added that innovation can be reflected by something new, such as new products, new services, new production process technology, new structural and administrative systems, or new plans for organizational members. Innovation is tendencies, experiments, and creative processes that can produce something new (Lumpkin and Dess, 1996). In this study, the measurement of the innovation variable is carried out by adhering to the theory of Griffin (2004) developed by Mustikowati (2014), Hajar (2015), and Prajogo (2016), which includes product innovation and process innovation.

### Business Performance

Business performance is the ability of a business to earn profits and process resources -both human and financial- to achieve goals. According to Wheelen & Hunger (2003), the concept of business performance is based on the idea that the company is a collection of productive assets consisting of human resources, physical and capital that are important to achieve goals. Business performance is not only a reflection of the success or failure of a but also describes the company's achievements on a series of work within a certain period. Performance is the result of an effort that can be measured and adjusted based on its objectives (Ebrahimi, et al. 2016). Performance determines the development of a business (Handayani, 2013). Lambing (in Djawahir, 2008) and Hisrich (2008) concluded that the factors that can improve business performance are passion and management's ability in risk-taking, proactivity, innovation. Good business performance and entrepreneurial orientation depend on the quality of strategic planning. This study adopts the measurements developed by Wiklund (2005), Rosyafah (2017), and Hajar (2015), which include sales growth, profit growth, and asset growth.

## METHOD

### Research Method

This explanatory research was intended to provide empirical evidence of the relationship between strategic planning and entrepreneurial orientation on the business performance through innovation as a mediating variable. Based on the data, this study is categorized as quantitative research.

### Population and Sample

The population in this study were coffee shop owners and managers in Indonesia. The sample studied was 79 respondents, who are the business players in the coffee shop business in East Java. The technique of sample collection was purposive sampling.

### Type and Source of Data

This study uses primary and secondary data. Primary data were obtained from questionnaires given to respondents. The questionnaire consists of questions related to research variables; strategic planning, entrepreneurial orientation, innovation, and business performance. Furthermore, secondary data was documented from various sources, which includes the data of coffee shop income, previous research data, and the membership data of the micro, small and medium enterprises.

### Data Analysis

The influence between variables was analyzed using PLS (Partial Least Square) analysis processed on the SmartPLS 3.0 program. The analytical approach consists of several stages; designing the outer model, designing the inner model, and constructing the path diagram (Hartono and Abdillah, 2009). The results of the analysis are significant if the probability score is smaller than 0.05. Finally, the Sobel test was conducted to determine the significance of the mediation variable.

## RESULT

### Outer Model

The purpose of testing the outer model is to ensure that the items of measurement are valid and reliable. This test includes convergent validity, discriminant validity, and construct reliability tests.

#### a) Convergence Validity

A convergent validity test was conducted to determine the validity of the relationship between the questionnaire items and latent variables. An item is valid if the coefficient level of the outer loading (loading factor) is more than 0.7. Table 1 shows the results of the convergent validity test.

**Table 1.** The result of the convergence validity test

Variable	Indicator	Loading factor	Stdev	tStatistics	p	Interpretation
Strategic Planning (X1)	X1.1	0.788	0.059	13.335	0.000	Valid
	X1.2	0.805	0.045	18.015	0.000	Valid
	X1.3	0.844	0.032	26.032	0.000	Valid
	X1.4	0.834	0.037	22.706	0.000	Valid
	X1.5	0.826	0.040	20.864	0.000	Valid
	X1.6	0.708	0.063	11.242	0.000	Valid
	X1.7	0.821	0.039	21.259	0.000	Valid

	X1.8	0.773	0.047	16.380	0.000	Valid
	X2.1	0.861	0.047	18.412	0.000	Valid
Entrepreneurial Orientation (X2)	X2.2	0.842	0.040	20.989	0.000	Valid
	X2.3	0.856	0.033	25.903	0.000	Valid
	X2.4	0.891	0.029	30.610	0.000	Valid
Innovation (Z)	Z.1	0.877	0.031	28.237	0.000	Valid
	Z.2	0.893	0.025	36.214	0.000	Valid
Business Performance (Y)	Y.1	0.859	0.028	30.227	0.000	Valid
	Y.2	0.875	0.024	36.686	0.000	Valid
	Y.3	0.789	0.044	17.898	0.000	Valid

In general, indicators of all variables; Strategic Planning (X1), Entrepreneurship Orientation (X2), Innovation (Z), and Performance (Y) have a loading factor greater than 0.7, thus items used in the questionnaire are valid.

#### b) Discriminant Validity

Discriminant Validity is a measurement model with reflexive indicators assessed based on the cross-loading. The most common method to assess discriminant validity is by comparing the value of the square root of the average variance extracted (AVE). The results are described as follows:

**Table 2.** The result of the discriminant validity test (AVE)

Variable	X1	X2	Z	Y
Strategic Planning (X1)	<b>0.801</b>	0.397	0.655	0.632
Entrepreneurial Orientation (X2)	0.397	<b>0.863</b>	0.540	0.549
Innovation (Z)	0.655	0.540	<b>0.885</b>	0.735
Business Performance (Y)	0.632	0.549	0.735	<b>0.842</b>

The results demonstrated that the AVE value (bold) is greater than the correlation value between latent variables. Therefore, the instruments of Strategic Planning (X1), Entrepreneurship Orientation (X2), Innovation (Z), and Performance (Y) measurements have met discriminant validity requirements.

#### c) Construct Reliability

Composite reliability is an indicator to measure a construct based on the coefficient of view latent variable. Composite reliability is evaluated by checking the internal consistency and Cronbach's alpha. A variable is reliable if *Cronbach's alpha* is equal to or greater than 0.70.

**Table 3.** The result of the construct reliability test

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted
Strategic Planning (X1)	0.920	0.935	0.641
Entrepreneurial Orientation (X2)	0.886	0.921	0.744
Innovation (Z)	0.723	0.878	0.783
Business Performance (Y)	0.793	0.879	0.709

Table 3 shows that the scores of Cronbach's alpha of all variables are more than 0.7, with an AVE value greater than 0.5. Therefore, the instruments of Strategic Planning (X1), Entrepreneurship Orientation (X2), Innovation (Z), and Performance (Y) have met the requirements of construct reliability.

#### Inner Model

The inner model describes the relationship between latent variables based on substantive theory. Evaluation is done by looking at the R<sup>2</sup> value for the dependent construct, Stone-Geisser Q-square for the predictive relevance, t-test, and the significance of the path coefficients. Inner model is described as follows:

**Table 4.** Coefficient of determination

Independent Variables	Dependent Variables	R <sup>2</sup>	Adjusted R <sup>2</sup>
Strategic Planning (X1), Entrepreneurial Orientation (X2)	Innovation (Z)	0.522	0.509
Strategic Planning (X1), Entrepreneurial Orientation (X2), Innovation (Z)	Business Performance (Y)	0.608	0.592

The coefficient of determination on the influence between Strategic Planning (X1) and Entrepreneurial Orientation (X2) on Innovation (Z) is 0.522. This means that 52.2% of the formation of business innovation is constructed by strategic planning and entrepreneurial orientation. Furthermore, the coefficient of determination on the effect of Strategic Planning (X1), Entrepreneurship Orientation (X2), and Innovation (Z) on Performance (Y) is 0.608. Therefore, strategic planning, entrepreneurial orientation, and innovation affect the performance of the coffee shop business by 60.8%.

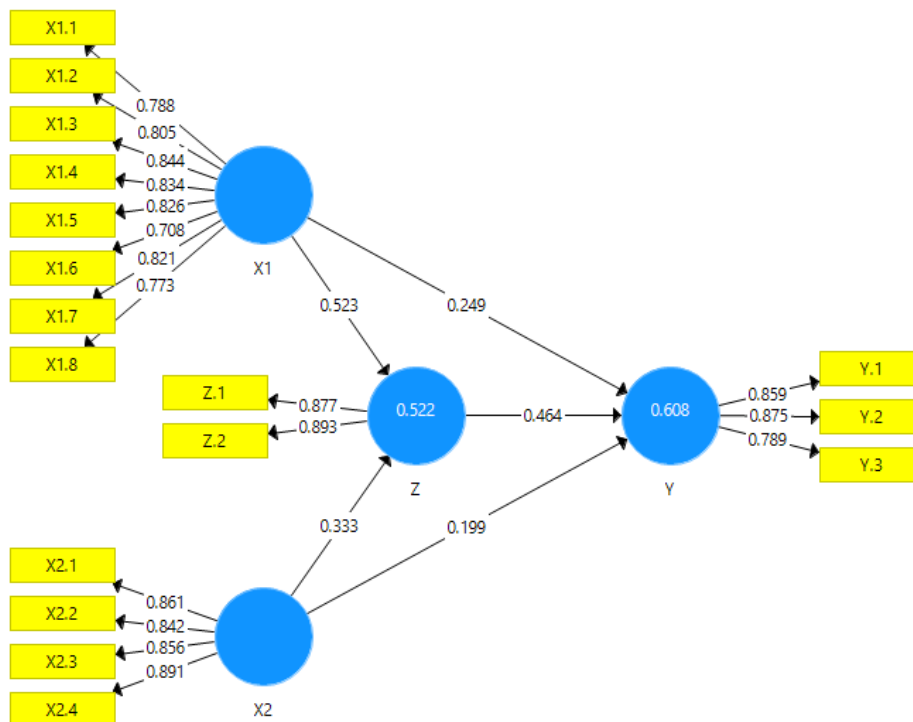
**Hypothesis Test and Model Construction**

The exogenous variables consist of Strategic Planning (X1) and Entrepreneurship Orientation (X2), while the endogenous variables are Innovation (Z) and Performance (Y). A model is good if the hypothetical model is in line with the result of data analysis. Hypothesis testing is based on a significance level of 0.05 (or a *t*<sub>table</sub> value of 1.645). The results are displayed as follows:

**Table 5.** The results of hypothesis testing

No	Effect	Path Coeff.	Stdev	t <sub>statistics</sub>	p-value	Interpretation
1.	X1 -> Y	0.249	0.109	2.279	0.023	Significant
2.	X2 -> Y	0.199	0.095	2.098	0.036	Significant
3.	X1 -> Z	0.523	0.072	7.261	0.000	Significant
4.	X2 -> Z	0.333	0.077	4.330	0.000	Significant
5.	Z -> Y	0.464	0.121	3.826	0.000	Significant
6.	X1 -> Z -> Y	0.243	0.081	2.984	0.003	Significant
7.	X2 -> Z -> Y	0.154	0.049	3.170	0.002	Significant

Generally, it is noticeable that the effect of all variables has a *t*<sub>statistics</sub> greater than *t*<sub>table</sub> (1.645), with a significance value (*p*-value) smaller than 0.05. Therefore, the effect of the exogenous variables toward endogenous is significant. This will be discussed further in the next section. Based on these results, the research model is constructed as follows:



**Figure 2.** Path diagram



## DISCUSSION

### Effect of Strategic Planning (X1) on Business Performance (Y)

The effect of Strategic Planning (X1) on Performance (Y) has a path coefficient of 0.249 with a  $t_{\text{statistics}}$  of 2.279 ( $> 1.960$ ) and a  $p$ -value of 0.023 ( $< 0.05$ ). This means that strategic planning has a positive and significant impact on the performance coffee shop business. The better the business owner/manager in constructing and implementing the business strategy planning, the better the business performance. Previously, the association between strategic planning and performance has been proven by Skokan, et al. (2013), Rizan, et al. (2019), and Rofiaty, et al. (2020). The effectiveness of strategic planning can ensure the implementation of planning in a timely and sustainable manner, to improve business performance. This study supports the previous findings reported by Donkor, et al. (2018), Kohtamataki, et al. (2010), Mosoti, et al. (2014), Rosyafah, et al. (2017), Hakirnpoor (2014), Sandada (2015), Boateng, et al. (2015), and Balasundaram (2009). Furthermore, this study also strengthens the theory from Cohen (2001), that the practice of strategic planning has a positive impact on business performance.

### Effect of Entrepreneurial Orientation (X2) on Business Performance (Y)

A positive and significant influence of Entrepreneurial Orientation (X2) on Business Performance (Y) was demonstrated by the path coefficient of 0.199 and  $t_{\text{statistics}}$  2.098 ( $> 1.960$ ), and  $p$ -value of 0.036 ( $< 0.05$ ). The better the entrepreneurial orientation of a coffee shop manager, the better the business performance will be. Previously, this causality relationship has been reported by Mustikowati, et al. (2014), Arshad, et al. (2013), Cho, (2018) and Soares, et al. (2019). Entrepreneurial orientation is an important factor that leads to successful new product development and can improve business performance. This finding is in line with as Shu, C., et al. (2019), Cho, Y., et al. (2018), Fadda, (2017), Khalili, et al. (2013), Nanda, et al. (2018), Rofiaty, (2019), and Putra, et al. (2020). The significance of the entrepreneurial orientation is also supported by the theory of Lambing and Hisrich (2008), which says that business performance comes from the business orientation of the entrepreneur himself, the character (passion), and management ability in terms of risk-taking, proactive, innovative strategies.

### Effect of Strategic Planning (X1) on Innovation (Z)

The effect of Strategic Planning (X1) on Innovation (Z) has a path coefficient of 0.523 with a  $t_{\text{statistics}}$  value of 7.261 ( $> 1.960$ ) and a  $p$ -value of 0.000 ( $< 0.05$ ). This shows that strategic planning has a positive and significant impact on the innovation produced by coffee shop managers. The better the business strategy planning, the better the business innovation will be. Optimal strategic planning can be a trigger for the development of business innovation. On the other hand, consistent strategic planning can result in product and service innovation to provide better-added value. This study is in line with Hajar (2015) and Rizan, et al. (2019). Furthermore, Yi Li, et al. (2010) and Ilna & Sergeeva, (2016) explain that business strategy planning can optimize the implementation of business innovation. The integration of innovation instruments determines the development of the business.

### Effect of Entrepreneurial Orientation (X2) on Innovation (Z)

The result of partial least square analysis demonstrated a path coefficient of 0.333 with a  $t_{\text{statistics}}$  of 4.330 ( $> 1.960$ ) and a significance value of 0.000 ( $< 0.05$ ). This shows that entrepreneurial orientation has a positive and significant influence on business innovation. A business owner/manager with a good entrepreneurial orientation will provide continuous innovation to grow the business. This study is in line with Ndubisi, et al. (2014), Xiaoyu, et al. (2014), Bleeker (2011), and Rofiaty (2019). The manager of a micro, small and medium enterprises must be able to plan and manage an integrated entrepreneurial and innovation orientation to identify every opportunity by fully maximizing the innovation effectively and efficiently. Innovation is one crucial variable determined by the quality of entrepreneurial orientation of the business player in the market share.

### Effect of Innovation (Z) on Business Performance (Y)

The effect of innovation (Z) on performance (Y) has a path coefficient of 0.464 with a  $t_{\text{statistics}}$  of 3.826 ( $> 1.960$ ) and a  $p$ -value of 0.000 ( $< 0.05$ ). This shows that innovation has a positive and significant impact on the performance of the coffee shop business. In other words, innovative business with innovative leaders has great potential to achieve optimal business performance. Previous studies have also reported the significant relationship between innovation and business performance (Tuan, et al., 2016; Hajar, 2015; Cho, 2018; and Mustikowati, 2014). Innovation needs to be produced and directed to enhance the quality and the effectiveness of business activities, thus business performance can be improved. The finding of this study is supported by Ndubisi et al. (2014), Rizan, et al. (2019), Irsyam, et al. (2020), and Yi Li, et al. (2010). Therefore, it is confirmed that business performance is determined by innovation produced by the business manager.

### Effect of Strategic Planning (X1) on Business Performance (Y) through Innovation (Z)

The effect of Strategic Planning (X1) on Performance (Y) through Innovation (Z) has a path coefficient of 0.243 with a  $t_{\text{statistics}}$  value of 2.984 ( $> 1.960$ ) and a significance value of 0.003 ( $< 0.05$ ). This shows that strategic planning has a positive and significant impact on coffee shop business performance through the mediation of innovation variables. The better the business strategy planning implemented by the coffee shop entrepreneur, the better the business performance will be. In other words, innovation is proven to be able to mediate the effect of strategic planning on performance. The mediating role of innovation in the relationship between the influence of strategic planning on performance is categorized in "partial mediation". Innovation partially mediates the contribution if the strategic planning influences the business performance directly. This partial mediation reflects the idea that even without the mediation role of innovation, strategic planning will determine the business performance regardless. This finding is supported by Rizan, et al. (2019) and Hajar (2015). Strategic planning is crucial for business performance, but innovation is also an important factor that plays a great role (Price, Stoica, & Boncella, 2013). The ability of business managers to implement strategic planning will determine the performance of a small and medium business, thus every business owner must be innovative and eager to actualize the ideas.

**Effect of Entrepreneurial Orientation (X2) on Performance (Y) through Innovation (Z)**

The effect of Entrepreneurial Orientation (X2) on Performance (Y) through Innovation (Z) has a path coefficient of 0.154 with a  $t_{\text{statistics}}$  of 3.170 ( $> 1.960$ ) and a significance value of 0.002 ( $< 0.05$ ). This shows that strategic planning has a positive and significant effect on coffee shop business performance through the mediation of innovation variables. In other words, innovation is proven to be able to mediate the effect of entrepreneurial orientation on performance. The ability of a business manager to navigate a business is crucial to business performance. Good entrepreneurial orientation can be reflected by the manager's ability to identify current and future opportunities. However, managers must first pay attention to the innovation factor. Innovation is the beginning of the creation of a new value proposition through a series of activities, such as offering new products/services, adopting new organizational and operational practices, IT-related solutions, and competencies. Innovation can also encourage the skills and knowledge required for running a business (Ofori, Daniel, 2015). Therefore, innovation must be continuously produced and actualized to empower the contribution of entrepreneurial orientation toward business performance. Previous studies that supported this finding include Ndubisi, et al. (2014), Xiao (2015), Martinez (2015), and Rofiaty, et al. (2019). Generally, it is explained that good entrepreneurial orientation, mediated by effective innovation will result in optimal business performance. Managers with good entrepreneurial orientation tend to be innovative, but this has to be navigated by the attitude of risk-taking bravery, competitiveness, proactive, and passion. A business must be managed in an integrated manner by identifying various opportunities and maximizing innovation effectively and efficiently to achieve optimum performance.

**CONCLUSION**

Strategic planning and entrepreneurial orientation have a positive and significant effect on the performance of coffee shop businesses. Decent business performance can be achieved if the strategic planning is well constructed by a manager with a strong entrepreneurial orientation. The indirect effect of strategic planning on coffee shop performance through innovation is proven to be significant. In other words, innovation can mediate the positive influence of strategic planning on coffee shop performance. The ability of a business manager in implementing strategic planning through various developments and innovative ideas greatly determine the business performance. Innovation is also proven to mediate the effect of entrepreneurial orientation on coffee shop performance.

The findings of this study suggest an idea that business players must construct strategic planning and strengthen their entrepreneurial orientation to achieve optimal business performance. Business innovation also must be continuously produced and actualized, such as improving the coffee shop design and layout, modifying the dine-in and take away service to make it quicker, and so forth. Innovation in terms of product quality is also needed, especially the taste and the variation of the menu. Finally, future studies are recommended to broaden the study by adding a variety of samples (not only coffee shops). Researchers can also investigate other variables such as information and technology and quality management.

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