

## **ABSTRACT**

*This research study examine the effect of innovation and market orientation on business performance by using competitive advantage as an intervening variable (case study on coffeeshops in the city of Semarang). Coffeeshop industry in Semarang is a competitive industry with high level of competition, soupled with very dynamic market condition. Some coffeeshops are unable to compete in the industry experience a decline in business performance and some of them even forced to close their business. Variables that affect business performance are competitive advantage as well as innovation and market orientation.*

*The exact number of population from this study is unknown. Therefore, sampling method used in this study is non probability sampling with purposive sampling technique. Meanwhile, the analysis used is structural equation modelling (SEM) using AMOS software.*

*This quantitative study contributes to the strategic business literature by analyzing the direct and indirect relationship of several variables, such as innovation, market orientation, competitive advantage, and business performance of coffeeshop industry in Semarang City. Structured questionnaire was used in conducting surveys to managers and owners of the coffeeshop. The results of the study prove that innovation and market orientation positively have a significant effect on business performance. In addition, innovation and market orientation proved to have a significant effect on business performance through competitive advantage as an intervening variable. The results of this study are expected to be one of the references of coffeeshop owners or managers in the city of Semarang in improving business performance by achieving competitive advantage through innovation and market orientation.*

**Keywords** : *coffeeshop, innovation, market orientation, competitive advantage, business performance*