The Role Of Innovation Capability In Mediating The Effect Of Strategic Agility On Business Performance Of Smes In The Food And Beverage Sector In Cimahi

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Abstract: Micro, Small, and Medium Enterprises (MSMEs) in Cimahi City possess strategic potential, particularly in the food and beverage sector. Cimahi is one of the cities experiencing growth in the number of MSMEs, with a growth rate of 50.24%. However, the increase in the number of MSMEs has not been accompanied by consistent revenue growth, which has fluctuated from 2019 to 2023. Several challenges have been identified, including a lack of basic entrepreneurial knowledge among the workforce, insufficient self-reliance in entrepreneurship, and limited proficiency in the use of technology. To address these performance issues, it is crucial for MSME actors to create added value by strengthening strategic agility and innovation capability. The objective of this study is to examine the impact of strategic agility on business performance, mediated by innovation capability. The study sample consists of 106 MSMEs, selected using probability sampling with a cluster sampling technique. Descriptive analysis results categorize business performance and innovation capability as moderate, while strategic agility is categorized as high. The research findings indicate that strategic agility does not affect innovation capability, strategic agility influences business performance, innovation capability affects business performance, and innovation capability does not mediate the influence of intellectual capital on business performance.

Keyword: Strategic Agility, Innovation Capability, Business Performance

INTRODUCTION

Technological advancements have become a major driver in transforming innovative business models, both in terms of products, services, and business processes (Miller & Lin, 2022). Additionally, changes in government regulations and shifts in consumer preferences have created uncertainty, compelling business owners to continuously evaluate and adjust their strategies to survive and thrive in a dynamic business environment (Sadikin et al., 2023). Therefore, business owners, especially in the Micro, Small, and Medium Enterprises

(MSMEs) sector, need to seize these opportunities as a chance to develop and expand their market share.

MSMEs are businesses that fall within the small or limited-scale category, with minimal initial capital and a limited workforce. Nevertheless, MSMEs are a crucial part of the national economy, possessing significant potential to improve the welfare of society (Wardiningsih, 2022). According to data from the Ministry of Cooperatives and SMEs, in 2023, the number of MSMEs in Indonesia reached 65.5 million, contributing 61% to the Gross Domestic Product (GDP), amounting to Rp. 9,580 trillion. Meanwhile, based on provincial data in Indonesia, West Java ranks first with the highest number of MSMEs, reaching 7,055,660 business units, contributing 57.17% to the Gross Regional Domestic Product (GRDP). This figure represents an increase from the previous year, with a growth rate of 4.96% (Ummamah et al., 2023). This indicates that the MSME sector in West Java plays a significant role in regional economic growth. The following is the growth in the number of MSMEs in districts/cities in West Java Province from 2022 to 2023.

Table 1. Growth in the Number of MSMEs in Districts/Cities in West Java from 2022 to 2023

| No	District/City	2022	2023	No	District/City	2022	2023
1	Tasik City	37.125	138.703	15	Bogor City	123.873	131.538
2	Subang District	86.437	258.457	16	Sukabumi City	57.319	60.865
3	Bandung District	224.956	537.801	17	Cianjur District	362.138	381.810
4	Indramayu District	136.029	290.833	18	Majalengka District	243.397	238.762
5	Depok City	125.078	247.207	19	Karawang District	371.510	355.623
6	Garut District	200.304	394.496	20	Bekasi City	334.902	309.116
7	Bandung City	331.226	523.584	21	Sukabumi District	537.676	409.507
8	Cimahi City	57.666	86.635	22	Sumedang District	269.618	176.898
9	Bekasi District	273.887	351.720	23	Bandung Barat District	385.646	237.919
10	Ciamis District	166.591	212.697	24	Purwakarta District	291.105	132.816
11	Tasikmalaya District	224.850	286.300	25	Banjar City	130.621	39.422
12	Bogor District	506.465	570.943	26	Kuningan District	493.076	144.445
13	Pangandaran District	81.587	91.785	27	Cirebon City	232.803	61.234
14	Cirebon District	359.563	384.544				

Source: Department of Cooperatives and Small Enterprises, 2024

Based on Table 1 above, it can be seen that Cimahi City is one of the cities experiencing growth in the number of MSMEs, with a percentage of 50.24%. This indicates that Cimahi City has strategic potential to develop distinctive and superior MSME products. This potential includes a conducive natural environment, supportive social culture, diverse learning facilities, as well as the availability of capital, markets, and information. All these resources can be utilized to enhance the capabilities and independence of productive enterprises for MSME actors in Cimahi.

The number of MSME actors in Cimahi City by sector from 2019 to 2023 shows that the largest sector is Food/Drink, with 108,804 business units, representing 44.40%, followed by the Textile and Textile Products (TPT) sector with 85,034 business units, accounting for 34.70%. Next is the Craft sector with 43,375 business units, making up 17.70%, the Services/Others sector with 4,411 business units, representing 1.80%, and the Printing sector with 3,431 business units, comprising 1.40%. This data shows that the high number of MSMEs in the food/drink sector is due to shifting food trends and growth in the tourism sector. These two factors drive public interest in exploring culinary experiences, making MSMEs particularly attractive.

However, the growing number of MSMEs in Cimahi City has not been accompanied by an increase in revenue. According to data from the Department of Trade, Cooperatives, and Industry of Cimahi City, the revenue and asset turnover of MSMEs have fluctuated from 2019 to 2023. This fluctuation is due to the impact of the COVID-19 pandemic, which began

in late 2019 and significantly affected sales. Social restrictions and business closures in 2020 led to decreased sales, while in 2021, changing consumer behavior and economic uncertainty added to the challenges. Although economic activities started to recover in 2022 and 2023, fluctuations in raw material prices and inflation continued to cause a decline in revenue from 2019 to 2023. The following presents the percentage of sales revenue and assets of MSMEs in Cimahi City.
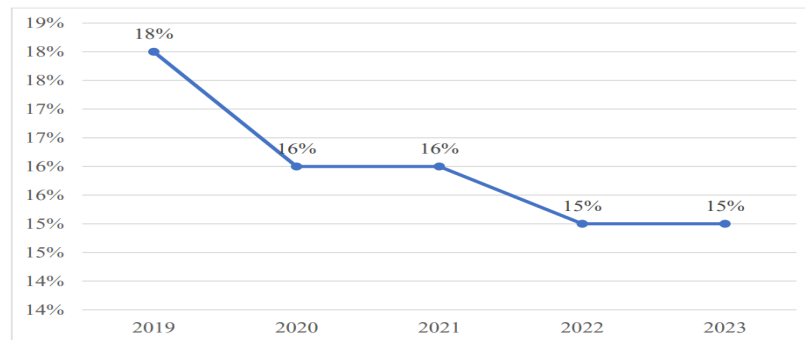
Source: Department of Trade, Cooperatives, and Industry of Cimahi City, 2024
Figure 1. Percentage of Sales Revenue and Assets of MSMEs in Cimahi City from 2019 to 2023

Meanwhile, based on preliminary interviews, several challenges faced by MSMEs were identified, including: 1) The existing human resources in the food and beverage MSME cluster still lack basic knowledge uniformly; 2) A lack of independence among MSME actors in entrepreneurship; and 3) Insufficient proficiency in using technology/digitalization for business operations or development, particularly concerning digital media or e-marketing. Therefore, to address these performance issues, it is crucial for MSME actors to create added value to excel compared to competitors by strengthening strategic agility and innovation capability (AlTaweel & Al-Hawary, 2021).

Strategic agility refers to a set of activities implemented by an organization to add value in a volatile and unpredictable business environment (Chan et al., 2019). The dimensions used in this study are strategic sensitivity, resource fluidity, and leadership unity (AlTaweel & Al-Hawary, 2021). Furthermore, the contribution of strategic agility can enhance innovation capability. Innovation capability is the ability of a company to identify opportunities in the market and work to turn those opportunities into tangible outcomes through product or process creation (Maisirata, 2023). The dimensions used in this study are organizational innovation, process innovation, product innovation, and marketing innovation (Rajapathirana & Hui, 2018). Business performance, as described by Gyedu et al. (2021), is the overall level of a company's well-being as a function of outcomes achieved relative to the assets committed to achieving the set objectives. The dimensions used include financial perspective and customer perspective (Zuniawan et al., 2020).

Previous research on business performance has shown varied and inconsistent results. For example, Gerald et al. (2020) demonstrated that strategic agility has a positive and significant impact on MSME business performance, whereas other findings suggest that strategic agility does not influence MSME performance (Vaillant & Lafuente, 2019). Additionally, the study by Mulyana et al. (2024) states that innovation capability has a positive and significant impact on the business performance of MSMEs, while other findings suggest that innovation capability does not affect the business performance of MSMEs (Budiman et al., 2022). Furthermore, research by AlTaweel & Al-Hawary (2021) indicated that innovation capability can mediate the effect of strategic agility on business performance, which contrasts with findings by Munawar et al. (2022) that suggest strategic agility are not mediated by innovation capability in affecting MSME business performance.

This empirical and research gap provides the basis for this study, supported by previous research on strategic agility and innovation capability in improving business performance. The research questions are as follows:
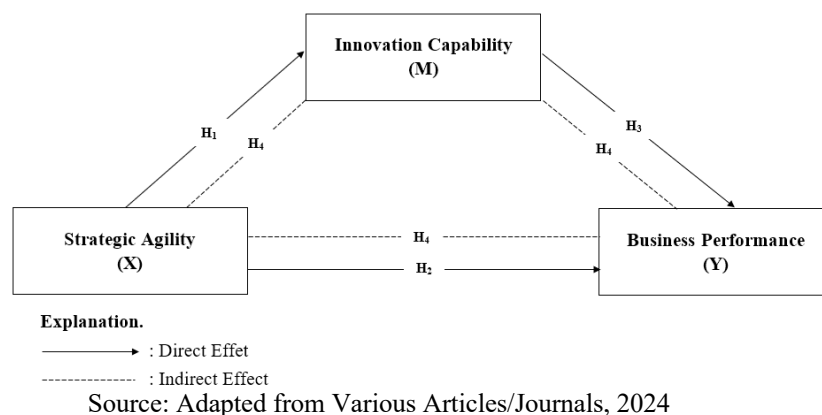
1. What is the level of strategic agility, innovation capability, and business performance of MSMEs in the food and beverage sector in Cimahi City?
2. Does strategic agility affect the innovation capability of MSMEs in the food and beverage sector in Cimahi City?
3. Does strategic agility affect the business performance of MSMEs in the food and beverage sector in Cimahi City?
4. Does innovation capability affect the business performance of MSMEs in the food and beverage sector in Cimahi City?
5. Does innovation capability mediate the effect of strategic agility on the business performance of MSMEs in the food and beverage sector in Cimahi City?

METHOD

In this study, the author employs a descriptive-verificative research type with a quantitative approach. The data sources used in this research include primary data collected through direct research methods such as interviews, observations, and the distribution of questionnaires to food and beverage MSME operators in Cimahi City. Secondary data is gathered from sources like the number of MSMEs in West Java and the number of MSME actors by sector in Cimahi City.

The population for this study consists of 2,590 food and beverage MSMEs in Cimahi City. Using Slovin's formula for sample calculation, a sample size of 106 MSMEs was determined, with respondents being the owners or managers of the MSMEs. The sampling technique used is probability sampling with cluster sampling, dividing the sample into three regions: Cimahi Utara with 32 MSMEs, Cimahi Selatan with 41 MSMEs, and Cimahi Tengah with 32 MSMEs.

The data analysis techniques used in this study are divided into two categories. First, descriptive data analysis, which describes or outlines a variable based on the results from the collected questionnaires presented in the form of cross-tabulations, and is then interpreted to explain the scores of strategic agility, innovation capability, and business performance. Second, verificative data analysis, which assesses the effects of strategic agility, innovation capability, and business performance, both directly and indirectly, using statistical testing tools such as Structural Equation Modeling (SEM) with a Partial Least Squares (PLS) approach, which includes sub-models such as the outer model and inner model.

Explanation.
⟶ : Direct Effet
----------- : Indirect Effect
Source: Adapted from Various Articles/Journals, 2024
Figure 2. Research Model

From Figure 2. Research Model above, the following research hypotheses can be outlined:.

H_1 : Strategic capability (X) positively affects innovation capability (M).

H₂   : Strategic agility (X) positively affects business performance (Y).
H₃   : Innovation capability (M) positively affects business performance (Y).
H₄   : Strategic agility (X₂) positively affects business performance (Y) though innovation capability (M).

RESULTS AND DISCUSSION
Descriptive Data Analysis
Results of Descriptive Analysis of Business Performance Variable

|		**2.531**		
Very Low	Low	Moderate	High	Very High
954	1.717	2.480	3.244	4.007	4.770
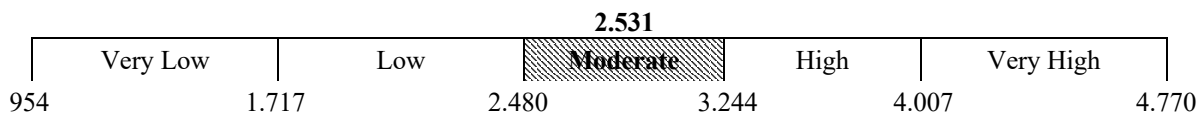
Source : Data processed, 2024
Figure 3. Continuum Line of Business Performance Variable

Based on Figure 3 above, the calculation results shown in the continuum line of the business performance variable are 2.531, which can be categorized as "**Moderate**". This indicates that MSMEs have limited capital, making it challenging for them to expand their market. This is because MSMEs tend to focus on providing more personalized services and tailoring products to customer needs. While this approach allows MSMEs to build closer relationships with their customers, it also limits their ability to reach a broader market and compete with larger companies

**Results of Descriptive Analysis Strategic Agility Variable**

			7.445	
Very Low	Low	Moderate	High	Very High
1908	3434	4961	6487	8014	9540
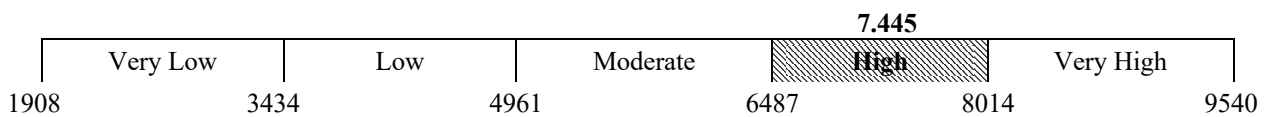
Source : Data processed, 2024
Figure 5. Continuum Line Strategic Agility Variable

Based on Figure 5 above, the calculation results shown in the continuum line of the strategic agility variable are 7.445, which can be categorized as "**High**". This indicates that MSMEs are capable of quickly adjusting their business strategies to seize new opportunities, address competitive challenges, and optimize their marketing strategies

Results of Descriptive Analysis Innovation Capability Variable

		8.647		
Very Low	Low	Moderate	High	Very High
2.544	4.579	6.614	8.650	10.685	12.720
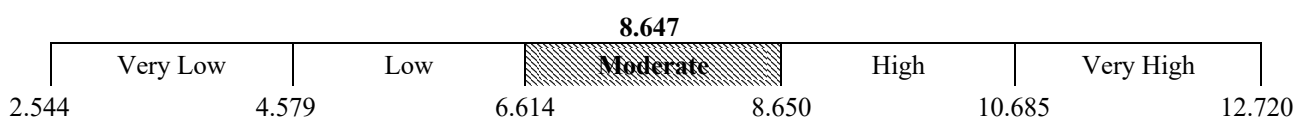
Source : Data processed, 2024
Figure 6. Continuum Line Innovation Capability Variable

Based on Figure 6 above, the calculation results shown in the continuum line of the innovation capability variable are 8.647, which can be categorized as "**Moderate**". This indicates that MSMEs still face limitations in resources, both financial and human, which hinder their ability to innovate. As a result, the innovations undertaken by MSMEs are more focused on adjusting existing products or adding new variants rather than developing entirely new products. This suggests that although MSMEs are capable of innovating, they do not yet

have the capacity to create products that are significantly different from their previous offerings.

Results of Verificative Analysis
Measurement Model Evaluation (Outer Model)
Convergent Validity
The following are the loading factor values for each indicator of the variables business performance, intellectual capital, strategic agility, and innovation capability.
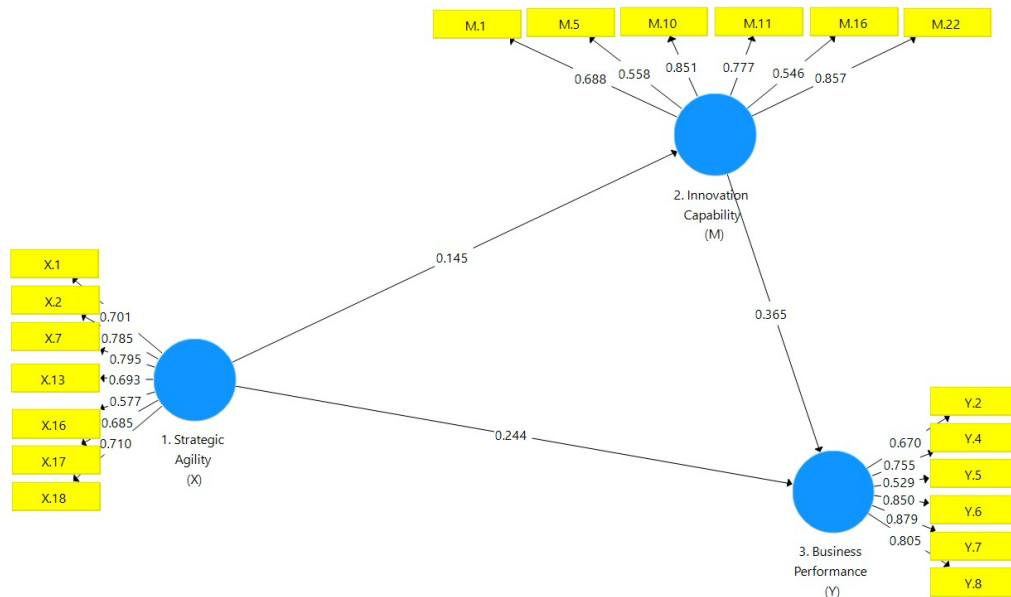
Source : Data processed, 2024
Figure 7. Loading Factor Values

In Figure 7 above, it is noted that the indicators X1, X2, X7, X13, X16, X17, X18, M1, M5, M10, M11, M16, M22, Y2, Y4, Y5, Y6, Y7, and Y8 have loading factors ≥ 0.50. This means that these indicators adequately explain the variance of each of their respective indicators, and therefore, they should be retained.

Next, for convergent validity of each variable, the Average Variance Extracted (AVE) value should be examined. Below are the AVE values for each variable.

Table 2. AVE Values

Construct	AVE Values
Strategic Agility (X)	0,503
Innovation Capability (M)	0,524
Business Performance (Y)	0,574

Source : Data processed, 2024

In Table 2 above, it can be seen that the AVE values for each indicator are ≥ 0.50, meaning that each variable meets the criteria for convergent validity, where a latent variable can explain 50% or more of the variance of its indicators.

Dicriminant Validity
Below are the Fornell-Larcker Criterion (FLC) values

Table 3. Fornell-Larcker Criterion Value

Construct	Strategic Agility (X)	Innovation Capability (M)	Business Performance (Y)
Strategic Agility (X)	0,709		
Innovation Capability (M)	0,145	0,724	
Business Performance (Y)	0,297	0,401	0,757

Source : Data processed, 2024

Based on Table 3 above, it can be observed that the Fornell-Larcker criterion correlation values between constructs are higher than those of other constructs, indicating that the discriminant validity is good or can be considered acceptable.

Furthermore, discriminant validity can also be assessed using the Heterotrait-Monotrait (HTMT) ratio. The HTMT values in this study are as follows:

Table 4. Heterotrait-Monotrait Value

Construct	Strategic Agility (X)	Innovation Capability (M)	Business Performance (Y)
Strategic Agility (X)			
Innovation Capability (M)	0,200		
Business Performance (Y)	0,282	0,425	

Source : Data processed, 2024

Based on Table 4 above, it can be seen that the HTMT correlation values are ≤ 0.90, meaning that each variable meets the criteria according to HTMT values and can be considered to have good discriminant validity.

Next, to assess the validity of each indicator, the cross loadings values are examined. Below are the cross loadings values for each indicator in the research variables.

Table 5. *Cross Loadings Value*

Indicator	Strategic Agility (X)	Innovation Capability (M)	Business Performance (Y)
X1	0,701	0,032	0,134
X2	0,785	0,089	0,267
X13	0,693	0,004	0,138
X16	0,577	0,105	0,094
X17	0,685	0,049	0,065
X18	0,710	0,199	0,162
M1	0,059	0,688	0,238
M5	0,205	0,857	0,281
M10	0,110	0,851	0,287
M11	-0.036	0,777	0,277
M16	0,112	0,546	0,300
M22	0,110	0,857	0,281
Y2	0,221	0,194	0,670
Y4	0,100	0,406	0,755
Y5	-0,015	0,041	0,529
Y6	0,259	0,302	0,850
Y7	0,287	0,323	0,879
Y8	0,310	0,349	0,805

Source : Data processed, 2024

Based on Table 5 above, it can be seen that the cross loading values for each indicator are higher on the measured construct compared to other constructs. This indicates that each construct has achieved good discriminant validity, meaning that each construct measures a distinct concept and is therefore deemed suitable for use in subsequent stages of analysis

Indicator Reliability
Below are the Cronbach's alpha and composite reliability values for this study.

Table 6. Cronbach Alpha and Composite Reliability Values

Construct	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Strategic Agility (X)	0,850	0,875	0,503
Innovation Capability (M)	0,808	0,865	0,524
Business Performance (Y)	0,855	0,887	0,574

Source : Data processed, 2024

Based on Table 6 above, it can be seen that all constructs meet the reliability criteria, as indicated by Cronbach's alpha and composite reliability values greater than 0.60. This means that the indicators used effectively measure each construct, or in other words, the four measurement models have good internal consistency

Evaluation of the Structural Model (Inner Model)
Variance Inflation Factor (VIF)
Below is the table showing the VIF estimation results.

Table 7. Variance Inflation Factor Value

Construct	Strategic Agility (X)	Innovation Capability (M)	Business Performance (Y)
Strategic Agility (X)		1,000	1,021
Innovation Capability (M)			1,021
Business Performance (Y)			

Source : Data processed, 2024

Based on Table 7 above, it can be seen that all variance inflation factor (VIF) values are ≤ 5. This indicates that there are no issues with multicollinearity among the latent variables in this research model.

Coefficient of Determination (R^2)
The table below shows the R-square estimation results.

Table 8. Coefficient of Determination (R^2) Values

Construct	R-square
Innovation Capability (M)	0,021
Business Performance (Y)	0,219

Source : Data processed, 2024

Based on Table 8 above, it can be seen that the coefficient of determination (R^2) for innovation capability (M) is 0.021 or 2.10%, and for business performance (Y) is 0.219 or 21.90%. This indicates the contribution of the constructs innovation capability and business performance, which falls into the **"Weak"** category according to Ghozali (2016) interpretation of the R^2 correlation coefficient values. Additionally, from these R^2 values, the Q^2 can also be calculated as follows.

Value $Q^2 = 1- (1-R_1^2) (1-R_2^2)$
$= 1 – (1-0.021) (1-0.219)$
$= 0.2354$
$= 23.54\%$

Based on the Q^2 results, it can be concluded that the relationship between constructs is 23.54%, which represents the direct effect between these constructs. This means that the observed values have been well reconstructed. Therefore, the model has good predictive relevance, as the Q^2 value is greater than zero, indicating that the model has predictive relevance.

Effect Size (f^2)

Below are the effect size (f^2) values as follows.

Table 9. Effect Size (f^2) Values

Construct	Innovation Capability (M)	Business Performance (Y)
Strategic Agility (X)	0,021	0,075
Innovation Capability (M)		0,167

Source : Data processed, 2024

Based on Table 9, it is known that strategic agility (X) has a small effect on on predicting innovation capability (M) with a value of 0.021 $(0.02 \le f^2 \le 0.15)$), while strategic agility (X2) has a small effect on predicting business performance (Y) with a value of 0.075 $(0.02 \le f^2 \le 0.15)$. Additionally, innovation capability (M) has a moderate effect on predicting business performance (Y) with a value of 0.167 $(0.15 \le f^2 \le 0.35)$.

Hypothesis Testing Results

The results of the bootstrapping process, which was performed with 5,000 resamples, yield the following loading and t-statistic values.
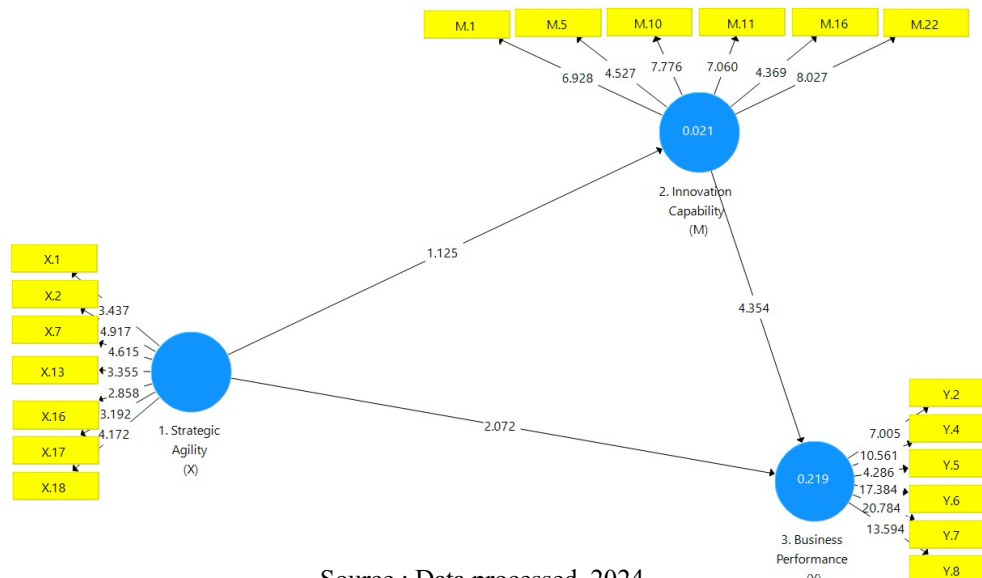
Source : Data processed, 2024
Figure 8. Structural Model & Measurement (PLS Bootstrapping)

Based on Figure 8 above, the research hypotheses can be summarized as follows:

Table 10. Result of Direct Effect Testing

Hypothesis	Construct	Original	T Statictic	CR	P Value	Research

		Sample (O)	(lo/Stddev)			Hypothesis
H₁	X → M	0,145	1,125		0,261	Rejected
H₂	X → Y	0,244	2,072	1,96	0,038	Accepted
H₃	M → Y	0,365	4,354		0,000	Accepted

Source : Data processed, 2024

Based on Table 10 above, the interpretation is as follows:
1. Strategic Agility (X) does not affect innovation capability (M) with a coefficient of -0.145, a t-value of 1.125 < 1.96, and a significance level of 0.261 > 0.05. This means that Hypothesis 1 (H_1) is rejected. An increase in strategic agility does not influence the SMEs' ability to create new products or develop more efficient processes.
2. Strategic Agility (X) has a significant positive effect on business performance (Y) with a coefficient of 0.244, a t-value of 2.072 > 1.96, and a significance level of 0.038 < 0.05. This means that Hypothesis 2 (H_2) is accepted. This indicates that the organization's ability to adapt quickly to market and business environment changes significantly contributes to improving business performance.
3. Innovation Capability (M) has a significant positive effect on business performance (Y) with a coefficient of 0.365, a t-value of 4.354 > 1.96, and a significance level of 0.000 < 0.05. This means that Hypothesis 3 (H_3) is accepted. This indicates that an increase in innovation capability is significantly related to improved business performance.

The results of innovation capability mediating the effects of intellectual capital and strategic agility on SMEs' business performance are displayed in the following table.

Table 11. Result of Indirect Effect Testing

Hypothesis	Construct	Original Sample (O)	T Statictic (lo/Stddev)	CR	P Value	Research Hypothesis
H4	X → M → Y	0,053	1,070	1,96	0,285	Rejected

Source : Data processed, 2024

Based on Table 11 above, the interpretation is as follows:
1. Innovation capability (M) does not mediate the effect of strategic agility (X**)** on business performance (Y) with a coefficient of 0.053, a t-value of 1.070 < 1.96, and a significance level of 0.285 > 0.05. This means that Hypothesis 4 (H_4) is rejected. This indicates that although strategic agility has a positive effect on business performance, innovation capability does not play a mediating role in this relationship.

Discussion of Research Results
Overview of the Levels of Intellectual Capital, Strategic Agility, Innovation Capability, and Business Performance of SMEs in the Food and Beverage Sector in Cimahi
Based on the descriptive analysis results, the variable business performance is categorized as "**Moderate**". This indicates that SMEs in the food and beverage sector in Cimahi face capital constraints that make it difficult for them to expand their market reach. The strategic agility variable is also categorized as "**High**", indicating that SMEs in this sector have demonstrated the ability to seize new opportunities. Conversely, the innovation capability variable is categorized as "**Moderate**". This suggests that SMEs in the food and beverage sector in Cimahi face resource limitations, both financial and human, which hinder their innovation efforts

The Impact of Strategic Agility on Innovation Capability of SMEs in the Food and Beverage Sector in Cimahi
Based on hypothesis testing, strategic agility's effect on innovation capability has a coefficient of 0.145, a t-value of 1.125 < 1.96, and a significance level of 0.261 > 0.05. This means that Hypothesis 1 (H_1) is rejected. This suggests that strategic agility does not

significantly impact innovation capability. Improvements in strategic agility do not enhance SMEs' ability to create new products or develop more efficient processes. In this context, SMEs in Cimahi's food and beverage sector have not fully integrated principles of strategic agility, such as strategic sensitivity, resource fluidity, and leadership unity, due to limitations in resources, knowledge, and managerial experience. SMEs often have more limited resources compared to larger companies, both financially and technologically. Furthermore, many SME leaders focus on daily operations and may lack experience or training in implementing more complex strategies. This finding aligns with Nurjanah & Napitupulu (2023), which states that strategic agility does not impact innovation capability.

The Impact of Strategic Agility on Business Performance of SMEs in the Food and Beverage Sector in Cimahi

Based on hypothesis testing, the effect of strategic agility on business performance has a coefficient of 0.244, a t-value of 2.072 > 1.96, and a significance level of 0.038 < 0.05. This means that Hypothesis 2 (H_2) is accepted. It indicates that strategic agility positively impacts business performance. The ability to adapt quickly to market and business environment changes allows SME owners and leaders to respond to market shifts, tackle challenges, and seize new opportunities more effectively. This helps SMEs improve operational efficiency, better respond to consumer needs, and implement strategies that align with changing market trends. As a result, business performance improves, as seen in increased profitability, customer satisfaction, and competitive position in the market. This finding is consistent with research by Gerald et al. (2020), AlTaweel & Al-Hawary (2021), Munawar et al. (2022), and Palanisamy, Chelliah, & Muthuveloo (2022).

The Impact of Innovation Capability on Business Performance of SMEs in the Food and Beverage Sector in Cimahi

According to hypothesis testing, the effect of innovation capability on business performance has a coefficient of 0.365, a t-value of 4.354 > 1.96, and a significance level of 0.000 < 0.05. This means that Hypothesis 3 (H_3) is accepted. It indicates that innovation capability positively impacts business performance. With better innovation capability, SME owners and leaders can develop more creative and efficient products and processes and respond more accurately to market needs. This enables them to launch new products that align with consumer preferences, enhance operational efficiency, and keep up with the latest market trends. The result is improved business performance, as seen in sales growth, profitability, and competitiveness, strengthening SMEs' positions in a competitive market. This finding is consistent with research by Mulyana et al., (2024); Budiman et al. (2022) and Hanaysha et al. (2022), which shows that innovation capability significantly impacts business performance.

Innovation Capability Mediates the Effect of Strategic Agility on Business Performance of SMEs in the Food and Beverage Sector in Cimahi

Based on the hypothesis testing results, the mediation effect of innovation capability on the relationship between strategic agility and business performance has a coefficient of -0.053, a t-value of 1.070 < 1.96, and a significance level of 0.285 > 0.05. This means that Hypothesis 4 (H_4) is rejected. In other words, innovation capability does not mediate the effect of strategic agility on business performance. This indicates that although strategic agility has a positive effect on business performance, innovation capability does not play a mediating role in this relationship. The suboptimal application of strategic agility principles hinders SMEs from adapting and responding quickly to market changes. When agility principles such as flexibility and responsiveness are not well integrated, the potential for

innovation is limited, preventing innovation capability from developing effectively. This finding aligns with research by Munawar et al. (2022) and Suriyanti et al. (2023), which suggests that innovation capability does not mediate the effect of strategic agility on business performance.

CONCLUSION

Based on the research results and discussion, it can be concluded that SMEs in the food and beverage sector in Cimahi City demonstrate business performance in the "**Moderate**" category, reflecting capital limitations that make it challenging for them to expand their market. Additionally, SMEs in this sector also exhibit "**High**" strategic agility, being able to rapidly adjust their business strategies to seize new opportunities and address competitive challenges. However, their innovation capability remains "**Moderate**" due to financial and human resource constraints, leading to innovations that focus more on product adjustments rather than creating entirely new products.

The results of the hypothesis tests are as follows: Hypothesis 1 (H_1) shows that strategic agility does not affect innovation capability. Hypothesis 2 (H_2) reveals that strategic agility has a significant positive effect on business performance. Hypothesis 3 (H_3) demonstrates that innovation capability has a significant positive effect on business performance. And hypothesis 4 (H_4) shows that innovation capability does not mediate the effect of strategic agility on business performance.

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