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The Effect of Strategic Orientation on Company Performance Through Dynamic Capabilities (a Study of Coffee Shops in Malang City)

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Abstract: Rapid coffee-shop growth in Malang City has intensified competition. This study examines how Strategic Orientation affects Company Performance through Dynamic Capabilities. A quantitative explanatory survey of 140 coffee-shop owners, managers, and supervisors was analyzed using PLS-SEM (SmartPLS). Strategic Orientation comprised customer, competitor, and entrepreneurial orientations; Dynamic Capabilities comprised sensing, seizing, and transforming; and Company Performance comprised sales growth, customer satisfaction, and operational efficiency. The measurement model met validity and reliability criteria. Strategic Orientation positively influenced Company Performance ($\beta = 0.331$, $p = 0.001$) and Dynamic Capabilities ($\beta = 0.547$, $p < 0.001$). Dynamic Capabilities also improved Company Performance ($\beta = 0.382$, $p < 0.001$) and significantly mediated the relationship ($\beta = 0.209$, $p = 0.007$). These findings indicate that strategic direction generates stronger outcomes when supported by capabilities to recognize market changes, seize opportunities, and reconfigure operational resources.
Keywords: Strategic Orientation, Dynamic Capabilities, Company Performance, Coffee Shops, PLS-SEM

Abstrak: Pertumbuhan kedai kopi di Kota Malang memperketat persaingan. Penelitian ini menguji pengaruh Strategic Orientation terhadap Company Performance melalui Dynamic Capabilities. Survei kuantitatif eksplanatori melibatkan 140 pemilik, manajer, dan supervisor kedai kopi; data dianalisis menggunakan PLS-SEM (SmartPLS). Strategic Orientation mencakup orientasi pelanggan, pesaing, dan kewirausahaan; Dynamic Capabilities mencakup sensing, seizing, dan transforming; sedangkan Company Performance mencakup pertumbuhan penjualan, kepuasan pelanggan, dan efisiensi operasional. Model pengukuran memenuhi kriteria validitas dan reliabilitas. Strategic Orientation berpengaruh positif terhadap Company Performance ($\beta = 0{,}331$; $p = 0{,}001$) dan Dynamic Capabilities ($\beta = 0{,}547$; $p < 0{,}001$). Dynamic Capabilities juga berpengaruh terhadap Company Performance ($\beta = 0{,}382$; $p < 0{,}001$) dan memediasi hubungan tersebut secara signifikan ($\beta = 0{,}209$; $p = 0{,}007$). Temuan menunjukkan bahwa arah strategis lebih efektif ketika didukung kemampuan membaca perubahan pasar, menangkap peluang, serta menata ulang sumber daya operasional.
Kata kunci: Strategic Orientation, Dynamic Capabilities, Company Performance, Coffee Shop, PLS-SEM

1. INTRODUCTION

Competition among business actors has intensified as firms face changing consumer expectations, new market entrants, technological development, and increasingly transparent information about products and services. This condition is particularly visible in the food and beverage sector, where consumers can compare prices, menus, store concepts, service quality, and digital engagement across many alternatives. Coffee shops are part of this competitive environment because they no longer function only as places to purchase beverages. They increasingly serve as spaces for social interaction, studying, working, meetings, and community activities. Salsabila & Sihombing, (2024) explain that younger consumers, especially Generation Z, tend to value places that support gathering and community formation. Consequently, coffee shops must compete not only through taste and price, but also through atmosphere, convenience, service, digital access, and the ability to offer experiences that remain relevant to changing lifestyles.

The development of the accommodation and food service sector in Malang City provides an important local context for the study. Data reported by BPS Kota Malang show that the sector recorded growth of 11.70 percent in 2022, 8.80 percent in 2023, and 7.71 percent in 2024. Its contribution to Malang City's Gross Regional Domestic Product also increased from 4.72 percent in 2022 to 4.89 percent in 2024. In addition, Satu Data Malang recorded 47 coffee shops, 344 cafes, and 1,671 restaurants operating in the city in 2023, while Apkrindo Malang reported that the cafe and coffee-shop sector grew by approximately 20 percent in the same period. These indicators demonstrate that food and beverage activities have become

increasingly important in the local economy while simultaneously increasing the number of businesses competing for similar customer segments (Badan Pusat Statistik (BPS) Kota Malang, 2023); (Apkrindo Malang, 2023).

Sectoral growth, however, does not automatically guarantee that individual coffee shops achieve strong performance. Business growth can coexist with pressure on costs, margins, customer retention, and operational efficiency. Chasanah, (2024), for example, found that operational costs had a significant negative effect on net profit in a study of Kopikir Coffee in Malang City. This finding illustrates that coffee shops may operate in a growing market but still experience difficulty translating market opportunities into sustainable financial and operational outcomes. Company Performance therefore needs to be understood as a multidimensional outcome rather than only a financial result. In this study, Company Performance is represented through Sales Growth, Customer Satisfaction, and Operational Efficiency, allowing performance to reflect financial, customer-related, and internal operational outcomes (Venkatraman & Ramanujam, 1986; (Tonder et al., 2024).

Strategic Orientation guides how firms interpret customer needs, monitor competitors, allocate resources, and pursue opportunities. It is expressed in recurring strategic decisions rather than isolated actions (Venkatraman, 1989; Gatignon & Xuereb, (1997). In coffee shops, these decisions affect product choices, service improvements, market positioning, and the speed of response to changing preferences. This study defines Strategic Orientation through Customer Orientation (understanding customer needs), Competitor Orientation (tracking rivals' actions), and Entrepreneurial Orientation (proactive opportunity pursuit and innovation). These dimensions are relevant to coffee shops, where imitation is rapid and switching costs are low Gatignon & Xuereb, (1997); Covin & Slevin, (1989); (Lumpkin & Dess, 1996).

Studies report inconsistent orientation–performance relationships. Thioanda & Wardhana, (2022), Handoyo et al. (2023), and Mandagie et al., (2024) found positive effects for relevant strategic orientations, whereas Zuhri et al., (2024) and Mishra & Kiran, (2026) found that some dimensions were insignificant. This variation suggests that implementation capabilities may shape the relationship. Dynamic Capabilities explain how strategic priorities become adaptive action. Teece, (2007) describe the integration and reconfiguration of competencies; Teece, (2007), (Teece, 2018) distinguishes Sensing (detecting change), Seizing (committing resources), and Transforming (renewing routines and structures). Unlike ordinary capabilities, these processes alter how the firm operates as conditions change.

In coffee shops, Dynamic Capabilities appear in recognizing new preferences, revising menus, changing suppliers, adopting digital payments, or redesigning service procedures. Market awareness alone does not improve outcomes unless management converts information into timely decisions and operational changes. Bekata & Kero, (2025) found that Dynamic Capabilities mediated strategic orientation and open innovation in Ethiopian SMEs. Cahaya et al., (2024) linked market and entrepreneurial orientations to Dynamic Capabilities and Indonesian SME performance. Studies of cafes in Malang and coffee shops in South Tangerang likewise identified adaptive capability as a predictor of innovation or performance Sari et al., (2024); Ramadhan & Wahyuningsih, (2024). These studies differ in context and model specification.

Evidence remains limited on the simultaneous direct and indirect effects of Strategic Orientation on Company Performance through Dynamic Capabilities in Malang coffee shops. Earlier studies often examined broader SME contexts or alternative mediators. The present model tests strategic direction alongside the capability to translate it into adaptive execution. Accordingly, this study tests four relationships: Strategic Orientation to Company Performance, Strategic Orientation to Dynamic Capabilities, Dynamic Capabilities to

Company Performance, and the mediating effect of Dynamic Capabilities. The findings aim to inform strategic and adaptive management among Malang coffee shops.

2. THEORETICAL BASIS

2.1 Resource-Based View and Dynamic Capabilities Perspective

The Resource-Based View (RBV) attributes performance differences to heterogeneous internal resources. Sustainable advantage can emerge from resources that are valuable, rare, difficult to imitate, and difficult to substitute Barney, (1991). For coffee shops, such resources include managerial expertise, employee skills, customer relationships, supplier networks, reputation, and operational routines. RBV clarifies resource value but less explicitly explains renewal under market change. The Dynamic Capabilities perspective addresses this through the deliberate integration, creation, extension, and reconfiguration of organizational resources Teece et al., (1997); (Helfat et al., 2007). It is pertinent to shifting consumer demand and sustained competitive pressure. Strategic Orientation directs organizational attention and priorities; Dynamic Capabilities translate them into sensing, seizing, and transforming; Company Performance captures the resulting financial, customer, and operational outcomes. Their integration links strategic behavior to adaptive execution.

2.2 Strategic Orientation

Strategic Orientation denotes a consistent pattern of decisions and behavior shaping the firm's market response and value creation Venkatraman, (1989); Gatignon & Xuereb, (1997). It directs information seeking and resource priorities rather than describing a single managerial choice (Hakala, 2011). Customer Orientation involves detecting customer needs through feedback, complaints, and purchasing behavior, then using this information to improve menus, prices, ambience, service, digital ordering, and loyalty programs. It aligns decisions with observed preferences rather than assumptions.

Competitor Orientation involves tracking rivals' prices, promotions, offerings, services, and digital activity to identify vulnerabilities and differentiation opportunities. Its purpose is competitive intelligence, not simple imitation, especially where customers can readily switch between similar coffee shops.

2.3 Dynamic Capabilities

Dynamic Capabilities comprise Sensing, Seizing, and Transforming Teece, (2007); (Fernandes et al., 2025). These interconnected capacities help firms identify market signals, commit to a response, and adjust routines so that adaptation is sustained. Sensing detects and interprets opportunities or threats through customer data, online reviews, social media, staff observations, competitor activity, and supply conditions. Early recognition enables coffee shops to respond before market shifts undermine performance.

Seizing converts detected opportunities into decisions, investment, and coordinated action. Coffee shops may launch new offerings, introduce digital ordering, retrain staff, or change supplier arrangements; without timely resource commitments, recognized opportunities may be lost. Transforming renews resources, routines, relationships, and structures through learning and process improvement. Revised standard procedures, schedules, layouts, inventory systems, technology, or supplier contracts make strategic responses sustainable in daily operations.

2.4 Company Performance

Company Performance reflects attainment of organizational objectives across financial and non-financial dimensions Venkatraman, (1989); (Richard et al., 2009). This study measures Sales Growth, Customer Satisfaction, and Operational Efficiency to capture business, market, and internal process outcomes.

Sales Growth indicates changes in revenue and achievement of sales targets. In coffee shops, demand, repeat visits, product relevance, seasonality, and competition influence sales,

so this measure is interpreted alongside non-financial outcomes. Customer Satisfaction reflects evaluations of product quality, service, ambience, convenience, and consistency, including willingness to repurchase and recommend. It supports loyalty and potential longer-term revenue in coffee shops.

2.5 Previous Research and Research Gap

Bekata & Kero, (2025) found that Strategic Orientation influenced Dynamic Capabilities and open innovation in Ethiopian SMEs, including mediation. Cahaya et al., (2024) similarly linked market and entrepreneurial orientations to Dynamic Capabilities and performance in Indonesian SMEs. Both support a strategic-to-adaptive pathway. In coffee-shop settings, Dynamic Capabilities contributed to innovation and performance in Malang Sari et al., (2024), while supply-chain adaptability supported performance in South Tangerang Ramadhan & Wahyuningsih, (2024). Innovation capability also strengthened competitiveness in Banjarmasin Sonia & Ariffin, (2023), although the explanatory models differ.

Thioanda & Wardhana, (2022) reported positive market and entrepreneurial orientation effects but an insignificant technology orientation effect. Handoyo et al., (2023) supported a direct orientation–performance link, whereas Zuhri et al., (2024) identified mixed effects. Organizational implementation capability may explain these differences. The present research integrates Customer, Competitor, and Entrepreneurial Orientation with Sensing, Seizing, and Transforming to test Dynamic Capabilities as a mediator of Company Performance among Malang coffee shops.

2.6 Hypothesis Development

Customer and competitor information, coupled with entrepreneurial initiative, can improve market fit, differentiation, customer value, and operational decisions. Positive effects are supported by Handoyo et al., (2023), Cahaya et al., (2024), Mandagie et al., (2024), and Bekata & Kero, (2025).

H1: Strategic Orientation has a positive and significant effect on Company Performance.

Customer and competitor orientations feed Sensing, while proactive Entrepreneurial Orientation encourages Seizing and the subsequent Transforming of routines. This pathway is supported by Bekata & Kero, (2025) and Cahaya et al., (2024).

H2: Strategic Orientation has a positive and significant effect on Dynamic Capabilities.

Through Sensing, Seizing, and Transforming, firms detect market change, commit resources, and renew processes, strengthening performance under uncertainty (Teece, 2018); Cahaya et al., 2024; Sari et al., (2024); Ramadhan & Wahyuningsih, (2024).

H3: Dynamic Capabilities have a positive and significant effect on Company Performance.

Strategic Orientation supplies direction, but adaptation is needed to translate it into results. Dynamic Capabilities thus constitute a plausible mediation mechanism Mishra & Kiran, (2026); Bekata & Kero, (2025); Cahaya et al., (2024).

H4: Dynamic Capabilities mediate the effect of Strategic Orientation on Company Performance.

2.7 Extended Empirical Review and Research Positioning

Prior findings collectively suggest that strategic attention shapes market responses, adaptive capabilities operationalize strategic priorities, and performance effects depend on context and measurement. This study tests their integrated relationship in Malang coffee shops rather than assuming that evidence from general SMEs or manufacturing directly applies. Bekata & Kero, (2025) examined Ethiopian SMEs and focused on open innovation. Their model treated strategic orientation as a combination of market, technology, and entrepreneurial orientations and tested Dynamic Capabilities as a mediating mechanism. The study reported that strategic orientation significantly strengthened Dynamic Capabilities, while Dynamic Capabilities improved open innovation outcomes and mediated the effect of

strategic orientation. This evidence is highly relevant to the present research because it supports the idea that a strategic direction must be accompanied by an organizational capability to sense and act on environmental change. At the same time, the dependent variable and business setting differ. The current research assesses Company Performance rather than open innovation, and it focuses specifically on coffee shops operating in a local service market where customer experience, operational efficiency, and sales growth are central outcomes.

Cahaya et al., (2024) found that market and entrepreneurial orientations fostered Dynamic Capabilities and SME performance in Indonesia. The present model focuses specifically on Malang coffee shops and incorporates Customer, Competitor, and Entrepreneurial Orientation as a consolidated construct. Sari et al., (2024) provide the closest contextual comparison because their research was also conducted in the cafe industry in Malang City. They examined Dynamic Capabilities, innovation capability, and business performance and found that Dynamic Capabilities contributed to innovation capability, which in turn supported business performance. The present study differs in the location of Dynamic Capabilities within the model. Instead of treating Dynamic Capabilities as an independent variable followed by innovation capability, the current model treats Dynamic Capabilities as a mediator between Strategic Orientation and Company Performance. This difference is theoretically meaningful because it asks what precedes adaptive capability and whether strategic attention to customers, competitors, and opportunities helps build the ability to sense, seize, and transform.

Ramadhan & Wahyuningsih, (2024) studied coffee shops in South Tangerang City and focused specifically on supply-chain Dynamic Capabilities. Their findings indicated that responsiveness to supply disruption, logistics flexibility, and supplier integration were associated with better firm performance. The study demonstrates that adaptive capability can affect performance through internal and external operational mechanisms, not only through customer-facing innovation. In the current research, the Dynamic Capabilities construct is broader and follows the sensing-seizing-transforming framework. This broader approach captures not only supplier-related flexibility but also the ability to identify customer and market changes, commit resources to opportunities, and reconfigure business processes when existing routines are no longer suitable.

Sonia & Ariffin, (2023) found that product, service, and marketing innovation strengthened Banjarmasin coffee-shop competitiveness. Such innovations may follow Seizing decisions and Transforming of routines, complementing the present Dynamic Capabilities framework. Handoyo et al., (2023) examined firm characteristics, business environment, Strategic Orientation, and performance. Their results indicated that firm size, industry type, and competitive intensity influenced the adoption of Strategic Orientation and that proactive strategic orientations were associated with stronger performance. This finding supports the direct relationship tested in H1. It also highlights that Strategic Orientation is not formed in a vacuum; it responds to environmental pressure and organizational characteristics. The current study does not model these antecedents directly, but it is conducted in a setting where competitive intensity and changing customer preferences are pronounced. The model therefore concentrates on what happens after a firm adopts a strategic orientation: whether it directly supports performance and whether it also improves performance by strengthening Dynamic Capabilities.

Mandagie et al., (2024) found a positive orientation–performance relationship in Indonesian manufacturing firms. This study extends that relationship to coffee shops and tests Dynamic Capabilities as an additional mechanism for managing products, service, staffing, suppliers, and digital channels.

Results are not uniform: technology orientation was insignificant in Thioanda & Wardhana, (2022); market orientation was insignificant in Zuhri et al., (2024); and Mishra & Kiran, (2026) found selective direct and mediating effects. Both pathways therefore warrant testing. Taken together, previous studies provide a strong conceptual foundation but leave a specific empirical gap. Research has examined Strategic Orientation and performance, Dynamic Capabilities and performance, and mediation mechanisms in SMEs, manufacturing firms, knowledge-intensive services, cafes, and coffee shops. However, evidence remains limited for a model in which Customer Orientation, Competitor Orientation, and Entrepreneurial Orientation form Strategic Orientation; Sensing, Seizing, and Transforming form Dynamic Capabilities; and Sales Growth, Customer Satisfaction, and Operational Efficiency form Company Performance within coffee shops in Malang City. The current study addresses this gap by testing the complete model simultaneously and by evaluating both the direct effect of Strategic Orientation and the indirect effect transmitted through Dynamic Capabilities.

2.8 Conceptual Integration of Strategic Orientation and Dynamic Capabilities

Strategic Orientation specifies what managers prioritize—customers, competitors, and opportunities whereas Dynamic Capabilities explain how priorities generate adaptation. Their distinction justifies the mediation model: strategic clarity does not automatically ensure effective execution. Customer Orientation contributes primarily to the information base of adaptation. Continuous attention to customer needs, feedback, satisfaction, and changing preferences creates signals that can support Sensing. In the coffee-shop setting, these signals may concern taste preferences, price sensitivity, service expectations, store atmosphere, digital convenience, or patterns of repeat purchase. Customer Orientation alone does not determine what action should follow, but it improves the relevance of the information available to decision makers. When that information is interpreted early, the business can recognize changes before they become major performance problems or before competitors fully exploit the same opportunity.

Competitor Orientation expands the information base beyond customers. Monitoring competitors' strategies, strengths, weaknesses, pricing, promotions, menus, service processes, and market positioning helps the business understand the relative rather than only the absolute value of its offering. A product may satisfy customers but still lose attractiveness if competitors provide superior convenience or stronger differentiation. Competitor Orientation therefore supports Sensing by identifying changes in the competitive reference point. It can also influence Seizing because knowledge of competitor actions can affect the urgency, scale, or design of a response.

Entrepreneurial Orientation provides the action-oriented element of the Strategic Orientation construct. Opportunity recognition has limited performance value when firms are unwilling to innovate, act proactively, or commit resources under uncertainty. Entrepreneurial Orientation encourages the business to move from observation to experimentation and opportunity pursuit. This makes it particularly relevant to Seizing, where managers must decide whether an identified signal deserves investment. In coffee shops, such commitments may involve developing a new product, changing a promotional approach, using a digital platform, working with new suppliers, introducing a loyalty mechanism, or altering a service concept.

Transforming becomes important when an opportunity requires more than a temporary action. A new menu item may require different inventory routines and supplier arrangements. A digital-ordering channel may require new employee responsibilities and customer-service procedures. A change in store concept may affect layout, work schedules, equipment use, and promotional communication. Transforming therefore connects strategic response with organizational renewal. The Dynamic Capabilities perspective emphasizes that sustainable

adaptation is not achieved merely by launching an initiative; it requires the organization to realign resources and routines so that the initiative can be delivered consistently.

The model also explains why Dynamic Capabilities can mediate but not fully replace the direct effect of Strategic Orientation. Customer focus, competitor awareness, and entrepreneurial behavior can influence performance directly through better decisions and stronger market alignment. At the same time, these orientations create greater performance value when they are supported by Sensing, Seizing, and Transforming. This dual pathway is consistent with the empirical results, where the direct SO-to-CP coefficient remained significant and the indirect SO-to-DC-to-CP effect was also significant. The model therefore represents complementary direct and process-based explanations rather than a choice between strategy and capability.

From an RBV perspective, this integration is also logical. Resources can contribute to performance when they are valuable and difficult to substitute, but the value of resources can change as markets and technologies change. Strategic Orientation helps determine which external signals and strategic priorities deserve attention, whereas Dynamic Capabilities determine how the resource base is renewed in response. For coffee shops, resources include not only physical equipment or financial assets but also customer knowledge, employee skills, supplier relationships, service routines, brand practices, digital channels, and managerial know-how. The ability to reconfigure these resources is essential when their existing combination no longer fits market conditions.

This conceptual integration supports the study's research contribution. Rather than treating Strategic Orientation as a static predictor of performance, the model explains an intermediate organizational process. Rather than treating Dynamic Capabilities as an isolated capability, it identifies strategic behaviors that help build them. The resulting framework is especially relevant for coffee shops because their competitive environment combines frequent customer interaction, low switching costs, rapid imitation, trend-sensitive demand, and operational constraints. Under these conditions, strategic awareness and adaptive execution need to operate together if the business is to sustain performance over time.

3. METHODS

This quantitative explanatory study was conducted in Malang City from April to July 2026. It replicated an established conceptual model in a different business setting without changing the core relationships. The population consisted of coffee shops in Malang City that had a formal organizational structure. Purposive sampling was used with criteria that the business employed at least 10 staff members, had a formal hierarchy such as owner, manager, supervisor, and operational staff, and had operated for at least two years. The final sample consisted of 140 respondents. Respondents were owners, managers, and supervisors because these positions were considered to have sufficient knowledge of business strategy, operations, customer service, and company performance (Creswell, 2023).

The questionnaire contained 28 measurement items assessed using a five-point Likert scale from 1 (Strongly Disagree) to 5 (Strongly Agree). Strategic Orientation was measured by nine items across Customer Orientation, Competitor Orientation, and Entrepreneurial Orientation. Dynamic Capabilities were measured by nine items across Sensing, Seizing, and Transforming. Company Performance was measured by ten items across Sales Growth, Customer Satisfaction, and Operational Efficiency. Data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS. The measurement model was evaluated through convergent validity, discriminant validity, indicator reliability, Cronbach's Alpha, and Composite Reliability. The structural model was evaluated through R2, f2, direct effects, indirect effects, and bootstrapping. Hypotheses were considered

supported when the path direction matched the hypothesis, the T-statistic exceeded 1.96, and the P-value was below 0.05.

4. RESULTS AND DISCUSSION

4.1 Respondent Characteristics

A total of 140 coffee-shop owners, managers, and supervisors responded. Their operational and managerial roles provided knowledge relevant to customer decisions, competitor monitoring, adaptive practices, and performance.

Table 2. Respondent Profile

Characteristic	Frequency	Percentage
Male	89	63.6%
Female	51	36.4%
Age 19-28 years	116	82.9%
Age 29-38 years	22	15.7%
Age 49-58 years	2	1.4%
Supervisor	108	77.1%
Manager	20	14.3%
Owner	12	8.6%
Bachelor's degree	60	42.9%

Male respondents accounted for 63.6 percent of the sample, while female respondents accounted for 36.4 percent. The age distribution was highly concentrated in the 19-28-year group, representing 82.9 percent of respondents. Supervisors represented 77.1 percent of the sample, managers 14.3 percent, and owners 8.6 percent. In terms of education, the largest category was bachelor's degree holders at 42.9 percent. The dominance of supervisors is important when interpreting the findings because supervisors tend to have direct knowledge of daily operations and customer interactions, although they may have less access to verified financial information than owners or senior managers.

4.2 Descriptive Analysis

Mean scores were high for Strategic Orientation (4.013), Dynamic Capabilities (3.994), and Company Performance (3.929), indicating positive perceived strategic, adaptive, and performance conditions among sampled businesses.

Table 3. Descriptive Summary of Main Constructs

Construct / Dimension	Mean	Category
Strategic Orientation	4.013	High
Customer Orientation	3.979	High
Competitor Orientation	4.055	High
Entrepreneurial Orientation	4.007	High
Dynamic Capabilities	3.994	High
Sensing	3.979	High
Seizing	3.991	High
Transforming	4.012	High
Company Performance	3.929	High
Sales Growth	3.791	High
Customer Satisfaction	4.002	High
Operational Efficiency	3.971	High

Competitor Orientation had the highest Strategic Orientation mean (4.055), followed by Entrepreneurial Orientation (4.007) and Customer Orientation (3.979). Competitive monitoring was therefore slightly more prominent than the other strategic practices. For Dynamic Capabilities, Transforming scored 4.012, Seizing 3.991, and Sensing 3.979. For Company Performance, Customer Satisfaction scored 4.002, Operational Efficiency 3.971,

and Sales Growth 3.791. This difference suggests that favorable customer and operational assessments were not matched by equivalent perceived sales growth.

4.3 Measurement Model Evaluation

All constructs exceeded the 0.50 AVE threshold: Company Performance 0.581, Dynamic Capabilities 0.712, and Strategic Orientation 0.589. Reported indicator loadings also met the study's criterion, supporting convergent validity.

The reported Fornell–Larcker and HTMT evaluations supported discriminant validity; square roots of AVE exceeded interconstruct correlations. Cronbach's Alpha and Composite Reliability were above 0.70 for each construct.

Table 4. Measurement Model Summary

Construct	AVE	Cronbach Alpha	Composite Reliability
Strategic Orientation	0.589	0.913	0.928
Dynamic Capabilities	0.712	0.949	0.957
Company Performance	0.581	0.92	0.933

Cronbach's Alpha/Composite Reliability were 0.913/0.928 for Strategic Orientation, 0.949/0.957 for Dynamic Capabilities, and 0.920/0.933 for Company Performance. The measurement model was consequently considered adequate for structural analysis.

4.4 Structural Model Evaluation

The structural model was evaluated using R-Square, F-Square, direct effects, and indirect effects. Dynamic Capabilities produced an R-Square value of 0.299, which means that 29.9 percent of the variance in Dynamic Capabilities was explained by Strategic Orientation. Company Performance produced an R-Square value of 0.395, indicating that Strategic Orientation and Dynamic Capabilities jointly explained 39.5 percent of the variance in Company Performance. The remaining variance was associated with factors outside the model, such as financial resources, brand image, product quality, location, and other business conditions identified in the thesis.

The F-Square results provide additional insight into the relative contribution of each exogenous construct. Strategic Orientation had an F-Square value of 0.427 on Dynamic Capabilities, which was classified as a large effect. Its direct F-Square effect on Company Performance was 0.127, which was classified as small. Dynamic Capabilities had an F-Square effect of 0.169 on Company Performance, which was classified as medium. The pattern suggests that Strategic Orientation has its strongest contribution in shaping Dynamic Capabilities, while Dynamic Capabilities provide an important practical contribution to performance beyond the direct effect of Strategic Orientation.

Table 5. Structural Model Summary

Relationship / Endogenous Construct	R2	Adjusted R2	f2
Dynamic Capabilities (endogenous)	0.299	0.294	-
Company Performance (endogenous)	0.395	0.386	-
SO -> DC	-	-	0.427
SO -> CP	-	-	0.127
DC -> CP	-	-	0.169

4.5 Hypothesis Testing

Bootstrapping results showed that all proposed direct and indirect relationships were positive and statistically significant. The direct effect of Strategic Orientation on Company Performance had an original sample coefficient of 0.331, a T-statistic of 3.215, and a P-value of 0.001. Strategic Orientation had a stronger direct effect on Dynamic Capabilities with a coefficient of 0.547, a T-statistic of 5.206, and a P-value of 0.000. Dynamic Capabilities had

a positive effect on Company Performance with a coefficient of 0.382, a T-statistic of 3.507, and a P-value of 0.000.

The indirect effect of Strategic Orientation on Company Performance through Dynamic Capabilities was 0.209, with a T-statistic of 2.700 and a P-value of 0.007. Because the P-value was below 0.05, the mediation effect was significant. The direct effect of Strategic Orientation on Company Performance remained significant while the indirect pathway was also significant, indicating that Dynamic Capabilities functioned as an important mediating mechanism rather than replacing the direct relationship entirely.

Table 6. Hypothesis Testing Results

H	Path	O	T	P	Result
H1	SO -> CP	0.331	3.215	0.001	Supported
H2	SO -> DC	0.547	5.206	0.000	Supported
H3	DC -> CP	0.382	3.507	0.000	Supported
H4	SO -> DC -> CP	0.209	2.700	0.007	Supported

Note: SO = Strategic Orientation; DC = Dynamic Capabilities; CP = Company Performance; O = Original Sample.

4.6 Discussion of the Effect of Strategic Orientation on Company Performance

Support for H1 indicates that stronger Strategic Orientation is associated with higher Company Performance, including customer satisfaction, efficiency, and sales growth. Information-driven market attention and proactive decisions may improve these outcomes.

Customer Orientation can contribute to performance because it provides management with information about what customers value and where service needs improvement. When coffee shops routinely gather customer feedback, analyze complaints, observe repeat-purchase patterns, and respond to changing preferences, they can adjust products and service processes more effectively. These adjustments can improve Customer Satisfaction and support repeat purchase behavior. Over time, positive customer outcomes may also contribute to Sales Growth, although the descriptive results show that Sales Growth was less prominent than Customer Satisfaction in the current sample.

Competitor Orientation contributes by reducing information gaps about the competitive environment. Coffee shops in Malang City operate in a market where many businesses offer overlapping products and target similar demographic groups. Monitoring competitors' prices, menus, promotional activities, service concepts, and digital engagement can help managers identify differentiation opportunities. The fact that Competitor Orientation obtained the highest mean among the Strategic Orientation dimensions suggests that competitive monitoring is an especially visible managerial practice among the observed businesses.

Entrepreneurial Orientation adds a proactive element. Information about customers and competitors is useful only when the firm is willing to act. Opportunity seeking and innovation encourage coffee shops to test new products, new service formats, and promotional approaches. This may create additional customer value and improve competitiveness. The positive relationship between Strategic Orientation and Company Performance is consistent with Handoyo et al., (2023), Mandagie et al., (2024), and Thioanda & Wardhana, (2022), while also illustrating why strategic orientation should be treated as a combination of market attention and proactive behavior rather than a single isolated practice.

4.7 Discussion of the Effect of Strategic Orientation on Dynamic Capabilities

H2 produced the strongest direct coefficient ($\beta = 0.547$) and a large effect size ($f^2 = 0.427$), identifying Strategic Orientation as a major predictor of sensing, seizing, and transforming capacities in this sample.

Customer Orientation and Competitor Orientation contribute to Sensing because both encourage firms to gather and interpret external information. Customer feedback provides

signals about changing needs, while competitor monitoring provides signals about shifts in market rivalry. Without these information-oriented practices, management may recognize changes only after competitors have already responded. Entrepreneurial Orientation supports Seizing because proactive and innovative behavior increases the likelihood that managers will commit resources to emerging opportunities instead of waiting for certainty.

The relationship also extends to Transforming. When the firm decides to respond to a market signal, implementation may require new work routines, different staffing patterns, new suppliers, changes in digital systems, or new promotional methods. Strategic Orientation therefore initiates a chain of activities in which market information and opportunity recognition create pressure for adaptive organizational change. This interpretation is consistent with Bekata & Kero, (2025) and Cahaya et al., (2024), who found that strategic orientation or market and entrepreneurial approaches contributed to the development of Dynamic Capabilities.

Thus, Dynamic Capabilities depend partly on sustained organizational attention to customers, competitors, and opportunities. Adaptive routines are unlikely to develop effectively in the absence of relevant signals and managerial initiative.

4.8 Discussion of the Effect of Dynamic Capabilities on Company Performance

H3 indicated a significant association between Dynamic Capabilities and Company Performance ($\beta = 0.382$; $f^2 = 0.169$). This medium effect matters in a market shaped by changing preferences, technologies, promotions, and supply conditions.

Sensing allows the business to identify market changes before they fully affect performance. A coffee shop that observes changes in customer preferences, recognizes an emerging product trend, or detects a decline in satisfaction can respond earlier than a business that relies only on existing routines. Seizing then converts this information into decisions about product development, resource allocation, promotions, training, or supplier coordination. Transforming ensures that the selected response becomes embedded in operations through process improvement and resource reconfiguration.

The three dimensions therefore create a sequence through which environmental information becomes operational action. When the process works effectively, it can improve Customer Satisfaction by making products and services more relevant, improve Operational Efficiency by aligning resources with new conditions, and support Sales Growth by capturing emerging demand. The descriptive results, in which Transforming and Customer Satisfaction recorded relatively high means, are compatible with this interpretation, although the lower Sales Growth mean indicates that operational and customer improvements do not automatically produce equivalent revenue growth.

The result aligns with evidence from Indonesian SMEs Cahaya et al., (2024), Malang cafes Sari et al., (2024), and South Tangerang coffee shops Ramadhan & Wahyuningsih, (2024), where adaptive capacity aided innovation, flexibility, or performance.

4.9 Mediating Role of Dynamic Capabilities

The support for H4 is central to the research model because it confirms that Strategic Orientation contributes to Company Performance through Dynamic Capabilities. The indirect coefficient of 0.209 was statistically significant, showing that part of the effect of Strategic Orientation on performance operates through the firm's ability to sense, seize, and transform. This finding clarifies why strategic direction alone may be insufficient. A business can understand customers and competitors, but performance will not improve unless information is translated into concrete decisions and operational changes.

The mediation process can be illustrated through a practical coffee-shop example. Customer information may reveal rising demand for a new beverage category or for a more convenient digital ordering process. Strategic Orientation helps management recognize that the information is strategically relevant. Sensing organizes the recognition of the change,

Seizing leads management to select a response and allocate resources, and Transforming adjusts workflows, training, inventory, suppliers, or technology so that the response can be implemented. Performance improves when the sequence leads to greater customer satisfaction, more efficient operations, or stronger sales.

Because menus and promotions can be copied quickly, firms need repeated adaptation rather than a one-time strategic move. Dynamic Capabilities institutionalize that recurring translation of strategic intelligence into action.

The result is consistent with Bekata & Kero, (2025), who found a mediating role for Dynamic Capabilities between strategic orientation and organizational outcomes, and with Cahaya et al., (2024), who identified an indirect pathway from market and entrepreneurial approaches through Dynamic Capabilities to performance. The finding also complements Sari et al., (2024) by showing that, within the Malang cafe context, Dynamic Capabilities can be positioned not only as an antecedent of innovation but also as a mediator connecting strategic direction to broader Company Performance.

5. CONCLUSION

5.1 Conclusion

All four hypotheses were supported among Malang coffee shops. Strategic Orientation positively affected Company Performance, indicating that customer, competitor, and entrepreneurial attention was associated with sales, satisfaction, and efficiency outcomes. Strategic Orientation had the strongest direct effect on Dynamic Capabilities, while Dynamic Capabilities significantly predicted Company Performance. Strategic attention therefore supports the ability to sense market shifts, seize opportunities, and transform operations. The significant indirect effect confirms partial mediation: strategic priorities produce value not only directly but also when translated into adaptive decisions, resource commitments, and process renewal. Sustained coffee-shop performance thus depends on combining strategic clarity with ongoing adaptive execution, especially under competitive and changing market conditions.

5.2 Research Limitations

Cross-sectional data limit causal interpretation, while purposive sampling in one city limits generalizability to other regions and service industries. The reliance on one respondent per business—77.1% supervisors—and self-reported rather than verified financial outcomes may introduce perceptual bias. The model explained 39.5% of performance variance and excluded other drivers. The three selected Strategic Orientation dimensions also do not represent all possible orientations.

5.3 Recommendations

Managers should systematically gather customer feedback, monitor rivals, and test opportunities, while communicating strategic priorities to supervisors and frontline employees who detect daily market changes. Dynamic Capabilities should be strengthened through regular market review (Sensing), explicit decisions and resource allocation (Seizing), and flexible routines and continuous process improvement (Transforming), so information becomes operational change. Future research should examine innovation, competitive advantage, digital transformation, loyalty, finance, brand, product quality, and location; multi-city, longitudinal, multi-informant, financial-record, or mixed-method designs could also strengthen inference.

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