

## Unleashing the Potential: An Integrated Analysis of Human Resource and Marketing Strategies in Empowering East Java's Tourism SMEs

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### Abstract

This study examines the implementation of human resource management (HRM) and marketing strategies in small and medium-sized enterprises (SMEs) within East Java's tourism sector. The imperative for examination arises from the observation that tourism SMEs in Indonesia have not yet fully regained their pre-COVID-19 pandemic level of recovery. There is also a lack of holistic research of HRM and marketing strategies implementation in SMEs in the tourism sector in East Java. The research involves 1320 respondents from 440 tourism SMEs and utilizes the Path Analysis method. The findings highlight significant relationships between spiritual marketing, innovation culture, quality of work life, and rewards within SMEs. These factors positively influence the market orientation of SMEs, facilitating the development of products and services that meet market demands, enhance customer experiences, and foster competitive advantage. Additionally, the study reveals that the interplay of spiritual marketing, innovation culture, quality of work life, and rewards directly impacts individual performance, consequently leading to enhanced overall SME performance, as measured by marketing performance. This research contributes to the existing body of knowledge in business research, offering valuable insights into the current dynamics of tourism SMEs in the region. Moreover, it provides strategic solutions to address the decline in tourist arrivals post the COVID-19 pandemic.

**Keywords** *spiritual marketing, innovation culture, quality of work life, rewards, market orientation, individual performance, competitive advantage, marketing performance*

### INTRODUCTION

The tourism industry has played a pivotal role in advancing the economy and has significantly contributed to the Gross Domestic Product, accounting for approximately 9% (ONWTO, 2019), making it the largest foreign exchange earner for the country. In light of this, the government has recognized the business opportunities in the tourism industry and has designated it as a priority development sector (Kememparkraf, 2019). Therefore, the paradigm concerning the recovery of tourist arrivals post the COVID-19 pandemic has become a critical consideration. The decline in tourist arrivals observed from 2017 to 2021, coupled with the sluggish recovery of those numbers until 2023, presents a serious phenomenon that requires strategic solutions.

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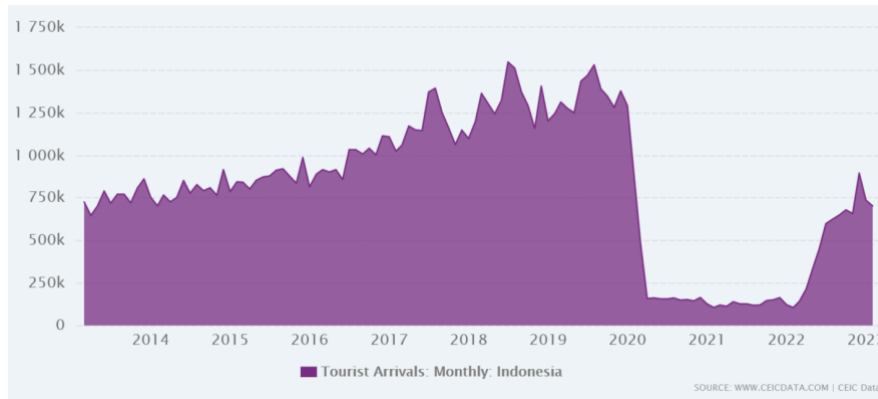


Figure 1. The tourist arrivals from 2017 to 2023 have not shown a significant recovery.  
Source: ceicdata.com

The small and medium-sized enterprises (SMEs) in the tourism sector play a vital role as indicators of the success of the national tourism development program. SMEs have proven to be a strong pillar in facing multidimensional crises in 1998, the global crisis in 2008, and even the COVID-19 pandemic crisis. In terms of its economic contribution, the tourism industry, predominantly led by SMEs, has emerged as the largest contributor to the country's Gross Domestic Product (GDP), reaching up to 92.38% (Fahriyah & Yoseph, 2020). The Indonesian government has also provided opportunities for community participation in optimizing the potential of tourist destinations through the empowerment of SMEs in the tourism industry (Lindiawati et al., 2021). Hence, empowering sustainable SMEs in the tourism industry becomes a crucial strategy to pursue.

In facing these challenges, the optimization of management strategies in the realm of Human Resource Management (HRM) becomes essential. This is supported by research findings, which indicate that the use of human resource practices positively contributes to sustained competitive advantage (Sheehan, 2014). Moreover, collaboration in formulating integrated marketing strategies is also a key to success. A well-crafted approach in this regard will aid in achieving continuous development and strengthening for SMEs in the tourism industry (Kasemsap, 2015).

Regarding these matters, this research is based on the National Research Master Plan by Hermawati (2023). Thus, this study aims to address the research gap, which is the lack of a holistic investigation into the implementation of HRM and marketing strategies in SMEs in the tourism sector in East Java. This research gap arises due to the existing studies that have either focused solely on HRM or marketing, conducted in different industries, or carried out in different locations.

After carefully considering the phenomena and research gap, this study has objectives to examine the magnitude and direction of the influence of marketing and HRM-related aspect (spiritual marketing, innovation culture, quality of work life, and rewards) on marketing success (market orientation, individual performance, competitive advantage, and marketing performance.) This research is conducted in a new and specific context, focusing on tourism SMEs in East Java, which proves beneficial in avoiding theoretical generalizations and also beneficial for the subject, strategically. By adopting this approach, the study seeks to provide a more nuanced and tailored understanding of the interrelationships among the mentioned variables within the unique setting of tourism SMEs in the region.

## LITERATURE REVIEW

Spiritual Marketing refers to a marketing approach that emphasizes spiritual values, fairness, and business ethics. Spiritual marketing can help create a positive image, build customer trust, and enhance customer satisfaction (Dewi et al., 2018). When SMEs adopt spiritual marketing principles, it can strengthen customer relationships and cultivate a loyal customer base (Chawla & Guda, 2017).

Innovation Culture pertains to a work environment where innovation is encouraged, valued, and actively implemented. In the context of SMEs, an innovation culture plays a crucial role in fostering creativity and the development of new ideas (Kusuma, 2019). With a strong innovation culture, SMEs can create unique products and services, follow market trends, and remain relevant in business competition (Hermawati, 2018).

Quality of Work Life relates to the working conditions that affect employee satisfaction, well-being, and productivity. SMEs that prioritize Quality of Work Life pay attention to factors such as a comfortable work environment, work-life balance, career development opportunities, and employee participation in decision-making. When employees feel satisfied and supported in the workplace, they are more likely to be dedicated, creative, and contribute positively to their workplace (Martin et al., 2020).

Rewards refer to financial and non-financial compensation given to employees as a reward for their performance. Fair and adequate rewards can motivate SME employees to achieve better results and contribute maximally. Good rewards can also help SMEs retain and attract qualified employees (Satyawati, 2019).

The influence of independent variables on business is measured by four variables: market orientation, individual performance, competitive advantage, and marketing performance. Market orientation is perceived as commercial opportunities that reflect the extent to which a company creates satisfaction by meeting the needs and desires of customers as the organizing principle within the company, requiring adaptability and efficiency, occurring on different levels of aggregation in the economy, and subject to macro-economic changes, allowing greater scope for business decisions (Eriksson et al., 1991).

Individual performance represents the qualitative and quantitative output achieved by an individual in fulfilling their responsibilities (Neal et al., 1999). Competitive advantage is the capability acquired through the characteristics and resources of a company to achieve higher performance compared to other companies in the same industry or market (Porter, 1985). Additionally, the outcome measures represented by marketing performance are measured using a three-item scale, encompassing good sales growth compared to previous years, higher growth than competitors, and high profitability resulting from both (Menon et al., 1999).

## **METHODOLOGY**

### **Research Method**

This study is a cross-sectional descriptive research conducted in the context of the tourism SMEs in East Java. The population of this research comprises all employees working in these SMEs. The sample size consists of 440 tourism SMEs, with three employees selected from each SME, resulting in a total of 1320 respondents. The research was applied in 11 regions across East Java, including Pacitan, Lumajang, Malang Regency, Batu, Surabaya, Banyuwangi, Blitar, Kediri, Jombang, Ponorogo, and Pasuruan. The sampling process involved two stages: 1) First, the selection of cities and regencies that represent the entire tourism conditions in East Java, and 2) Second, the identification of tourism SMEs within the designated regions.

To analyze the collected sample, the research utilized the Path Analysis method. This approach allowed for a comprehensive examination of the relationships and influences among the variables related to marketing and HRM within the context of the tourism SMEs in East Java. Through this descriptive research and employing the Path Analysis method, the study aimed to provide valuable insights into the current state and dynamics of the tourism SMEs in the region, thus contributing to the body of knowledge in the field of business research.

Broadly, this research is a continuation from the previous year's study, which involved the identification of the performance of tourism SMEs in East Java. In the current year, the focus is on creating a model that determines the factors contributing to the success of marketing strategies in

these tourism SMEs. The plan for the ongoing year is to develop a model that enhances marketing strategies for tourism SMEs and establish a separate model specifically tailored to those impacted by the COVID-19 pandemic and those unaffected by it.

The sequential nature of this research allows for a deeper understanding of the intricacies and challenges faced by tourism SMEs in East Java. By building upon the prior year's findings, this study aims to create a comprehensive framework that elucidates the key determinants of marketing success for these SMEs in the dynamic and evolving landscape of the tourism industry. Furthermore, the development of distinct models for SMEs impacted by the pandemic and those operating under normal conditions ensures a more nuanced analysis of the varying factors affecting their marketing strategies. Ultimately, this research endeavors to offer valuable insights and practical implications for the effective management and strategic planning of tourism SMEs in the ever-changing business environment.

### FINDING AND DISCUSSION

Based on the defined variables as described, each follows a reflective indicator model. In this regard, the measurement model evaluation is conducted by examining the indicator loading values, as presented in Table 1 below. Loadings on each indicator can take positive or negative values in shaping the respective variables. Additionally, an indicator can be considered significant if its p-value is not greater than 0.05.

Table 1. Measurement Model Results

| Variable                    | Indicator                            | Weight | P-value | Conclusion  |
|-----------------------------|--------------------------------------|--------|---------|-------------|
| Spiritual Marketing (X1)    | Thesis (X1.1)                        | 0.757  | <0.001  | Significant |
|                             | Ethics (X1.2)                        | 0.765  | <0.001  | Significant |
|                             | Realism (X1.3)                       | 0.774  | <0.001  | Significant |
|                             | Humanity (X1.4)                      | 0.757  | <0.001  | Significant |
| Innovation Culture (X2)     | Creativity (X2.1)                    | 0.793  | <0.001  | Significant |
|                             | Risk-taking (X2.2)                   | 0.783  | <0.001  | Significant |
|                             | Team Collaboration (X2.3)            | 0.794  | <0.001  | Significant |
| Quality of Work Life (X3)   | Employee Participation (X3.1)        | 0.739  | <0.001  | Significant |
|                             | Conflict Resolution (X3.2)           | 0.740  | <0.001  | Significant |
|                             | Communication (X3.3)                 | 0.721  | <0.001  | Significant |
|                             | Workplace Health (X3.4)              | 0.732  | <0.001  | Significant |
|                             | Workplace Safety (X3.5)              | 0.718  | <0.001  | Significant |
|                             | Workplace Security (X3.6)            | 0.725  | <0.001  | Significant |
|                             | Fair Compensation (X3.7)             | 0.718  | <0.001  | Significant |
|                             | Pride (X3.8)                         | 0.728  | <0.001  | Significant |
|                             | Career Development (X3.9)            | 0.721  | <0.001  | Significant |
| Rewards (X4)                | Fairness Perception (X4.1)           | 0.787  | <0.001  | Significant |
|                             | Appreciation Acknowledgment (X4.2)   | 0.799  | <0.001  | Significant |
|                             | Favorable Job (X4.3)                 | 0.793  | <0.001  | Significant |
| Market Orientation (Y1)     | Customer Orientation (Y1.1)          | 0.780  | <0.001  | Significant |
|                             | Competitor Orientation (Y1.2)        | 0.786  | <0.001  | Significant |
|                             | Cross-Functional Coordination (Y1.3) | 0.793  | <0.001  | Significant |
| Individual Performance (Y2) | Quality (Y2.1)                       | 0.714  | <0.001  | Significant |
|                             | Quantity (Y2.2)                      | 0.726  | <0.001  | Significant |
|                             | Timeliness (Y2.3)                    | 0.614  | <0.001  | Significant |
|                             | Effectiveness (Y2.4)                 | 0.767  | <0.001  | Significant |
|                             | Independence (Y2.5)                  | 0.770  | <0.001  | Significant |

|                            |                              |       |        |             |
|----------------------------|------------------------------|-------|--------|-------------|
| Competitive Advantage (Y3) | Competitive Pricing (Y3.1)   | 0.743 | <0.001 | Significant |
|                            | Management Capability (Y3.2) | 0.751 | <0.001 | Significant |
|                            | Profitability (Y3.3)         | 0.748 | <0.001 | Significant |
|                            | Position (Y3.4)              | 0.744 | <0.001 | Significant |
|                            | Strategic Location (Y3.5)    | 0.730 | <0.001 | Significant |
| Marketing Performance (Y4) | Sales Volume (Y4.1)          | 0.797 | <0.001 | Significant |
|                            | Customer Growth (Y4.2)       | 0.786 | <0.001 | Significant |
|                            | Profitability (Y4.3)         | 0.786 | <0.001 | Significant |

Source: Processed research data (2023)

Furthermore, hypothesis testing on the inner model aims to examine the partial direct effects between exogenous variables and endogenous variables, as well as the effects between endogenous variables within each path. The results of hypothesis testing on the inner model are presented in Table 2, showcasing the path coefficient values and corresponding p-values.

Table 2. Path Coefficient

| Predictor Variable        | Response Variable           | Path Coefficient | p-value | Conclusion  |
|---------------------------|-----------------------------|------------------|---------|-------------|
| Spiritual Marketing (X1)  | Market Orientation (Y1)     | 0,36             | <0,001  | Significant |
| Innovation Culture (X2)   | Market Orientation (Y1)     | 0,351            | <0,001  | Significant |
| Quality of Work Life (X3) | Market Orientation (Y1)     | 0,352            | <0,001  | Significant |
| Rewards (X4)              | Market Orientation (Y1)     | 0,347            | <0,001  | Significant |
| Spiritual Marketing (X1)  | Individual Performance (Y2) | 0,35             | <0,001  | Significant |
| Innovation Culture (X2)   | Individual Performance (Y2) | 0,357            | <0,001  | Significant |
| Quality of Work Life (X3) | Individual Performance (Y2) | 0,356            | <0,001  | Significant |
| Rewards (X4)              | Individual Performance (Y2) | 0,356            | <0,001  | Significant |
| Spiritual Marketing (X1)  | Competitive Advantage (Y3)  | 0,309            | <0,001  | Significant |
| Innovation Culture (X2)   | Competitive Advantage (Y3)  | 0,318            | <0,001  | Significant |
| Quality of Work Life (X3) | Marketing Performance (Y4)  | 0,42             | <0,001  | Significant |

| Predictor Variable | Response Variable          | Path Coefficient | <i>p-value</i> | Conclusion    |
|--------------------|----------------------------|------------------|----------------|---------------|
| Rewards (X4)       | Marketing Performance (Y4) | 0,052            | 0,134          | Insignificant |

Source: Processed research data (2023)

Based on Table 2, it is evident that there are twelve formed paths. Among them, eleven relationships are significant, specifically the relationships between spiritual marketing, innovation culture, quality of work life, and rewards towards market orientation and individual performance. Additionally, market orientation and individual performance exhibit a significant influence on competitive advantage. Moreover, market orientation has a significant impact on marketing performance as it possesses a  $p\text{-value} \leq 0.05$ . However, there is one non-significant relationship, which is between individual performance and marketing performance, as it has a  $p\text{-value} > 0.05$ . Following that, a multigroup path analysis approach was conducted, and the results revealed different path coefficient values and  $p$ -values. However, despite the variations in these numerical outcomes, the overall conclusions remain consistent. Therefore, it can be inferred that the tested model and hypotheses exhibit the same generalizability within the scope of the sample. This generalizability indicates that the model or hypotheses that have been examined can be applied and are relevant uniformly across all groups within the studied population.

The research findings reveal significant relationships between spiritual marketing, innovation culture, quality of work life, and rewards in the context of Small and Medium Enterprises (SMEs). These factors have an impact on the market orientation of SMEs, indicating that effective implementation of these principles enables SMEs to develop products and services that align with market needs, deliver positive customer experiences, and achieve competitive advantage (Sari & Yasa, 2016).

Furthermore, the study demonstrates that the relationships between spiritual marketing, innovation culture, quality of work life, and rewards, in the context of SMEs, are mutually reinforcing with individual performance. When these factors are effectively applied, employees tend to feel motivated, dedicated, and perform at a high level (Gotteland et al., 2020). This, in turn, has a positive impact on the overall performance of the SMEs.

Moreover, the research indicates that the relationships between spiritual marketing, innovation culture, quality of work life, and rewards in the context of SMEs contribute to enhancing competitive advantage. By adhering to spiritual marketing principles, embracing innovation culture, fostering a high-quality work life, and providing adequate rewards, SMEs can create a distinctive advantage that sets them apart from competitors, attracts customers, retains quality employees, and achieves success in the competitive business environment (Hasyim & Lestari, 2018).

Lastly, the study reveals that the interrelationships between spiritual marketing, innovation culture, quality of work life, and rewards in SMEs also have a positive impact on marketing performance. By adopting spiritual marketing principles, fostering an innovative culture, emphasizing work-life quality, and offering appropriate rewards, SMEs can achieve marketing excellence, increase sales, expand market share, and build strong customer relationships (Matviiets & Kipen, 2021).

In conclusion, the research highlights the importance of spiritual marketing, innovation culture, quality of work life, and rewards in driving various aspects of SMEs' performance. By effectively incorporating these principles, SMEs can not only enhance their market orientation and individual performance but also gain a competitive edge and achieve excellence in their marketing efforts. These findings provide valuable insights and implications for SMEs in optimizing their strategies

and resources to achieve sustainable growth and success in the dynamic business landscape.

### CONCLUSIONS AND FURTHER RESEARCH

Based on this research, it can be deduced that within the context of Small and SMEs, there exist interrelated and mutually influencing connections among spiritual marketing, innovation culture, quality of work life, and rewards. These factors exhibit positive implications for market orientation, individual performance, competitive advantage, and marketing performance. Consequently, the integration and enhancement of these aspects emerge as pivotal drivers for SMEs to achieve success in a competitive marketplace.

It is essential to bear in mind that this research is highly limited in scope to the context of tourism SMEs in East Java. For future research, researchers may adjust the sample's scope to avoid theory generalization. Furthermore, subsequent investigations could explore other response variables to gain insights into the determinants of business success and broader business impacts.

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