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# A Competitive Advantage Strategy Based on Innovative Culture and Quality of Work Life: Evidence from SMEs of the Tourism Industry in Indonesia\*

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## Abstract

The objective of this research is to find out the effect of innovative culture and quality of work life on competitive advantage strategy with the mediation of individual performance. This research is the continuance of previous research conducted by Adya Hermawati with an originality aspect emphasizing a concept comprising innovative culture, quality of work life, and individual performance as factors that control competitive advantage strategy. The research subject is Tourism Industry SMEs. Explanatory research is a research method used in this study, by surveying respondents. The data sources in this research are primary and secondary. Primary data is collected from respondents directly through a questionnaire whereas secondary data are obtained from references that are relevant to research problems. In conformity with this explanation, the type of research data is quantitative data. The results of this research show that: innovative culture has an effect on individual performance, quality of work life affects individual performance, innovative culture has an effect on competitive advantage, quality of work life affects competitive advantage, individual performance has an effect on competitive advantage, innovative culture affects competitive advantage with the mediation of individual performance, and quality of work life affects competitive advantage with the mediation of individual performance.

**Keywords:** Innovative Culture, Quality of Work Life, Individual Performance, Competitive Advantage

**JEL Classification Code:** O15, O32, O35

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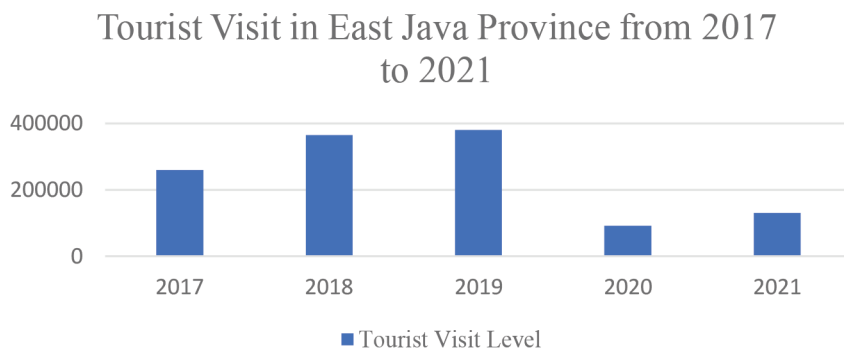
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## 1. Introduction

Competitive advantage determines business viability. In a highly competitive environment, each Tourism Industry SME is required to give attention to their competitive advantage strategy. However, the development of this competitive advantage strategy needs assistance from the government and related institutions (Astuty & Suryana, 2018).

Tourism Industry SMEs are an important factor in Indonesia's economic growth with a significant contribution to the national economy, precisely 9% of *Gross Domestic Product*. Less surprisingly, the development of the tourism industry in East Java Province may surely open opportunities for people's welfare and betterment (Chawla & Guda, 2017). The Indonesian government presumes that Tourism Industry SMEs have a promising business opportunity and therefore, these SMEs shall be given a priority to generate foreign exchange (Lesmana & Sugiarto, 2021). Indeed, Tourism



**Figure 1:** Tourist Visit in East Java Province from 2017 to 2021

Source: bps.co.id

Industry SMEs are then promoted by the Indonesian government as *Leading sectors*. On the other hand, tourist visit is an important paradigm that needs to be taken into account. Tourist visit to East Java Province has declined from 2017 to 2021. One of the reasons is the Covid-19 pandemic that compels the government to delimit many public activities. This decline is depicted in Figure 1.

Strategic solutions are needed to deal with this decline. From a tourism destination perspective, tourist visit is a success indicator for the national economic development program that intends to produce sustainable tourism. The most possible realization of this program is through the empowerment of Tourism Industry SMEs (Hermawati, 2018). Understanding this fact, the Indonesian government starts to believe that the participation of Indonesian citizen in this empowerment initiative is needed to optimize the business potential of Tourism Industry SMEs (Hermawati, 2019).

Being a business sector that has been proven capable to survive multidimensional crises in 1998 and the global crisis in 2008 has given a huge strength to Tourism Industry SMEs. In addition, the presence of Tourism Industry SMEs has actuated and given a strong contribution to local and national economics (Sengupta et al., 2013). So far, Tourism Industry SMEs represent the biggest contributor to Gross Domestic Income. Therefore, the empowerment of Tourism Industry SMEs is needed because these SMEs have a significant impact on economic improvement either for the individual or the whole citizens of Indonesia (Njoroge et al., 2015).

The development of Tourism Industry SMEs is expected to involve innovation with clear guidance concerning factors affecting the improvement of Indonesia's economy. On a matter of employment, Tourism Industry SMEs have contributed more than 11 million jobs for Indonesian people. Seemingly, Tourism Industry SMEs in cities and regencies have set the proper marketing strategy which has successfully

scaled up their business. The optimization of Innovative Culture and Quality of Work Life has collaborated with the Competitive Advantage Strategy in a proper integration. This arrangement seems powerful for empowering Tourism Industry SMEs to be a priority development sector with the assignment to produce as much as possible foreign exchange (Lesmana & Sugiarto, 2021). A quite significant contribution to Gross Domestic Product, which is precisely 92.38%, supposes to be a less deniable proof of the role of the tourism industry (Kememparkraf, 2019). Therefore, integration with a competitive advantage strategy is needed for implementing and achieving the empowerment initiative.

The Covid-19 pandemic has once impelled Tourism Industry SMEs to suffer economic drawbacks. In East Java Province, Tourism industry SMEs survive the suffering by giving attention to the change in consumer taste and the phenomena that occur around the Covid-19 pandemic. Competitive advantage is needed to keep the consumer and the tourists visiting tourist destinations in East Java Province. By taking into consideration all statements above, this research is focusing on the innovative culture, quality of work life, individual performance, and competitive advantage of Tourism Industry SMEs in 11 (eleven) regions in East Java Province. The authors convince that this focus will help the reader to understand the aspects that contribute to and actuate local economy in East Java Province, which can add or give birth to Tourism Industry SMEs.

## 2. Literature Review

### 2.1. Innovative Culture

According to Wallach (Cimbaljević et al., 2019), innovative culture is a culture that adores challenge, risk, and creativity. An innovative culture is a concept

worshipped by individuals who love working at a company that exploits creativity. Such a company is a workplace that provides a mix of challenge, entrepreneurship, risk-taking, creativity, and result orientation. Innovative culture urges the employees to be creative, precisely to create something new and genuine that will give them a moment of appreciation. According to the opinion of Robbins et al. (2018), innovative culture is defined as a multidimensional concept comprising 4 (four) dimensions, respectively intention for innovation, infrastructure that supports innovation, behavior at the operational level that affects innovative culture, and organizational value, and environment that respects innovation. Product innovation is one of the innovation types in addition to process innovation, organizational innovation, and business innovation. Product innovation is defined as a new product (goods or service) that is brought to the market to fulfill the demand (Bare et al., 2020). There are 3 (three) characteristics of product innovation, namely product advantage, product cost, and product credibility. Product innovation is innovation used in all corporate operations in which a new product is developed and brought to the market, including innovation on the function or utilization of the product (Sampaio et al., 2018).

## **2.2. Quality of Work Life**

Robbins et al. (2018) defined quality of work life as one of the approaches to a managerial system in coordinating and correlating the potentials of human resources in an organization to fulfill the needs of the organization and organizational members in simultaneous and ongoing ways. Else, quality of work life is a philosophy that the organization managers can use in managing the organization in general and human resources in particular (Hermawati et al., 2021). As a philosophy, quality of work life represents a managerial perspective on humans, workers, and organizations. The main goal of quality of work life is to develop a work environment that is good for employees and production. Meanwhile, the main focus of quality of work life is the work environment, and all work inside the work environment to ensure the proper mix between individuals and technology.

## **2.3. Individual Performance**

Individual performance is the work output of the employees measured by quality and quantity as required by work standards. Individual performance is affected by work attributes, work effort, and organizational support (Siyambalapitiya et al., 2018). Referring to A Dale Timple Ogbeibu et al. (2020), factors influencing individual performance come from internal and external. Internal factor is associated with individual characteristics whereas external factor is from the environment. In the context of

this research, individual performance is the attainment of tasks by the user of information system technology. High performance can only be reached by a combination of efficiency, effectiveness, and quality. In the opinion of Ngoc Su et al. (2021), performance is a description of attainment or implementation levels of a program over activity or policy in realizing the target, goal, vision, and mission of the organization as already stated in strategic plans.

## **2.4. Competitive Advantage**

The capability to offer added value or advantage to consumers, especially tourists in this context, will produce a competitive advantage (Ali & Anwar, 2021; Andrades & Dimanche, 2019; Cimbajević et al., 2019). Competitive advantage is created through activity at industry or market levels that deliver competitive economic value (Haseeb et al., 2019). Also, competitive advantage is a developmental product from the value initiated by the company for the consumer. Competitive advantage enables the company to get a profit higher than average compared to the competitors in the same industry. As said by Porter (Pranita, 2018), competitive advantage is a concept derived from generic strategy. The indicators of competitive advantage include imitability, durability, and ease of imitation. Competitive advantage is the heart of SMEs' performance in the competitive market. Basically, competitive advantage grows from value or benefit that is created by the company for the consumer or buyer. When the SMEs are capable to create competence from one of the three indicators above, then SMEs will get a competitive advantage (Haseeb et al., 2019). The competitive advantage of a company can be known from the competitive position of the company, precisely by analyzing the strength and weaknesses of the company compared to the competitors. In pursuance of the opinion given by Bare et al. (2020), there are 3 (three) strategies that can be used by the company to build competitive advantage, respectively cost excellence, differentiation, and focus.

## **3. Research Methods and Materials**

Following the opinion given by (Arikunto, 2014), the type of this research is explanatory research which is conducted with a survey method. This research is the continuance of previous research carried out by Adya Hermawati. Originality aspect is stressed on a concept that contains innovative culture, quality of work life, and individual performance as factors that control competitive advantage strategy. Based on the considerations concerning research objective, research object, accessibility for data collection, timing efficiency, and cost, therefore, this research is focused on Tourism industry SMEs in East Java Province. Research sample is taken from 11 regions in East Java Province, respectively Pacitan,

Lumajang, Malang, Batu, Surabaya, Banyuwangi, Blitar, Kediri, Jombang, Ponorogo, and Pasuruan. The data source in this research is primary and secondary. Primary data are collected from respondents directly through questionnaires whereas secondary data are obtained from references that are relevant to the research problem. In conformity with this explanation, the type of research data is quantitative data.

The data collection procedure begins with a study on literature, references, and scientific journals that are relevant to the research problem, which then continues to field observation and questionnaire distribution. A questionnaire is given to respondents and anchored on the Likert Scale. A research conceptual model is a diagram that illustrates a set of relationships across factors that impact or generate a condition on the target. The conceptual model of this research is depicted as follows (Figure 2):

A hypothesis is a temporary answer to a research problem in which a research problem is usually formulated in the form of question sentences (Sugiyono, 2015). Several hypotheses are proposed in this research, respectively:

**H1:** Innovative culture significantly affects the individual performance of Tourism Industry SMEs in East Java Province.

**H2:** Quality of work life significantly affects individual performance in Tourism Industry SMEs in East Java Province.

**H3:** Innovative culture significantly affects the competitive advantage of Tourism Industry SMEs in East Java Province.

**H4:** Quality of work life significantly affects the competitive advantage of Tourism Industry SMEs in East Java Province.

**H5:** Individual performance significantly affects the competitive advantage of Tourism Industry SMEs in East Java Province.

**H6:** Innovative culture through individual performance significantly affects the competitive advantage of Tourism Industry SMEs in East Java Province.

**H7:** Quality of work life through individual performance significantly affects the competitive advantage of Tourism Industry SMEs in East Java Province.

## 4. Results and Discussion

### 4.1. Results

A hypothesis test is conducted to explain the direction of a relationship between the independent variable, the mediation variable, and the dependent variable. This test is carried out with path analysis over the conceptual model. The results of path analysis are presented in Table 1.

Based on the contents of the table above, all hypotheses are accepted because the *P*-value of all these hypotheses is less than 0.05.

### 4.2. Discussion

#### 4.2.1. Innovation Culture on Individual Performance

According to this result, innovative culture has a significant effect on individual performance, therefore the first hypothesis is accepted. Innovative culture helps the employees of Tourism Industry SMEs to be creative at least in creating something new and genuine. The creativity of these employees shall be appreciated and also expected to be able to attract tourists and consumers. As already stated by Robbins et al. (2018), innovative culture is a concept made up of 4 (four) dimensions, respectively intention for innovation, infrastructure that supports innovation, behavior at the operational level that affects innovative culture, organizational value, and environment that respects innovation. Strong innovative culture supposes to bring a good impact on individual performance in Tourism Industry SMEs. Tourism Industry SMEs that focus on personal creativity will retain individuals with the capability of reading and creating environmental changes in non-mainstream ways. A creative individual is someone with big

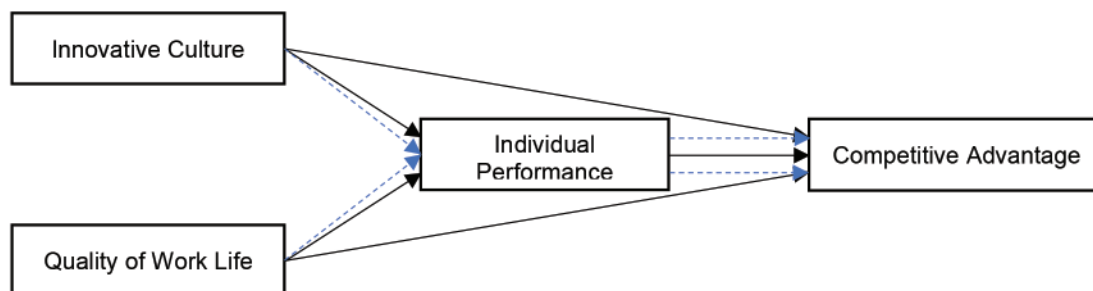


Figure 2: Conceptual Model of Research



**Table 1:** Path Coefficient

Hypothesis	Effect	Original Sample	T-statistic	P-value	Result
H1	Innovative Culture on Individual Performance	0.523	3.344	0.000	Significant
H2	Quality of Work Life on Individual Performance	0.591	3.209	0.000	Significant
H3	Innovative Culture on Competitive Advantage	0.487	3.094	0.005	Significant
H4	Quality of Work Life on Competitive Advantage	0.456	3.637	0.000	Significant
H5	Individual Performance on Competitive Advantage	0.476	3.010	0.000	Significant
H6	Innovative Culture mediated by Individual Performance on Competitive Advantage	0.322	2.653	0.000	Significant
H7	Quality of Work Life mediated by Individual Performance on Competitive Advantage	0.312	2.876	0.000	Significant

ideas at every time of their life. Because not all new ideas can be developed easily and directly accepted by a community, therefore entrepreneurs, which in this research are Tourism Industry SMEs, shall manage and promote the ideas to the community when the community is ready for the innovation offered. However, Muafi et al. (2020) provided empirical evidence that innovation culture has no effect on company performance.

#### 4.2.2. Quality of Work Life and Individual Performance

Based on this result, quality of work life has a significant effect on individual performance, therefore the second hypothesis is accepted. When the employees perceive that their work gives them welfare mentally and physically, then these employees are relatively satisfied, sensing a balance in work life and willing to develop themselves for the sake of their own desire or the attainment of organizational goals. Therefore, when the quality of work life is good, then individual performance in Tourism Industry SMEs is high. Following the statement above, Tourism Industry SMEs shall emphasize the improvement of quality of work life through certain programs to produce the best performance. Tourism Industry SMEs that do not give attention to the quality of work life will find difficulty in hiring or retaining the employees with the expected quality.

#### 4.2.3. Innovative Culture on Competitive Advantage

Pursuant to this result, innovative culture has a significant effect on competitive advantage, and therefore the third hypothesis is accepted. Strong innovative culture can attract customers or tourists to return and make a repurchase. An innovative culture is an internal factor, but the competitive advantage is also needed to be developed through stock completeness, product variation, and any action that

makes the competitors difficult to imitate. An innovative culture is highly influential to competitive advantage. As a consequence, service quality and product variation must be followed up by policies to manage the order at a small or retail scale. This action may help customers or tourists to get and fulfill their needs. In this context, innovation is viewed as a capability of SMEs to adapt to any environmental changes. The market environment encountered by Tourism Industry SMEs has forced the SMEs to consider innovation in operating their businesses. In general, innovation in the tourism industry is controlled by many factors. One factor is the internal factor which includes human capital, creativity, openness, and entrepreneurship, which are needed in contemporary business competition. Another factor is the external factor which takes the form of global issues such as issues on economic, environmental, political, social demography, and technology. These issues represent a macro factor that determines SME innovation in addition to the micro factor that involves consumer taste, competition, and governmental pressure. This is in line with Sijabat et al. (2020), who provided evidence that the competitive advantage of a new business venture in the face of intense competition in a dynamic environment can be overcome by producing strategic actions in the form of entrepreneurial creativity and ambidextrous innovation. New technology is often created to develop new markets. If Tourism Industry SMEs can innovate to exploit this technology, then the SMEs will survive the changes in the industry. The successful innovation in a new market will bring a positive impact on the existing market. Tourism Industry SMEs that introduce innovation to their existing market are always aiming for maintaining their existence in those markets. By focusing innovation on the market that is already served, Tourism Industry SMEs can expect that this action will change the industry at relatively low risk. This innovation is possibly still relying on technology and competence that are previously

possessed but are now used in a better way. Indeed, the main goal of innovation is to improve satisfaction, which surely impacts purchase level and consumer loyalty to the offered products.

#### **4.2.4. Quality of Work Life on Competitive Advantage**

To this result, quality of work life has a significant effect on competitive advantage, therefore the fourth hypothesis is accepted. Economic activity, commonly known as business, shall be understood from the utilization of resources and the capability toward this utilization. The utilization of resources in SMEs needs to be directed toward the development of quality of work life to empower the SMEs in dealing with competitive threats. One example of this action is setting a strategy to prevent the competitors from doing an imitation. There are four dimensions of quality of work life that are considered important to Tourism Industry SMEs, which respectively are work situation, career development, managerial support, and corporate reward. If the quality of work life is failed, employee turnover becomes real. Therefore, Tourism Industry SMEs are required to have a competitive advantage in providing a better quality of work life. Quality of work life can be developed in Tourism Industry SMEs through 2 (two) processes. The first process is the development of quality of work life through work routine. An employee shall learn from their routine to create a better product in terms of quality and sale price. The second process is through individuals who do not have marketing skills but have creative ideas on how the product of Tourism Industry SMEs can be made more attractive, cheaper, and more competitive. After experiencing a better quality of work life, the employees may indirectly feel facilitated in mastering marketing skills. Entrepreneurs are individuals who always have ideas regarding how to serve the market in a better way. Such individuals are often more flexible and more dynamic in developing the product.

#### **4.2.5. Individual Performance on Competitive Advantage**

This result signifies that individual performance has a significant effect on competitive advantage, therefore, the fifth hypothesis is accepted. A high level of individual performance is associated with a high level of competitive advantage. However, optimizing individual performance is not easy. Aspects constitute individual performance. Poor individual performance leads to competitive loss. On the other hand, competitive advantage is created with the availability of human resources, which, therefore, at the same time, ensures that individual performance is a potential source for Tourism Industry SMEs for their business development. Tourism Industry SMEs can improve

individual performance by innovating production processes. This innovation is like opening the door wider to no longer focusing on the efficiency of raw material and labor. Being less innovative in production may put difficult for the business to develop. Rationally, an entrepreneur or an owner never increases their production capacity if there is no expansion or improvement in market absorption capability. In this way, production efficiency can only increase the profit but not the sale. Operationally, individual performance in production is about two aspects of efficiency. The first aspect is technical efficiency, which concerns production factors that must be managed optimally to deliver the expected output. The second aspect is allocative efficiency, which relates to a price adjustment to marginal production cost. By optimizing individual performance, Tourism Industry SMEs will maximize their competitive advantage.

#### **4.2.6. Innovative Culture through Individual Performance on Competitive Advantage**

According to this result, innovative culture has a significant effect on competitive advantage through individual performance, and therefore the sixth hypothesis is accepted. In the context of Tourism Industry SMEs, innovative culture is needed to improve the delivery of existing services because the satisfied customer or tourist assures the increasing income. The innovation may take the form of the effort to make customers or tourists satisfied and then make repeat visits (repurchase). When the variation or innovation offered is more than expected, then there is a bigger chance that customers or tourists will buy the product. Through optimum individual performance, Tourism Industry SMEs can improve competitive advantage over other similar SMEs. The most underlying aspect is that innovative culture is willing to go with the progression. Moreover, being innovative is also denoted as a willingness to use advanced technology to sell the product, which may facilitate the customer who possibly does not have time and energy to go to the SMEs offices. Before making decisions concerning innovative culture development strategy, especially about what Tourism Industry SMEs shall do, several considerations become crucial. The first consideration is the cost needed to buy the new product or the cost of the components needed for product development. A new product may not match market demand or market taste and even differ from the resource owned by SMEs. Indeed, Tourism Industry SMEs must be careful in selecting their production method, whether developing a new product itself or outsourcing the production to other parties. Market dynamics are sometimes misleading. The second consideration is the ability to use production capacity. The third consideration is the time and skill of the managers in handling the development of new products and adjusting the product to market demand and

market taste. Such managerial skill is also related to human resource management. The fourth consideration is the secrecy of the design, material, and production process. Too often, the product of the tourism industry is a tangible product that is easily imitated by competitors. Tourism Industry SMEs must have an idea about how long the time the competitors will take to duplicate the new product launched by the SMEs. The fifth consideration is related to the willingness to take risks for product failure in the market.

#### 4.2.7. Quality of Work Life through Individual Performance on Competitive Advantage

Based on this result, quality of work life has a significant effect on competitive advantage through individual performance. Therefore, the seventh hypothesis is accepted. Human resource is a potential source for the economic viability of SMEs. Quality of work life has close relation with human resources. By having a better quality of work life, the SMEs can apply the managerial system to coordinate and correlate the human resource potentials in the organization to fulfill the needs of the organization and organizational members in simultaneous and ongoing ways. When all aspects of quality of work life are fulfilled, then individual performance will surely improve and help Tourism Industry SMEs to compete. Many entrepreneurs in Tourism Industry SMEs can develop their businesses despite their lack of skill. The authors theorize that the success key in developing the business of Tourism Industry SMEs is not on the skill, but on the good quality of work life. Having a good quality of work life is like giving convenient situations for individuals to be creative and to perform well. These individuals feel having been facilitated to explore new marketing ideas, the ideas become the main key to business development. Indeed, market investigation is not enough for success, but market investigation skill is needed to develop creativity. Marketing skill is often not received specifically from marketing education but obtained naturally from the ability to read market opportunities, to look for information about design and architectural trends, and to be willing to innovate and develop products despite the failure risk. When entrepreneurs or owners of Tourism Industry SMEs are successfully penetrating the market by using advancing technology to sell their products, there is a bigger chance that these entrepreneurs can follow up on market development and create new designs faster than competitors such that these entrepreneurs can act as the first mover in the tourism industry.

## 5. Conclusion

Taking into consideration the results of the test and the discussion, several conclusions have been made which

respectively are innovative culture and quality of work life have a significant effect on the individual performance of Tourism Industry SMEs in East Java Province; innovative culture and quality of work life have a significant effect on competitive advantage on Tourism Industry SMEs in East Java Province; individual performance has a significant effect on competitive advantage on Tourism Industry SMEs in East Java Province; innovative culture through individual performance has a significant effect on competitive advantage on Tourism Industry SMEs in East Java Province; quality of work life through individual performance has a significant effect on competitive advantage on Tourism Industry SMEs in East Java Province.

Tourism Industry SMEs in 11 (eleven) regions of East Java Province are chosen as the subject of research. These SMEs are required to take any strategy needed to develop a competitive advantage due to their vital role in Indonesia's economy. Competitive advantage strategy becomes the yardstick for business development of Tourism Industry SMEs. In regard to the conclusions above, several suggestions are given to the parties related to the tourism industry, which respectively are: 1) tourism Industry SMEs in 11 (eleven) regions need to prioritize competitive advantage strategy based on innovative culture and quality of work life and individual performance. A competitive advantage strategy may also give added value and solutions to the tourists who visit East Java Province, 2) competitive advantage strategy helps Tourism Industry SMEs to survive the competitive dynamic. Therefore, this strategy shall be improved and also set faster. This arrangement must be taken into consideration because faster strategy setting strengthens the existence of SMEs, 3) tourism Industry SMEs shall maintain and improve the aspects underlying innovative culture, quality of work life, and individual performance to increase their competitive advantage, 4) due to the limitation on variable, indicator and sample scope of the current research. Therefore the next research shall make an adjustment to this limitation.

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