

How human capital may boost competitive advantage in cafés? Findings from Bukittinggi

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Abstract. This study investigated the relationship between Human Capital (HC) and Competitive Advantage (CA) in the coffee shop industry of Bukittinggi, a prominent tourist destination in West Sumatra. Utilizing a quantitative approach, primary data were collected through structured questionnaires distributed to 55 coffee shop owners. The research employed Structural Equation Modeling (SEM) with SmartPLS to analyze the data, aiming to elucidate how investments in human capital contributed to achieving competitive advantage in a highly competitive market. The findings indicated a significant positive relationship between human capital and competitive advantage, highlighting the critical role of employee education, skills, and experience in enhancing business performance. Additionally, the study introduced social capital as a vital variable linked to networking within the coffee business community, which further supported competitive advantage. The results emphasized the importance of developing human capital strategies for coffee shop owners to thrive in an evolving marketplace. These insights provided practical implications for local entrepreneurs, policymakers, and stakeholders, suggesting that continued investment in human resources could foster business growth and positively impact the tourism sector in Bukittinggi. Ultimately, this research contributed to the broader understanding of human capital's role in driving competitive advantage within small and medium-sized enterprises (SMEs).

Keywords: human capital, competitive advantage, coffee shop industry, Bukittinggi, small and medium enterprises, employee development

INTRODUCTION

Bukittinggi is a prominent tourist destination in West Sumatra, attracting the highest number of visitors in the region [1]. The city offers a diverse range of attractions, including natural wonders, historical sites, and unique artificial tourism experiences. In addition to these attractions, Bukittinggi features numerous food and beverage establishments that cater to both tourists and locals, including a growing number of coffee shops that have emerged since the 2000s. These coffee shops, characterized by various spatial concepts such as vintage home, container-style, and modern minimalist designs, have become increasingly popular. Their aesthetic appeal and inviting interiors attract visitors, while the quality of coffee—heavily influenced by the skills of the baristas—sets each shop apart. Complementary snacks, such as fries and bread, enhance the overall customer experience.

As the number of coffee shops in Bukittinggi rises, competition intensifies, making competitive advantage essential for survival. Research by Tipu and Arain identifies key success factors for businesses in developing countries, including effective human resource management and networking [2]. Previous studies, such as those by Adhitya et al. (2020) and Afifah et al. (2023), have examined the role of human capital in achieving competitive advantage among coffee shop owners in other Indonesian cities [3]; [4]. Their findings reveal that while human

capital positively influences competitive advantage, its contribution remains modest, indicating the need for further investigation into additional factors.

Building on these insights, this study extends the research to coffee shop owners in Bukittinggi, introducing social capital as a vital variable related to networking within the coffee business community. Given the interconnectedness of coffee shop owners with various stakeholders, including baristas and suppliers, social capital is crucial for enhancing business performance [5]; [6].

This research also emphasizes the significance of coffee shops as recommended tourist destinations by the local government, which supports the development of the tourism sector in Bukittinggi. The novelty of this study lies in proposing a competitive advantage model that incorporates human capital and social capital, mediated by digital orientation—a contemporary strategic approach. Previous studies have linked competitive advantage to digital aspects, highlighting the need for this evolving orientation in the business landscape. Ultimately, this research aims to analyze the impact of human capital on competitive advantage and provide practical implications for the growth of coffee shop businesses. The insights gained are expected to benefit local stakeholders, including the government, academics, and coffee shop entrepreneurs, in fostering job creation and optimizing human capital within micro, small, and medium enterprises (MSMEs). Through a tested model, this research aspires to support the advancement of knowledge and enhance the competitive advantages of coffee shops in Bukittinggi, thereby positively influencing the local tourism industry.

This study builds upon the evolving research in strategic entrepreneurial orientation, particularly emphasizing the role of human capital as a critical factor in enhancing business performance. Previous studies have explored various dimensions of strategic orientation—such as market orientation, entrepreneurial orientation, and technological orientation—particularly among small businesses in West Sumatra that produce goods or services linked to the tourism sector. This research extends prior findings by integrating human capital [7] into the existing framework, shifting the focus from merely assessing strategic orientation's impact on business performance to examining its role in achieving competitive advantage. Unlike earlier studies, which primarily analyzed strategic orientation's influence, this study emphasizes maintaining competitiveness through a model that includes both human capital and social capital. The development of this model was initially proposed by Iqbal et al. (2023) in their investigation of traditional furniture businesses in East Java, where human capital was treated as an external variable. The aim of this research is to evaluate the specific impact of human capital on competitive advantage.

The concept of competitive advantage (CA) has evolved through various marketing eras, transitioning from a product-centric approach (Marketing 1.0) to a consumer-focused one (Marketing 2.0), and further to a value-driven model (Marketing 3.0). Currently, in the era of Marketing 4.0, the integration of digital technology has intensified competition, compelling businesses to enhance their competitive advantages to thrive in a digital marketplace. Scholars define CA as a company's ability to deliver superior value to customers compared to its competitors, which is crucial for sustaining market position [8]; [9].

Competitive advantage is essential for company performance, arising from the unique value propositions a business creates for its customers. Research has indicated that companies can achieve CA by excelling in one of three key strategies: imitability, durability, or ease of matching [10]. Previous studies have substantiated the positive impact of CA on business performance, demonstrating that effective business strategies correlate with enhanced CA [10]. Moreover, product innovation and market engagement have been shown to significantly influence sustainable competitive advantage [8]. Additionally, the relationship between digital orientation and CA has been examined, revealing that digitalization enables companies to innovate and deliver added value to customers [11]. However, not all studies agree; for instance, research by Karina & Astuti (2022) found that digital orientation did not significantly impact CA among MSMEs due to unclear strategic directions amid technological advancements [12].

The Human Capital Theory, initially introduced by Becker (1962) and expanded by Rosen (1976), posits that individuals possess skills and capabilities developed through education and training. This theory asserts that enhanced human resource capabilities correlate directly with increased value within the industry [13]. In this context, human capital (HC) is viewed as the collective knowledge and skills of an organization's workforce, encompassing intellectual capital, structural capital, and customer capital [14]. Intellectual capital refers to the knowledge-based assets utilized for competitive advantage, while structural capital involves the systems and processes that facilitate knowledge management. Customer capital pertains to the relationships and networks that support business operations.

HC has emerged as a pivotal variable in entrepreneurship research, significantly influencing business growth and innovation, both of which are critical for entrepreneurial success [15]; [16]. Within the realm of digital orientation, HC is essential for leveraging skills and knowledge to navigate and implement digital technologies effectively. In summary, this literature review highlights the critical interplay between human capital and competitive advantage,

underscoring the importance of integrating these variables into strategic business models to foster success in an increasingly competitive and digital landscape.

Research Hypothesis is H1: Human capital has a positive and significant impact on competitive advantage.

METHODS

This study aims to examine the relationship between the independent variable, Human Capital (HC), and the dependent variable, Competitive Advantage (CA), in the context of Bukittinggi's coffee shop industry. To provide a comprehensive overview of the data, descriptive statistics are employed as a preliminary analytical tool, helping to summarize the sample data and establish foundational concepts for the research [17]. For hypothesis testing, Structural Equation Modelling (SEM) will be utilized, specifically using SmartPLS software to analyze the relationships between the variables.

The study employs primary data collected through structured questionnaires distributed to coffee shop owners in Bukittinggi. Following the criteria set by Sugiyono (2020), the research adopts a total sampling approach, which encompasses the entire population relevant to the study [18]. In total, the sample includes 55 coffee shops in Bukittinggi, ensuring a robust dataset for analysis. The survey instrument is meticulously designed to gather relevant information from coffee shop owners. The questionnaire is divided into three distinct sections: (1) The first section collects demographic data such as gender, age, and educational background; (2) The second section gathers business-related information, including the business name, address, annual sales, number of employees, digital channels utilized, and the business model; (3) The third section comprises a series of structured questions adapted from Prajogo and Oke (2016) for assessing human capital and from Correia and Teixeira (2020) for evaluating competitive advantage [16]; [19]. Responses are measured on a Likert scale, ranging from one ("Strongly Disagree") to five ("Strongly Agree").

To ensure the credibility of the research instrument, validity and reliability testing is conducted, following guidelines by Neuman (2013) and Hair & Alamer (2022). Validity assesses how well the empirical indicators align with the conceptual definitions of the constructs being measured. Reliability, on the other hand, refers to the consistency of the variable measurements [20]. The reliability of the survey data is evaluated using Cronbach's alpha, where a value greater than 0.7 is deemed acceptable [21]. For hypothesis testing, SEM is employed using the Partial Least Squares (PLS) approach, which consists of two phases: outer model analysis (Measurement Model) and inner model analysis (Structural Model). This method is particularly effective for small sample sizes and complex models (Hair et al., 2014). Hypotheses 1 to 7 are assessed through t-test analysis, with significance determined at a probability of error of 5% or less, ensuring robust statistical inference.

An overview of the respondents' demographic and business characteristics based on the data collected. The majority of respondents are male, accounting for 85.45% (47 out of 55), while only 14.55% are female (8 respondents). In terms of education, 50.91% of respondents hold a Bachelor's degree (28 respondents), while 47.27% have completed SMA/SMK (26 respondents), with 1 respondent (1.82%) not providing an answer. Most respondents fall within the 18-30 years old age range, representing 74.55% (41 respondents), followed by 31-40 years old at 14.55% (8 respondents). Respondents aged over 40 constitute 9.09% (5 respondents), and only 1.82% (1 respondent) is under 18 years old. Regarding status, the majority, or 72.73%, act as managers (40 respondents), while owners make up 14.55% (8 respondents), and 12.73% (7 respondents) are both owners and managers. In terms of ownership, 87.27% of the businesses are independently owned (48 respondents), while 12.73% are franchises (7 respondents). When considering the number of employees, the majority of businesses (61.82%) have 1-4 employees (34 respondents), followed by 5-19 employees at 32.73% (18 respondents), and 5.45% (3 respondents) have more than 20 employees. For promotion and sales channels, social media is the primary medium used by 61.82% of respondents (34 respondents), while 25.45% (14 respondents) combine marketplace and social media platforms. A smaller group of 7.27% (4 respondents) use social media and websites, and 5.45% (3 respondents) do not use any promotional media. As for the year of establishment, most businesses (61.82%) were established between 2020 and 2023 (34 respondents), followed by 21.82% (12 respondents) founded before 2019. A smaller group (9.09%) was established in 2024 (5 respondents), with 7.27% (4 respondents) not providing information on the year of establishment.

RESULTS AND DISCUSSION

Results

The results of this study provide key insights into the relationship between Human Capital (HC) and Competitive Advantage (CA) in the coffee shop industry in Bukittinggi. In this section, we present a detailed analysis of the data gathered through questionnaires, highlighting the role of human capital in influencing competitive advantage. Using a Structural Equation Model (SEM) with SmartPLS, the study tests various hypotheses to determine the direct impact of HC on CA. The findings are supported by statistical evidence, ensuring the validity and reliability of the data through tests such as Convergent Validity, Composite Reliability, and the Heterotrait-Monotrait Ratio (HTMT). The results also explore the strength and significance of the relationships between key variables, providing a clear understanding of how human capital contributes to business performance in a competitive market.

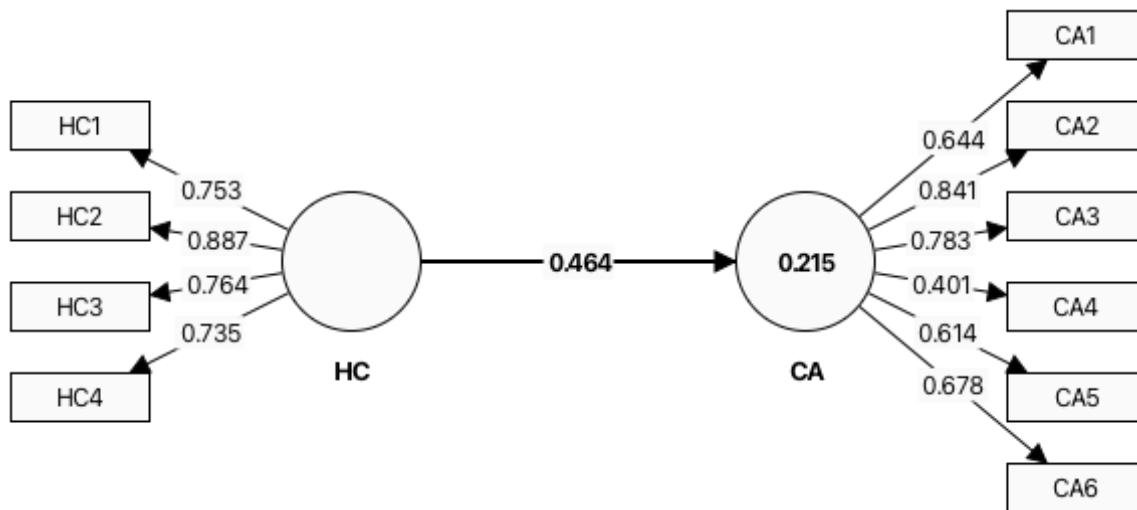


FIGURE 1. Initial PLS-Path Model

FIGURE 1, the Initial PLS-Path Model, represents the initial structural relationship between the latent variables in this study, namely Human Capital (HC) as the independent variable and Competitive Advantage (CA) as the dependent variable. The model illustrates the paths showing the direct influence of HC on CA.

In this initial model, the relationships between indicators and latent variables are measured through loading factors. Items with loading factors below 0.40, such as item CA4, were removed from the analysis due to their weak contribution to the measurement of the latent variables. After removing CA4, the model was revised to improve the reliability and validity of the measurements. This model provides an initial view of how HC influences CA before further validation, such as reliability and validity testing, which will be discussed in subsequent sections. It serves as the foundation for further evaluation to understand the relationships between the variables in this research. [22] recommended the removal of items with loadings lower than 0.40. After removing item CA4, all AVEs exceeded the recommended threshold of 0.50. Therefore, the indicators used in this study are valid, as shown in FIGURE 2.

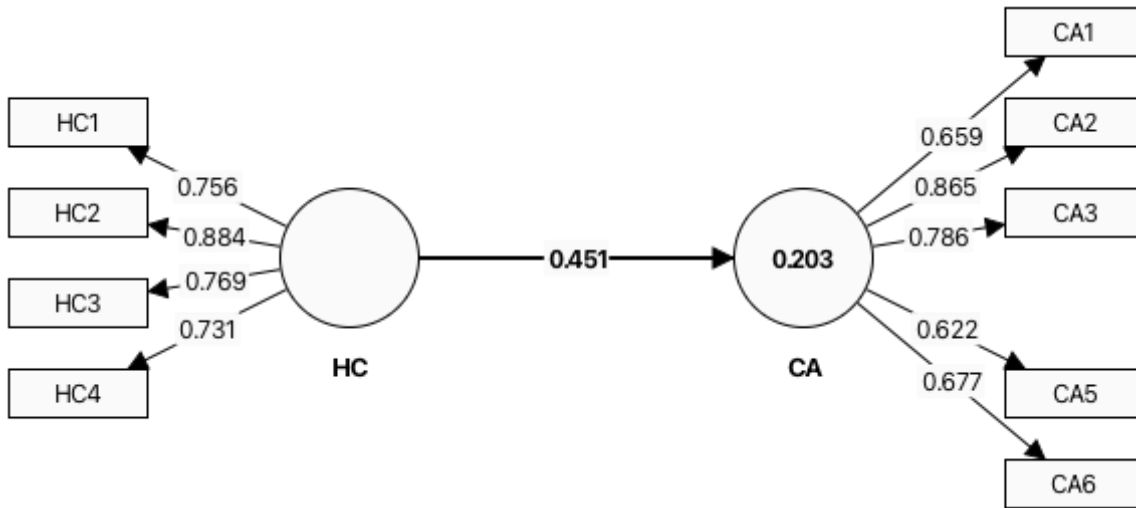


FIGURE 2. PLS-Path Model after remove CA4

FIGURE 2, the Initial PLS-Path Model after removing CA4, presents the refined structural model after the removal of the indicator CA4, which had a loading factor below the acceptable threshold. In this updated model, all remaining indicators show stronger contributions to their respective latent variables, with each indicator having a loading factor greater than 0.40, enhancing the model's overall validity. By eliminating the weak item, the model now meets the recommended criteria for convergent validity and discriminant validity. All Average Variance Extracted (AVE) values exceed the threshold of 0.50, ensuring that the indicators used in this study sufficiently represent the constructs of Human Capital (HC) and Competitive Advantage (CA). This improved model demonstrates a clearer and more reliable depiction of the relationship between HC and CA, allowing for more accurate hypothesis testing and providing a robust basis for understanding how human capital impacts competitive advantage within the coffee shop industry.

Validity test is a measurement scale used to test whether or not an instrument is valid in a study by looking at convergent validity and discriminant validity. For convergent validity, all indicators have a loading factor greater than 0.70 and an Average Variance-Extracted (AVE) above 0.50. Reliability test to assess the level of consistency of score stability and measuring instruments. All constructs have a composite reliability greater than 0.60 and Cronbach's alpha also exceeds 0.70. Thus, the questionnaire used in this study is reliable because it shows a good level of consistency and accuracy (Hair et al., 2022). Please refer to TABLE 1.

TABLE 1 Convergent Validity and Internal Consistency Reliability

Construct	Item Code	Outer loadings	AVE	Cronbach's alpha	CR (rho_a)	CR (rho_c)
CA	CA1	0.659	0.529	0.774	0.804	0.847
	CA2	0.865				
	CA3	0.786				
	CA5	0.622				
	CA6	0.677				
HC	HC1	0.756	0.619	0.795	0.828	0.866
	HC2	0.884				
	HC3	0.769				
	HC4	0.731				

Note: CA = Competitive Advantage, HC = Human Capital

Furthermore, this study uses the Heterotrait-Monotrait Ratio (HTMT) criterion to test discriminant validity. TABLE 2 shows that the HTMT ratio is less than 0.9 for all constructs. Thus, each construct is unique and captures phenomena that are not represented by other constructs in the model [21].

TABLE 2 Discriminant Validity: Heterotrait-Monotrait Ratio (HTMT)

	CA	HC
CA		
HC	0.552	

Hypothesis Testing

The evaluation of the structural model or inner model aims to predict the relationship between latent variables. The inner model is evaluated by looking at the percentage of variance explained by looking at the R-squares value for the endogenous latent variable construct [23]; [24]. To test the hypothesis and test the research model, Structural Equation Modeling (SEM) analysis is used with the help of SmartPLS version 4.0 software. The results of this analysis will be able to answer what has been formulated in this study. Furthermore, the path coefficient will be obtained so that the relationship and influence of certain independent variables with their dependent variables can be known. A hypothesis is accepted if the calculated T value > T table. With the provision of degree of freedom (df) = n-2 [25].

TABLE 3 Hypothesis Testing

Hypothesis	Path	Std. Beta	Std. Error	t-value	p-value	Bias	Confidence Interval		VIF	f square	R square
							5%	95%			
H1	HC - > CA	0.489	0.086	5.223	0.000	0.038	0.272	0.550	1.000	0.255	0.188

Discussion

The revised model, as depicted in FIGURE 2. Initial PLS-Path Model after removing CA4, provides a more accurate representation of the relationship between Human Capital (HC) and Competitive Advantage (CA) after addressing issues with low indicator loadings. The indicators now demonstrate strong factor loadings, all above the 0.70 threshold, which ensures that the constructs are measured reliably. As shown in TABLE 1. Convergent Validity and Internal Consistency Reliability, the Average Variance Extracted (AVE) values exceed 0.50 for both HC and CA, confirming that the constructs have good convergent validity. Additionally, the Cronbach's alpha and composite reliability (CR) values are all above 0.70, indicating that the measures are internally consistent and reliable. Further analysis using TABLE 2. Discriminant Validity: Heterotrait-Monotrait Ratio (HTMT) shows that the HTMT values for the constructs are below the 0.90 threshold, confirming that HC and CA are distinct from each other and capture unique aspects of the phenomena under study. This discriminant validity ensures that the constructs do not overlap, strengthening the overall robustness of the model.

These results collectively support the validity and reliability of the measurement model, allowing for accurate hypothesis testing. The findings suggest that human capital, composed of education, skills, and experience, plays a significant role in determining a business's competitive advantage. This aligns with previous studies on the importance of investing in human capital for sustainable business success, particularly in the small and medium-sized enterprise (SME) sector such as coffee shops in Bukittinggi.

The hypothesis testing results, as presented in TABLE 3. Hypothesis Testing, further validate the significant relationship between Human Capital (HC) and Competitive Advantage (CA). The path coefficient for the direct effect of HC on CA is 0.489, with a t-value of 5.223, which exceeds the critical t-table value of 1.96, indicating statistical significance at the 0.05 level. Additionally, the p-value of 0.000 confirms the strong influence of HC on CA, meaning that human capital significantly contributes to competitive advantage in the coffee shop industry. The positive and significant relationship indicates that businesses with higher investments in human capital—such as employee education, skills training, and experience—are more likely to achieve and sustain a competitive advantage. The R-squared value for CA is 0.255, meaning that HC explains 25.5% of the variance in competitive

advantage, demonstrating a moderate but meaningful effect size. Furthermore, the f-square value of 0.188 suggests a medium effect of HC on CA.

These findings highlight the crucial role of human capital in enhancing business performance, particularly in highly competitive markets. Investing in human capital can lead to improved operational efficiencies, innovation, and customer satisfaction, which in turn drive a business's competitive edge. For coffee shop owners and managers in Bukittinggi, these insights underscore the importance of employee development as a strategic tool for achieving long-term success. The findings of this study significantly contribute to the understanding of the relationship between human capital and competitive advantage in the coffee shop industry in Bukittinggi. Businesses in this sector are facing heightened competition due to the increasing popularity of coffee culture. The study aimed to explore how investments in human capital—encompassing the knowledge, skills, and competencies of business owners and employees—could help maintain a competitive edge. This study's relevance is underscored by the critical role that human capital plays in enhancing performance, especially in small and medium-sized enterprises (SMEs), as highlighted in the Literature Review. Previous studies, such as those by Prajogo and Oke (2016) and Correia and Teixeira (2020), have similarly demonstrated the importance of human capital in creating sustainable business advantages, particularly in service industries [16]; [19].

The Research Methods employed, including the use of structural equation modeling (SEM) and the PLS-Path Model, provided a robust framework for testing the hypothesized relationships between human capital and competitive advantage. The sampling methodology and the use of questionnaires ensured the collection of relevant data from 55 coffee shop owners or managers in Bukittinggi. The statistical tests, particularly the tests for validity and reliability, confirmed that the constructs measured in this study were both reliable and valid.

In comparison with previous studies, this research confirms that human capital remains a vital determinant of competitive advantage, aligning with findings in similar industries. The Statistical Results from the hypothesis testing revealed that human capital has a significant positive effect on competitive advantage, with a substantial path coefficient and a high level of statistical significance (t-value of 5.223 and p-value of 0.000). These results are consistent with studies such as that of Prajogo and Oke (2016), which found that investments in employee development led to improved innovation and business performance [16]. Moreover, the R-squared value in this study, which shows that human capital explains 25.5% of the variance in competitive advantage, demonstrates the tangible impact that human resources have on business outcomes.

This research builds on the foundation laid by earlier works but also extends the discussion by focusing specifically on the coffee shop industry in Bukittinggi, a growing sector in a developing tourism-driven market. Unlike some studies that generalize findings across industries, this study provides specific insights into how human capital strategies can be tailored to the unique needs of small-scale service businesses. The findings align with and reinforce the argument that human capital is a key resource for gaining and maintaining competitive advantage, as suggested in resource-based theory. The results of this study not only validate the importance of human capital but also offer practical implications for coffee shop owners and policymakers in Bukittinggi. By continuing to invest in human resource development—through education, training, and skills enhancement—businesses can strengthen their competitive positioning in an increasingly crowded market. Future research could further explore the impact of other intangible assets, such as social capital or innovation capability, to provide a more comprehensive understanding of how SMEs in the service sector can thrive.

One of the limitations of this study is its focus on a specific industry and geographical location, namely the coffee shop industry in Bukittinggi. While the findings provide valuable insights into the role of human capital in this particular sector, they may not be fully generalizable to other industries or regions with different market dynamics, cultural factors, or levels of competition. Additionally, the study relies on cross-sectional data collected at a single point in time, which limits the ability to observe the long-term effects of human capital investments on competitive advantage. The use of self-reported questionnaires also presents potential biases, as respondents may have overestimated or underestimated certain aspects of their human capital or business performance.

For future studies, it would be beneficial to expand the research to other regions and industries to enhance the generalizability of the findings. A longitudinal approach could be employed to track the impact of human capital investments over time, providing deeper insights into how sustained efforts in employee development contribute to long-term business success. Future research could also explore the role of other intangible assets, such as social capital, innovation capabilities, or organizational culture, in shaping competitive advantage. Finally, a mixed-methods approach that combines quantitative analysis with qualitative insights could offer a more comprehensive understanding of how human capital strategies are implemented and perceived by business owners and employees in different contexts.

The findings of this study carry several practical implications for coffee shop owners and managers, as well as policymakers in Bukittinggi. First and foremost, the results underscore the importance of investing in human capital as a key strategy for achieving and sustaining competitive advantage in the coffee shop industry. Owners should prioritize employee development programs that enhance skills, knowledge, and overall competency, as these investments directly contribute to improved business performance and customer satisfaction. Moreover, implementing regular training sessions and workshops can help foster a culture of continuous learning and innovation within the organization. By encouraging employees to enhance their skills, coffee shop owners can not only improve service quality but also empower their staff to contribute ideas for new products and services, thus driving innovation and keeping pace with market trends. Additionally, policymakers can support this initiative by facilitating access to training and development resources for small and medium-sized enterprises (SMEs) in the region. Providing subsidies, grants, or partnerships with educational institutions can enhance the capacity of coffee shop owners to invest in their employees' professional growth. Furthermore, creating a supportive ecosystem that encourages collaboration among local businesses can also be beneficial. Networking opportunities and knowledge-sharing platforms can help coffee shop owners learn from one another and adopt best practices in human resource management. Ultimately, these practical implications aim to enhance the competitiveness of coffee shops in Bukittinggi, contributing to the overall growth and sustainability of the local economy in the tourism sector. By focusing on human capital development, coffee shop owners can position themselves for long-term success in an evolving marketplace.

CONCLUSIONS

In conclusion, this study has demonstrated the significant impact of human capital on competitive advantage within the coffee shop industry in Bukittinggi. The findings confirmed that businesses that invest in their employees' education, skills, and experience are better equipped to achieve and maintain a competitive edge in an increasingly competitive market. The use of structural equation modeling (SEM) allowed for a robust analysis of the relationships between human capital and competitive advantage, with statistically significant results supporting the hypothesis that human capital plays a critical role in shaping business success. Moreover, the study contributes to the growing body of literature that emphasizes the importance of human resource management in small and medium-sized enterprises (SMEs), particularly within the context of service industries. The results align with previous research, highlighting the universal value of human capital across different sectors and industries. This research also provides practical insights for coffee shop owners, managers, and policymakers in Bukittinggi, emphasizing the need for continuous investment in employee development to foster innovation, improve performance, and sustain competitive advantage.

Finally, while this study focused on the coffee shop industry, its implications are relevant to other service-oriented SMEs, especially those operating in competitive environments. Future research could expand on these findings by exploring the influence of other intangible resources, such as social and intellectual capital, to gain a more holistic understanding of the factors driving competitive success in similar business sectors.

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