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**THE MODEL OF INDIVIDUAL PERFORMANCE IMPROVEMENT  
BASED ON STRENGTHENING OF HRM COMPONENTS  
INTERDEPENDENCE AT TOURISM INDUSTRY SMES**

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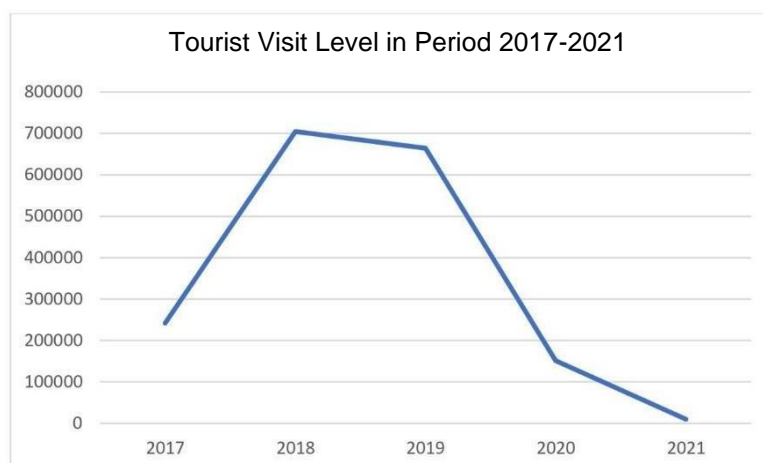
**ABSTRACT**

Tourism industry small and medium enterprises need to be empowered to support the national economy. One proposed solution is improving individual performance of employees at these small and medium enterprises by strengthening the interdependence of three components of human resource management, namely innovative culture, quality of work life, and compensation. By this background, the objective of this research is to construct a model displaying this relationship. The research is done at 440 Tourism Industry SMEs in East Java Province involving 1320 employees as respondents chosen with a two-stage sampling procedure. Several results of research are obtained. Strong innovative culture creates a work environment that provides conditions that improve individual performance. A Highly innovative culture leads to a positive quality of work life. Work environment that allows employee participation and gives fair compensation would surely improve quality of work life. Fair compensation that is compatible with individual contribution would strengthen the relationship of both innovative culture and quality of work life with individual performance. Compensation that respects innovation and contribution of employees could impart better individual performance. All these results imply that individual performance could be improved by strengthening the interdependence of innovative culture, quality of work life and compensation that constitute human resource management.

**Keywords:** Compensation, Human Resource Management, Individual Performance, Innovative Culture, National Economic, Quality of Work Life

**INTRODUCTION**

This research follows up the National Research Master Plan concerning strategies for the empowerment, optimization and development of the tourism industry. As a pillar of national development, the tourism industry exhibits the diversity of cultural and natural uniqueness to satisfy the human needs for traveling. National economy is successfully improved by the tourism industry with a 9% contribution to Gross Domestic Product, which makes the tourism industry as the largest contributor to the foreign exchange (Onwto, 2019). The advancement of the tourism industry provides a great opportunity for the betterment of people's welfare. Business opportunities provided by the tourism industry have been designated by the government as the priority development sector with a capability to produce a remarkable amount of foreign exchange (Kememparkraf, 2019). The President of the Republic of Indonesia, Joko Widodo, has announced that the tourism industry is a leading sector in the development of the national economy. Quantitative paradigm becomes a crucial matter because low tourist visit level could bring a devastating impact on the national economy. Therefore, the reduced level of tourist visit in the period 2017-2021 surely needs a strategic solution. The fluctuation of tourist visits in this period is shown as follows.



**Figure 1.** Tourist Visit Level in Period 2017-2021

Tourist destination perspective is used in this research as the frame for the proposed strategic solution against the declining trend in tourist visit. And, this solution would later be the success indicator of the national development program on sustainable tourism. The most suitable paradigm to implement this solution is the empowerment of Tourism Industry Small and Medium Enterprises (hereafter written as Tourism Industry SMEs). On the other hand, the Government of Indonesia has convinced Indonesian citizens to optimize tourist destinations nearby their residences. What the citizens do for this optimization facilitates the empowerment of Tourism Industry SMEs (Lindiawati et al., 2021). Empowering Tourism Industry SMEs must enter the priority because these SMEs have successfully survived multidimensional crisis in 1998 and global crisis in 2008. With this fact, the Tourism Industry SMEs has become the main contributor to local and national economics (Abdillah, 2016). Being the largest contributor to Gross Domestic Income, indeed, Tourism Industry SMEs need to be empowered because at least, this empowerment gives significant impact on the improvement of livelihood economics for both individual citizens and all Indonesian people. Besides, Tourism Industry SMEs provide jobs to more than 11 millions Indonesian citizens at regency and city levels. Proper integration between human resource management (hereafter written as HRM) components and marketing strategy is proven to be helpful to the empowerment of Tourism Industry SMEs. In addition, as a priority development sector, Tourism Industry SMEs are expected to produce a great amount of foreign exchange and these SMEs are successfully giving a very significant contribution to people welfare by imparting 92.38% contribution to Gross Domestic Product (Fahriyah & Yoseph, 2020). Once again, the interdependence of HRM components underlies any strategy formulated for the improvement of people welfare.

## LITERATURE REVIEW

### Innovative Culture

In the context of this research, innovative culture refers to values, norms, beliefs, and practices applied by SMEs to initiate and create the innovative capacity in various operational and developmental aspects of their business (Kusuma, 2019). Strong innovative culture helps SMEs to be more competitive, more adaptive to any change in the market, and more capable to create added value for the customer. The characteristics of innovative culture in SMEs are as follows: (1) Open for any change. The SMEs with

innovative culture tend to show open posture to any change. Even the SMEs are willing to change their work method and try new approaches in order to be more efficient, more competitive and in high quality; (2) Promoting creativity. Innovative culture convinces employees in SMEs to be more creative in solving problems and thus leads them to generate new ideas. Employees can be given enough time and space to think more creatively, or even be stimulated with intellectual challenges, or be directed towards brainstorming activity and discussion of ideas; (3) Healthy risk taking. Innovative culture respects healthy risk

taking. Entrepreneurs in any SME tend to explore new ideas. Failure is often regarded as an opportunity for learning and improvement; (4) Collaboration and partnership. Any SME is expected to develop collaboration and partnership among team members or across departments, or even with business partners and local community. Through collaboration, various ideas can be combined to create more innovative and effective solutions; (5) Learning and adaptability. The SMEs with innovative cultures respect learning and adaptability. These SMEs are always looking for opportunities to improve their knowledge and skill bases and to keep track of technological advancement and industrial trends in order to be more adaptable to business change; (6) Leadership support. Support from the leaders in SMEs plays an important role in creating innovative culture. Leaders can give their support, resources, and trust to the employees to make them innovative. Any leader that promotes innovative culture and enforces the importance of innovation in achieving business goals usually ends with success (Satyawati, 2019).

On principle, the SMEs can develop innovative culture by allowing employee participation, giving incentive and recognition to innovative contribution, and creating a work environment that stimulates openness, collaboration and creativity.

### **Quality of Work Life**

Quality of Work Life (QWL) is related to conditions and factors that influence employee welfare at the workplace. The opinions given by Michael J. Lawler in Leitão et al (2019) informed that QWL concerns enforcing employee rights, protecting employees from abusive exploitation, and fulfilling the needs for secure work conditions. Based on the opinions of Lynda Gratton in Hermawati (2021), QWL is signified by three matters, namely job flexibility; opportunity to develop skills, diversity and inclusion; and the balance between job demand and personal interest. The indicators of QWL, by the opinions of Cisco (1992) in Hermawati (2016), are as follows: (1) Rewards. This indicator can take the form of salary, bonus, promotion, recognition and other forms that are given to employees as an appreciative gesture for their performance and contribution; (2) Job security. Employees feel secure about their job or at least assured with their job sustainability; (3) Balance between work life and personal life. Employees are able to attain a healthy balance between job responsibility and personal life; (4) Participation and influence. This indicator is about the participation level that employees have in the decision making process that influences their job and also about the influence level that employees have to influence organizational practices and policies; (5) Physical and psychological work environment. This indicator is associated with physical security, comfort, illumination, noise, and psychological support at the workplace; (6) Career growth and development. Employees should be given the opportunity to develop their skill, receive training, enhance their knowledge, and improve their career.

### **Compensation**

Pursuant to the opinions of J. Stacy Adams (1963) in Katidjan et al (2018), compensation focuses on the perception of individual employees concerning the balance or the imbalance between their work contribution and compensation at the work context. Employees usually feel satisfied and motivated after receiving compensation that is compatible with their work contribution. The compensation may take the form of wage, recognition, promotion and career development (Abadi & Renwarin, 2017). When employees' work contribution and compensation are not in the balance, employees surely feel dissatisfied and disappointed but still eager to seek a balance once again. If employees feel that their work contribution is higher than their compensation, then those employees would be dissatisfied or reduce their work contribution or ask for higher compensation. Conversely, if employees feel that their work contribution is lower than their compensation, then those employees would be ashamed, taking the best efforts to increase their work contribution, or giving back some of the compensation (Njoroge et al., 2015).

### **Individual Performance**

Individual performance represents the level of achievement, outcome or contribution made by an individual at the work context. Individual performance is measured by indicators such as goal achievement, productivity, work quality, initiative, collaboration and adaptability. Each indicator is elaborated as follows: (1) Goal achievement. This indicator determines how far the individual is

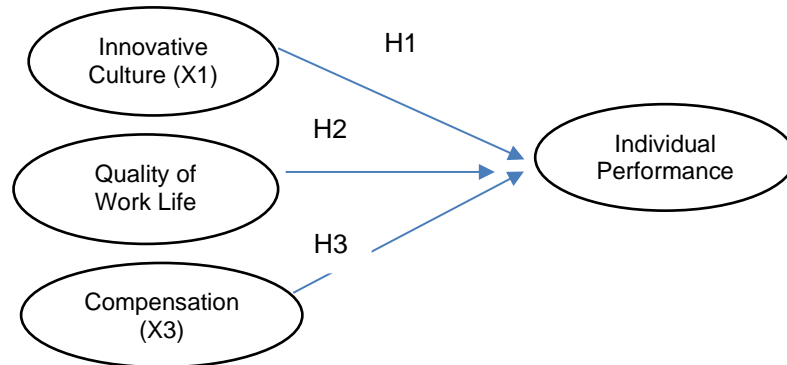
in achieving the goal; (2) Productivity. This indicator is related to the level of production or work output delivered by the individual in the specified work schedule; (3) Work quality. The level of work quality that the individual has is measured by this indicator; (4) Initiative. This indicator explains the level of initiative and proactivity from the individual in making action or improvement at the workplace; (5) Collaboration. This indicator measures the capability of individuals in working with other individuals and giving contribution in a team or a work group; (6) Adaptability. Whether the individual is able to adapt to the change in work environment, job or different situation is measured by this indicator (Suban et al., 2020).

## **RESEARCH METHOD**

The relationship across variables in this research would be analyzed with regression. Research population is all employees at the Tourism Industry SMEs in East Java Province. The number of Tourism Industry SMEs in this research is 440. Three (3) employees are selected from each SME which produces a total of 1320 employees as respondents. Eleven (11) regions in East Java Province are chosen as research location, which include Pacitan, Lumajang, Malang Regency, Batu, Surabaya, Banyuwangi, Blitar, Kediri, Jombang, Ponorogo, and Pasuruan. Sampling technique involves two stages. First stage is selecting cities and regencies in East Java Province that are considered representative in tourism. Second stage is selecting Tourism Industry SMEs in the regions selected in the first stage. This research is the continuance of previous research. The difference is that the previous research focuses on the performance of Tourism Industry SMEs in East Java Province whereas the current research emphasizes on the performance of individuals who work at the Tourism Industry SMEs in East Java Province. Further research would be taken to construct a model regarding the improvement of marketing strategy for the Tourism Industry SMEs in East Java Province, with differentiation between Tourism Industry SMEs affected by and those not affected by the impact of covid-19 pandemic.

**RESULTS**

Regression analysis is conducted to ascertain the effect of HRM components, respectively Innovative Culture (X1), Quality of Work Life (X2), and Compensation (X3), on Individual Performance (Y). The form of the relationship across variables is depicted in Figure 2.



**Figure 2.** Relationship Across Research Variables  
**Source: Researcher, 2023**

The implementation of regression analysis on the relationship across variables in Figure 2 prevails for all regions of research. Total region is eleven which comprises Pacitan, Lumajang, Malang Regency, Batu, Surabaya, Banyuwangi, Blitar, Kediri, Jombang, Ponorogo, and Pasuruan. The result of multigroup regression analysis on the relationship across variables at Tourism Industry SMEs with online marketing is presented in the following table.

**Table 1.** Result of Multigroup Regression Analysis on Relationship Across Variables at Tourism Industry SMEs with Online Marketing

Predictor Variable	Response Variable	Coefficient	p-value	Description
Innovative Culture (X1)	Individual Performance (Y)	0.313	<0.01	Significant
Quality of Work Life (X2)	Individual Performance (Y)	0.368	<0.01	Significant
Compensation (X3)	Individual Performance (Y)	0.353	<0.01	Significant

Source: Processed data, 2023

**Table 2.** Result of Multigroup Regression Analysis on Relationship Across Variables at Tourism Industry SMEs without Online Marketing

Predictor Variable	Response Variable	Coefficient	p-value	Description
Innovative Culture (X1)	Individual Performance (Y)	0.336	<0.01	Significant
Quality of Work Life (X2)	Individual Performance (Y)	0.377	<0.01	Significant
Compensation (X3)	Individual Performance (Y)	0.336	<0.01	Significant

Source: Processed data, 2023

Corresponding to the contents of Table 1, the result shows that the effect of either Innovative Culture (X1), Quality of Work Life (X2), or Compensation (X3) on Individual Performance (Y) is significant. This result is confirmed by a p-value that is less than 0.05.

Meanwhile, the result of multigroup regression analysis on the relationship across variables at Tourism Industry SMEs without online marketing is displayed in the table 2. In conformity with the contents of Table 2, the result informs that the effect of either Innovative Culture (X1), Quality of Work Life (X2), or Compensation (X3) on Individual Performance (Y) is also significant. This result is justified by a p-value that is less than 0.05.

## DISCUSSION

Innovative culture has a significant effect on individual performance at the Tourism Industry SMEs in 11 regions in East Java Province. Innovative culture creates a work environment that activates creativity, collaboration and experiment, which later improves individual performance. Strong innovative culture strengthens employees' motivation and engagement at the workplace. When employees discover that the organization is eager to generate new ideas and innovation, these employees tend to be motivated to give their best effort for the job. High level of motivation and engagement is positively related to better individual performance. In addition, innovative culture promotes collaboration and knowledge exchange between individuals in the organization. Through collaboration, the individual learns useful things from their colleagues, shares ideas, and combines their skills. Collaborative relationships may improve employees' capability in completing jobs and delivering output more innovatively. Moreover, innovative culture also stimulates the development of individual skill. Organizations that promote innovation tend to give opportunities for training and development for the employees. By improving individual skill of the employees, organizations may expect that employees become more competent in completing the jobs and later improve their performance (Famiyeh et al., 2018). Strong innovative culture is generally signified by the willingness of an organization to give rewards to any individual with innovative habits and remarkable performance. The rewards could be in the form of recognition, promotion or career development (Yanti & Dahlan, 2017). Such rewards can motivate the individual to be more innovative and more diligent to improve their performance.

Quality of work life has a significant effect on individual performance at the Tourism Industry SMEs in 11 regions in East Java Province. Quality of work life is about work conditions that influence satisfaction, welfare and life quality of the employees. If the quality of work life is good, which is denoted by supportive work environment, organizational justice, balance between workplace and personal life, and employee participation, then job satisfaction of the employees is high. When the employees are highly satisfied with their jobs, these employees would be more motivated to work, have stronger organizational commitment, and have better performance. Positive work environment, social support, job autonomy and personal recognition could be helpful to relieve employees from work stress, to make employees more satisfied with their job life, and to improve employees' psychological welfare. Employees who feel happy and satisfied with their job life tend to have better performance at the workplace. Quality of work life also suggests a healthy balance between job responsibility and personal life. Employees who are capable of developing a good balance between job responsibility and personal life are those who feel more satisfied with the job, become more motivated to work, and have better performance. Poor balance

between job responsibility and personal life may cause stress, fatigue, and low performance (Qamari et al., 2020). Better quality of work life involves active participation of employees in the decision making process that influences their jobs. Participation and engagement of employees in such a process would improve their sense of belonging, their work motivation, and thus their individual performance. Employees who feel have been included into the decision making process that influences their jobs tend to build stronger sense of responsibility and have better performance (Fatmasari et al., 2018).

Compensation has a significant effect on individual performance at the Tourism Industry SMEs in 11 regions in East Java Province. In the context of this research, compensation could take the form of financial incentive, recognition, opportunity for career development, and other non-material rewards. Fair and reasonable compensation could motivate employees to improve their performance. Employees with high job satisfaction are those with eagerness to increase their work contribution. When employees feel satisfied with their jobs, which is indicated by fair compensation, these employees tend to perform better (Hampton & Hampton, 2004). Proper compensation could strengthen individual commitment to organization. Employees who feel have been recognized and appreciated through proper compensation tend to have stronger emotional bonding with organization, which makes them to be loyal and more contributive to organization. Compensation should be motivating employees to increase productivity and work quality (Hermawati & Mas, 2016). Employees who feel appreciated tend to give more effort and have better performance. Competitive and benefiting compensation could help retain employees with high quality. If high performing employees feel they have been respected and given reasonable compensation, such employees may decide to stay with the organization and develop their skill and competence, which in turn would improve their performance. Equitable and transparent compensation helps build trust in organization and leadership. Trust and perception of employees regarding justice in compensation may contribute to better individual performance (Tonga & Huda, 2018).

## **CONCLUSION**

The research has taken several conclusions. Work environment that supports creativity and collaboration could be created through a strong innovative culture. Such a work environment would then improve job satisfaction and psychological welfare of individual employees. Employees who are satisfied with their jobs and who feel have been mature psychologically are those who have better individual performance. Strong innovative culture produces a better quality of work life. Work environment that supports healthy work conditions, employee participation and fair compensation would develop a better quality of work life. Fair and reasonable compensation that is compatible with individual contribution would strengthen the relationship of both innovative culture and quality of work life with individual performance. Compensation that motivates and appreciates innovation and contribution of employees could lead to better individual performance.

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