

**THE INFLUENCE OF IMPLEMENTATION OF TOTAL QUALITY  
MANAGEMENT AND INNOVATION QUALITY THROUGH  
COMPETITIVE ADVANTAGE ON COMPANY PERFORMANCE  
(EMPIRICAL STUDY AT COFFEE SHOP IN SEMARANG)**



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**Abstract**

This research aims to analyze the influence of total quality management implementation factors and innovation quality through competitive advantage to improve company performance. Sampling used a purposive sampling technique, the total sample used was 152 respondents who were coffee shop owners in Semarang which had an operational time of more than 1 year and had dine-in and takeaway services. The data analysis technique used in this research is SEM (Structural Equation Model) analysis with the AMOS program, and the data collection technique uses a questionnaire. The research results show that the implementation of quality management has a positive influence on company performance. Then the quality of innovation has a positive influence on company performance and competitive advantage fully mediates company performance.

**Keywords:** Implementation of Total Quality Management, Innovation Quality, Competitive Advantage, Company Performance

## INTRODUCTION

Company performance has become the main focus of every company to maintain its company's success in the long term. However, achieving high corporate performance often involves high risks, which require risk management awareness to maintain organizational performance and improve investor relations (Akindele, 2012). Evaluating performance allows performance improvement efforts to be more focused and systematic. Evaluation activities need to be carried out to measure organizational performance. An activity known as performance evaluation aims to determine the level of success or failure of an organization or work unit in carrying out its responsibilities. Consequently, performance evaluation is an examination and interpretation of successes and failures in service delivery (Kaplan, R. and Norton, 1996).

In maintaining the survival of a company. Companies will organize the resources they need to run their business. Along with the times, the opening of new businesses and the increasing economy, people's lifestyles have also changed. Businesses that are developing today tend to focus on how companies can adapt to customer needs and lifestyles society. Changes in society's lifestyle have resulted in many habits that were initially rigid becoming more flexible.

The city of Semarang is a city that is showing very rapid development with the proliferation of coffee shops opening around the city center. Store growth data of coffee shops from 2018-2022, it can be seen that outlets are opening coffee shops just increasing every year. As a result of this increase, business people have to compete with each other by continuing to innovate, improve quality and try to fulfill customer desires. Increased outlets coffee shop not accompanied by good coffee shop performance. This results in loss of customers, decreased profit levels, decreased business growth. The decline in coffee shop performance is due to increased coffee shop competition and this also has an impact on coffee shops in the city of Semarang. This phenomenon has caused many coffee shops to experience losses and even close their outlets. The following is a list of coffee shop outlets that have closed in the city of Semarang due to competition. According to the data above, the number of coffee shops that closed in the city of Semarang from 2020-2022 was 38 outlets, consisting of 5 outlets closed in 2020, 20 outlets in 2021 and 13 outlets in 2022.

Company performance is considered as a multidimensional concept with indicators correlated with finance, production, human resources and marketing (Ramadani et al., 2019) Woff and pett (2006) company performance indicators related to growth and profits. Typically, profit, revenue, growth, productivity, efficiency, stock price, new markets, and exports are used to measure company performance. Total Quality Management is basically a continuous change program that focuses on customer needs and service. Emphasize employee participation and teamwork to create a culture that drives productivity and profitability (Snongtaweeporn and Siribensanont, 2020). Innovation Quality aims to improve quality and performance within the company, while innovation quality is a dynamic characteristic, with a range of areas of innovation performance (Duan, et.al 2021).

From various literature results from previous research, the impact of practices on company performance has been the subject of empirical studies in the past. In the research of Ofori et al (2021) found evidence that competitive advantage can improve company performance. Different from Das and Hassan (2021) who stated in his research that competitive advantage showed positive but not significant results. Apart from competitive advantage, there is an additional factor that can improve a company's business performance, namely the quality of innovation. Through the innovation quality variable on company performance, research by Ferreira et al (2020) states that the quality of innovation has a positive and significant effect on company performance. In contrast to research from Atalay et al (2013) which states that the quality of innovation has a positive effect on company performance but is not significant. In research by Bouranta et al (2017), The Total Quality Management implementation variable has a positive effect on improving company performance and is positive. Meanwhile, in research conducted by Susanto (2016) shows that the influence of Total Quality Management Implementation has a positive effect on company performance and is not significant. The implementation of Total Quality Management on competitive advantage has a positive and significant effect as shown in research conducted by Ferdousi et al (2017). Meanwhile, according to research by Tali et al (2021) shows that the effect of total management implementation has a positive effect and is not significant. To gain a competitive advantage in business, innovation quality variables are needed. According to Ferreira et al (2020) states that the quality of innovation has a positive and significant effect on competitive advantage. Referring to other research by

Efrat et al (2018) proves that the quality of innovation has a positive and insignificant effect.

Based on data obtained from the field and several research gaps as stated in the description above, this research was created for the coffee shop company to be able to improve the company's performance to be able to compete with other competitors and analyze the effect of implementing total quality management and quality innovation through competitive advantage on company performance.

## **REVIEW OF LITERATURE**

### **Service Dominant Logic**

The meaning of service in the service dominant logic concept is different from the general or traditional definition. In Lusch and Vargo's service dominant logic, (2006) deliberately uses the singular form of the word "Service". This shows that service is a process, specifically the utilization of human, organizational, information and relational resources with special knowledge and skills through actions, processes and performance for the benefit of other parties or their own parties (Lusch and Robert 2006). A central tenet of Service Dominant Logic is that reciprocal service, defined as the application of competence for the benefit of another party, is the fundamental basis of economic exchange. That is, service is exchanged for service (Vargo and Stephen, 2004). This perspective views marketing as not only consumer-centered but also consumer-oriented, which requires cooperation and learning from consumers to adapt individually and understand their ever-changing needs. The level of competition between businesses is not only domestic but also global as a result of the growing global connectivity in the world. In order for a business to develop in the long term and avoid being easily imitated by competitors or gain a competitive advantage, this competition requires various theoretical and practical points of view to provide the best service to customers.

### **Company Performance**

Company performance is an important standard for evaluating profitability, asset operating level, and company solvency, which directly reflects the company's subsequent

development ability (Zhang et al 2019). Company performance and equity structure are determined together (Maury and Pajuste, 2011). On the other hand, it is important to focus on company performance as well as environmental performance. Environmental management, resource reorganization, management, human resources, and green technology innovation all impose additional costs on companies, and are essential for sustainable development that can bring increased company value.

### **Competitive Advantage**

According to Porter (1996), competitive advantage is the ability to obtain returns on investment that are always higher than the industry average. When a company is able to implement a value creation strategy that cannot be duplicated simultaneously by its current or potential competitors, the company gains a competitive advantage. A company's competitive advantage serves as an important determinant of the company's performance and survival (Barnett and McKendrick, 2004) (Leiblein, Chen, and Posen, 2017). A company is considered to have a competitive advantage over its competitors when it gets above average returns (Michael E Porter, 1985).

H1: Competitive advantage has a positive effect on company performance

### **Implementation of Total Quality Management**

Total Quality Management is a holistic management philosophy that aims for continuous improvement in all organizational functions. That can only be achieved by leveraging the concept of total quality from resource acquisition to customer service after the sale (Nguyen and Chau, 2017). Total Quality Management is a methodical approach to management that focuses on improving quality throughout the company with the aim of increasing profitability, productivity, customer satisfaction and quality (Sadikoglu and Zehir, 2010). Total Quality Management actually represents a sophisticated management philosophy, a modern and new concept in management was established due to industrial and technological developments in the world, the concept is not limited to one particular approach in doing work, it is a state of continuous improvement that includes the participation of everyone in the organization, and represents a continuous search for ways to improve the organization and to achieve perfection in obtaining quality output (Mohammed, et al 2013).

H2: Implementation of Total Quality Management has a positive effect on Company Performance

H3: Implementation of Total Quality Management has a positive effect on competitive advantage

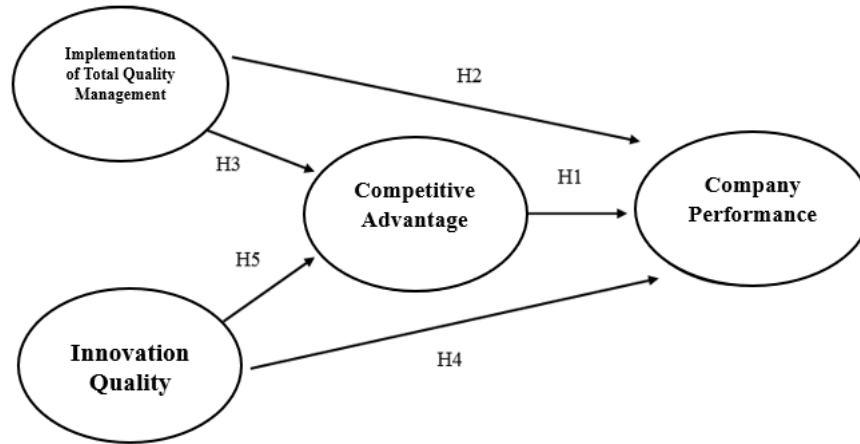
### **Innovation Quality**

The definition of innovation quality is the sum of innovation performance in various fields, which is a subjective and comprehensive concept that focuses on quality. This consists of innovation in products, processes, services and in considering how to get the desired innovation results (Duan et al, 2022). The concept of innovation quality is established at the product/service level, process level and company level (Haner, 2002). In combination, the concept of “innovation quality” indicates the value created by innovation. It emphasizes adding more value to customers (Guo et al 2020) from multi-domains, such as reliability, novelty, productivity and so on (Seyedeh et al 2018) and then, innovation can feedback something positive to companies and create more value for their pursuit of profits and sustainable development. Thus, the recipient of the innovation (i.e. the customer or other subject through which the innovation spreads) and the originator (i.e. the company) are the two subjects in the innovation value chain (Callaert, 2022)

H4: Innovation Quality has a positive effect on Company Performance

H5: Innovation Quality has a positive effect on Competitive Advantage

This study was carried out by building a theoretical framework as follows:



**Figure 1.**  
**Conceptual Framework**

## **RESEARCH METHOD**

### **Type and Source of Data**

The type of data that will be used in this research is primary data. The primary data that will be used in this research is primary data that comes from answers to questionnaires by research respondents.

### **Population and Sample**

The population size in this study is unknown. The population used in this research were coffee shops in Semarang as respondents. The population sample studied is a coffee shop that serves dine-in and take away and coffee that has been around for more than 1 year. This research uses a purposive sampling strategy, namely selecting respondents based on the researcher's subjective criteria. There are several criteria set in this research, namely coffee shop owners in Semarang aged 17 - 55 years.

### **Analysis Techniques**

This study uses quantitative methods using structural equation modeling/SEM analysis. According to Hair et al (2018), the use of the AMOS application program requires several criteria that must be agreed to obtain a good structural equation. The specified criteria are as follows:

- a. Degree of freedom (DF) must be positive.
- b. There was no significant chi-square at the highest value required i.e.,  $p = 0.05$  and above the accepted conservative limit of  $p = 0.10$ .
- c. Additional compatibility namely; “GFI (Goodness of Fit Index), Adjusted GFI (AGFI), Tucker-Lewis Index (TLI), and Normed Fit Index (NFI) above 0.90”.
- d. Low RMR (Mean Square Residual) and RMSEA (Root Square Approximation) values.

## RESULTS AND DISCUSSION

### Structural Equation Model Analysis

Structural Equation Modeling (SEM) analysis is used to determine the structural relationship between the variables studied. Structural relationships between variables were tested for suitability using the Goodness-of-fit index. The results of the Structural Equation Modeling analysis in this research can be seen as follows:

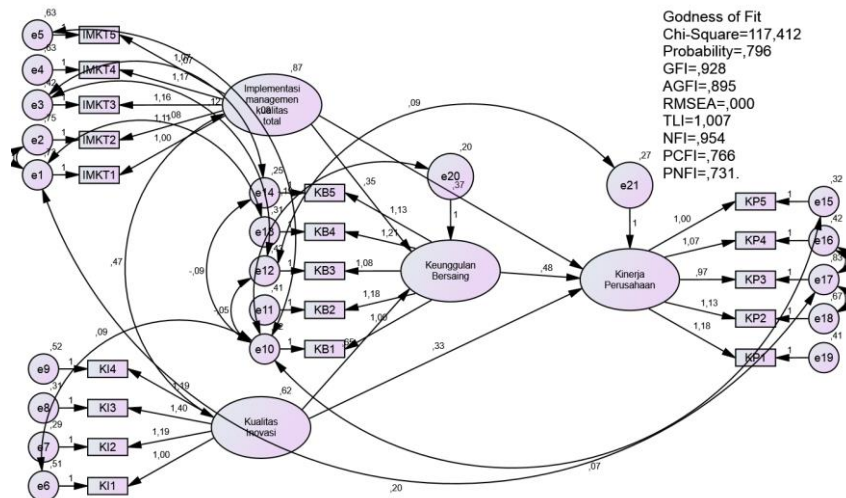


Figure 2.

### The Results of the Structural Equation Modeling Analysis

**Table 1.**  
**Model Estimates (Standardized)**

		Standard Estimates	Estimate	S.E	CR	P
Competitive Advantage	<--- Implementation Total Quality Management	0.367	0.348	0.065	5,385	***
Superiority Compete	<--- Innovation Quality	0.579	0.652	0.083	7,863	***
Performance Company	<--- Competitive Advantage	0.398	0.48	0.147	3,257	0.001
Performance Company	<--- Implementation of Total Quality Management	0.319	0.365	0.098	3.73	***
Performance Company	<--- Quality Innovation	0.246	0.334	0.135	2,472	0.013

By looking at the image in the complete model analysis diagram above, we know that the model meets the suitability standards which are represented by calculated values that meet the complete model suitability standards.

**Table 2.**  
**Goodness of Fit Index**

Goodness of Fit Index	Cut-Off Value	Results	Model Evaluation
Chi Square	Expected < Chi Square (x2 tables) with Sig A=0.05 and df=131 then x2 tables=2574,708	117,412	Good
Probability	$\geq 0.05$	0.796	Good
RMSEA	$\leq 0.08$	0,000	Good
CMIN/DF	$\leq 2.0$	0.896	Good
GFI	$\geq 0.90$	0.928	Good
AGFI	$\geq 0.95$	0.9	Marginal
TLI	$\geq 0.95$	1.0075	Good

CFI	$\geq 0.90$	1	Good
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Of the 8 indicators above, there is only 1 marginal indicator and 7 good indicators so from this it can be concluded that the model has good fit.

### Mediation Effect Test

The results of the Mediation effect test as a testing step to determine the indirect influence between exogenous variables and endogenous variables are as follows:

1. Based on the results of the Sobel test in Figure 4.5 above, the calculated t value is  $2.24586882 > 1.98$  (T table). The probability value in the Sobel test shows a result of  $0.02471241 < 0.05$ . This shows that there is significance in this research model. So it can be concluded that the implementation of total quality management indirectly has a significant effect on company performance.
2. Based on the results of the Sobel test in Figure 4.6 above, the calculated t value is  $2.35980153 > 1.98$  (T table). The probability value in the Sobel test shows a result of  $0.01824871 < 0.05$ . This shows that there is significance in this research model. So it can be concluded that the quality of innovation indirectly has a significant effect on company performance

### Research Hypothesis Testing

**Table 3.**  
**Hypothesis Test**

Hypothesis	Track		CR	P	Results	
H1	Competitive Advantage	→	Company performance	3,257	0.001	Accepted
H2	Implementation of Total Quality Management	→	Company performance	3.73	***	Accepted
H3	Implementation of Total Quality Management	→	Competitive Advantage	5,385	***	Accepted
H4	Innovation Quality	→	Company performance	2,472	0.013	Accepted
H5	Innovation Quality	→	Competitive Advantage	7,863	***	Accepted

Hypothesis testing is carried out by testing the relationship between latent variables by looking at the t or CR (Critical Ratio) value in the regression weight table from the AMOS output results. The following is a table of regression weight results:

The results of SEM analysis as a hypothesis testing step are as follows:

1. Based on the results of data processing shown in table 3, the standardized regression weights value of competitive advantage on company performance shows a CR value  $> 1.96$  of (3.257, meaning the better the competitive advantage variable shown by indicators of price, quality, sender reliability, product innovation , and the launch time will result in the company's competitive advantage getting better. Therefore, the results of the competitive advantage hypothesis on company performance are accepted.
2. Based on the results of data processing shown in table 3, the estimated value of standardized regression weights for Total Quality Management Implementation on company performance shows a CR value  $> 1.96$  (3.73). This means that the better the Total Quality Management Implementation variable shown by departmental quality indicators, employee relations, product/service design, data quality and process management, the better the company's competitive advantage will be. Thus, the results of the Total Quality Management Implementation hypothesis on company performance are accepted.
3. Based on the results of data processing shown in table 3, the estimated value of Standardized Regression Weights for the Implementation of Total Quality Management on competitive advantage shows a CR value  $> 1.96$  of 5.385, meaning that the better the Total Quality Management Implementation variable shown by the department quality indicators, employee relations, product/service design, data quality and process management will result in the company's competitive advantage getting better. So, the results of the Total Quality Management Implementation hypothesis on competitive advantage are accepted.
4. Based on the data processing results shown in table 3, the estimated value of standardized regression weights for Innovation Quality on company performance shows a CR value  $> 1.96$  (2.472). This means that the better the innovation quality variable shown by efficiency, cost, time measurement and customer assessment

indicators will result in better company performance. Thus, the results of the hypothesis of innovation quality on company performance are accepted.

5. Based on the results of data processing shown in table 3, the Standardized Regression Weights value of innovation quality on competitive advantage shows a CR value  $> 1.96$ , equal to 7.863. This means that the better the innovation quality variable shown by indicators of efficiency, cost, time measurement and customer assessment will be. resulting in better competitive advantage for the company. Therefore, the results of the hypothesis of innovation quality on company performance are accepted.

Based on the test results, the competitive advantage variable has a positive and significant influence on the company's performance variable. This is indicated by the CR value which meets the criteria  $> 1.96$ , namely 3.257 and has a significance of  $0.000 \leq 0.05$ . Thus, hypothesis 1 which states that competitive advantage has a positive effect on company performance is declared accepted. Competitive advantage has a positive and significant effect on company performance, which the coffee shop feels will improve company performance. The analysis results show that the loading factor value of the indicator that has the most influence on competitive advantage is time to market, while for company performance it focuses on revenue. This happens because the company's performance will increase when the income received by the coffee shop increases in market prices which will have an impact on increasing income. The coffee shop tries to increase revenue by optimizing the existing market. so that when the performance of the coffee shop increases, the income generated will increase.

Based on the test results, the total quality management implementation variable has a positive and significant influence on the company's performance variable, this is indicated by the CR value which meets the criteria  $> 1.96$ , namely 3.73 and has a significance of  $0.000 \leq 0.05$ . Thus, hypothesis 2 which states that the implementation of total quality management has a positive effect on company performance is declared accepted. Based on the results of the hypothesis test above, total quality management has a positive and significant effect on company performance. This provides an explanation that the higher the total quality management, the higher the company's performance. The results of the analysis show that the loading factor value of the indicator that has the most influence on total quality management marketing is product/service design, while for

company performance, namely revenue. This happens because the company's performance will increase when the coffee shop can design a quality product design. When a coffee shop can create a design that suits the quality of the product and customer desires. Then the coffee shop will feel the impact on sales by increasing income. Because we have created a quality product design. Thus, the company's performance is formed.

Based on the test results, the total quality management implementation variable has a positive and significant influence on the competitive advantage variable. This is indicated by the CR value which meets the criteria  $> 1.96$ , namely 5.385 and has a significance of  $0.000 \leq 0.05$ . Thus, hypothesis 3, which states that the implementation of total quality management has a positive effect on competitive advantage, is declared accepted as total quality management has a positive and significant effect on competitive advantage. This explains that the higher the total quality management perceived by the company, the greater the competitive advantage performance will be. The results of the analysis show that the loading factor value of the indicator that has the most influence on total quality management is product design, while for competitive advantage it is time to market. This happens because competitive advantage will increase when the coffee shop has thought about time to market. When a coffee shop has designed a market strategy that suits the desired product design, then the company feels the impact. The company will increase its time to market. So, this is where competitive advantage is formed.

Based on the test results, the innovation quality variable has a positive and significant influence on the competitive advantage variable. This is confirmed by the CR value meeting the criteria  $> 1.96$ , namely 7.863 and having a significance of  $0.000 \leq 0.05$ . Thus, hypothesis 4 which states that the quality of innovation has a positive effect on competitive advantage is declared accepted. The quality of innovation has a positive and significant effect on company performance. This provides an explanation that the better the quality of innovation perceived by the coffee shop, the greater the company's performance. the analysis results show is timing. Meanwhile, company performance is revenue. This happens because company performance will increase when the company can manage time management well. Time management is one of the important elements for companies to improve performance. Coffee Shop tries to improve time management within the company

so that it has an impact on company revenue. So, this is where the company's performance is formed.

Based on the test results, the innovation quality variable has a positive and significant influence on the competitive advantage variable. This is indicated by the CR value which meets the criteria  $> 1.96$ , namely 7.863 and has a significance of  $0.013 \leq 0.05$ . Thus, hypothesis 5 states that the quality of innovation has a positive effect on competitive advantage. Innovation quality has a positive and significant effect on competitive advantage. This provides an explanation that the better the quality of the innovation created by the company, the greater the competitive advantage. The results of the analysis show that the loading factor of the indicator that has the most influence on the quality of innovation is timing. Meanwhile, the competitive advantage is time to market. This happens because competitive advantage will increase when coffee shops can improve time management well. Timing is one of the important elements for a company. When the company has managed its timing effectively and efficiently, it is possible that the market will increase. Therefore, this is where competitive advantage is formed.

## CONCLUSION

This research shows the direct influence of the implementation of total quality management and quality innovation through competitive advantage. This research presents 3 main contributions. First, investigate the influence of total quality management implementation and company performance. Second, the influence of innovation quality on company performance. Third, the influence of the implementation of total quality management and innovation quality through competitive advantage. Finally, this research introduces the implementation of total quality management and quality innovation through competitive advantage on company performance. In this case, the coffee shop must establish 5 indicators that influence company performance, namely revenue, profits, growth, productivity and new markets to be able to face the challenges that always exist and increasingly tight competition.

The company focuses on utilizing competitive advantages, implementing total quality management and quality innovation to develop opportunities as a company that has competitive advantages in the future. The quality of innovation will also absorb the

company's actions by making a positive contribution to the company. Quality innovation creates value and then emphasizes adding more value to customers. The implementation of total quality management in the coffee shop business is translated by specifically determining total quality management factors. In this way, total quality management becomes easier to identify and helps coffee shops to increase the benefits obtained from implementing total quality management.

The results of this research have managerial implications that can be used as a reference in improving company performance. In this research, to improve company performance, the implementation factors of total quality management and innovation quality are very influential. This study is built on two competencies, namely the implementation of total quality management and innovation quality. This research has confirmed that both have a direct and indirect effect on competitive advantage to improve company performance.

Research explains the importance of total quality management implementation variables on company performance. This variable has a significant positive influence. Coffee shops in the Semarang city area are expected to pay more attention to implementing total quality management by designing quality product designs. Then the quality of innovation for coffee shops is also something that must be considered, where good quality innovation will create a competitive advantage for the company so that it will improve the company's performance.

The results of the goodness of fit test of the full SEM model still show marginal values, namely the GFI (0.850) and AGFI (0.811) values which are smaller than the cut-off value. Then this research only contributes data to coffee shops. It is not relevant if used directly for different types of business. Research so far has only focused on the Semarang area rather than a wider coverage area that includes the Central Java region.

Based on the limitations of the research mentioned above, improvements and developments need to be made for future research. Future research can be expected to look at existing limitations as input for improvement. The following are several suggestions that can be submitted for further research. In future research, additional respondents are needed so that the GFI and AGFI values are better and the model testing results are better to

strengthen the feasibility of the research sample. Inability of the model to produce value chi square and the significance is not yet appropriate so that modifications are made to the model, the unique estimates so that in this research the model must be changed or modified. Furthermore, it is hoped that it will be able to develop respondents covering a wider area than Semarang. Finally, further research will gather more extensive information about the food and beverage industry as a whole or retail business in general so that it can provide more useful insights that can be applied to various types of business.

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