



Competitiveness of MSME Products in Tourism Sector to Support Lake Toba as a Super Priority Destination

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Abstract. This study examines the condition of micro small and medium enterprises (MSMEs) human resources in the tourism sector, the implementation of regulations regarding the encouragement of the use of local products, and the condition of MSME partnerships with large scale businesses in the tourism sector. This study is based on the argument that MSMEs not only offer welfare for the community but also become an attraction for tourist destination. This research was conducted with a descriptive qualitative approach with primary and secondary data collection. Primary data collection was carried out through interviews and observations to MSME actors by adhering to strict health protocols. While secondary data is carried out through the collection of documents related to online and offline research studies. The results of this study indicate that (1) Several MSME actors do not yet have qualified human resources which impacted to limited knowledge of access to finance, markets, and permits. In addition to limited access, product distribution has not been optimal and the competitiveness of MSME products in Lake Toba area is still low; (2) The implementation of government policies through regulations in the regions level has not yet been implemented at the action stage; (3) The partnership between MSMEs and large businesses is still not running, which results in the distribution of MSME products not being optimal, a number of conditions are needed in making an agreement. Collaboration is needed through local government programs, and the willingness of MSME actors to explore local potential, in order to have high quality and competitiveness of MSME product and become a driving force for tourist visits. The awareness of all parties in Lake Toba tourist area requires a driving force to improve the local economic.

Keywords: MSMEs · competitiveness · local products · super priority destinations

1 Introduction

Micro small and medium enterprises (MSMEs) have been considered as supporters of tourist destinations and caused many problems among MSME actors. MSME actors experience product quality problems caused by limited human resources and the use of technology, as well as partnership networks that are not yet optimal [1]. MSMEs need regulations that accommodate access in partnership and increase the competitiveness of

MSME products [2]. The contribution of MSME products as supporters of super priority tourist destinations has not been optimal due to low competitiveness.

The relationship between the competitiveness of MSME products and the development of tourist destinations has emerged as a supporter, increasing attraction, and a form of involvement of local community in tourism activities [3]. The trend of the study shows that MSMEs are only positioned as a complement and not a supporter. The competitiveness of MSME products to support the development of tourist destinations is still not well studied.

The MSME sector is an engine of economic growth and job creation for developing countries [4, 5]. Indonesia experienced a significant growth of MSMEs increasing from year to year which was able to increase gross domestic product, although the majority of the management was still home industry [6]. MSME products such as crafts, culinary, and homestay are important as attractiveness, and at the same time can improve the economy of the local community [7]. For this reason, MSMEs surrounding tourist destinations need to have quality competitiveness through local products enhance to attract visitors.

This paper is based on the argument that MSMEs not only offer welfare for the community but also become an attraction for tourist destinations. The development of MSME products requires collaboration with other stakeholders who support each other in their distribution. The existence of MSMEs around destinations has chance to support tourist destinations. Tourists visiting a destination can have products, such as handicrafts as souvenirs. Thus, MSME products must be given the opportunity to grow, and gain benefit to the community and the development of tourist destinations.

This paper aims to examines recent condition of MSME products in Lake Toba which is relied upon as a supporter has not yet been distributed to tourists. MSME actors need collaboration with large-scale businesses to cooperate for distribute product to the wide market. Thus, this paper aims to examine that behind the contribution of MSMEs around Lake Toba as supporting destinations, there are obstacles faced by MSME actors.

2 Literature Review

The condition of MSMEs globally faces challenges due to changes in marketing patterns, the emergence of new businesses, and the criteria for human resource needs in the era of globalization [8]. Marketing of MSME products is not only done offline but has used social media to introduce products to potential consumers [9]. In addition to the challenges that are often faced, MSME actors also experience uncertainty in running their business. The uncertainty experienced by MSMEs is the risks faced when innovating products, regulatory interventions and market access faced by MSME actors [10]. In fact, government programs through regulations and funding must be allocated in accordance with the development needs of MSMEs [2].

MSME products require innovation that is supported by the government as a policy maker and related industries as partners. Innovation is important for MSMEs not only in the final result of the product but also in the processes related to the equipment used [2]. MSME products based on local wisdom have traditional values that can be seen from the production process. However, the push to use technology to speed up production processes and diversify continues. That MSME actors have limitations in

terms of human resources [11] which has an impact on the ability to adopt technology but can be overcome through collaboration and networking with fellow MSME actors [12].

The competitiveness of a tourist destination is very important in showing and maintaining a global market position and at the same time as a promotional medium [3]. So, need the right approach through stakeholder involvement [13], and industrial presence in tourist destinations [14]. Because competitiveness is also an important aspect in developing and promoting a destination [3], and can be built through regulation and planning carried out by stakeholders [13].

The percentage of the number of MSMEs in Indonesia reaches 99,5%, it means that the distribution of MSMEs is the economic strength of Indonesia as a developing country. For this reason, it is necessary to have policies as guidelines in developing MSMEs [2]. The guidelines in question are in the form of capital, assistance, and product quality improvement to compete in the global market. One of the strategies in developing MSMEs is to understand the opportunities and challenges of the MSME product itself [15]. Today, the emergence of e-commerce platforms makes it easier to market products without competing with place ownership like those of big businesses [16, 17].

Regulations governing the development of MSMEs are made to facilitate and improve the quality of MSMEs. However, it becomes a challenge for MSME actors because it has not been socialized evenly to MSME actors [18]. MSMEs as small-scale industries and on the other hand must have quality human resources [19], because MSME services and products are indicators of MSME success [1].

Internal factors such as capital, human resources, regulations, and partnerships [11, 12, 20, 21] faced by MSMEs is a challenge that must be overcome. In addition, external factors that arise due to the Covid-19 virus can be both a threat and an opportunity for MSMEs today [22]. During the Covid-19 crisis period, there was a change in the business model [23] and changes in industrial culture (Kraus et al., 2020). These changes have an impact on the performance of MSMEs which have limited capital with pressure from internal and external.

MSME products that become tourist attractions need to be managed to have added value, it is still a challenge for MSME actors. The role of all stakeholders that still occurs partially must be integrated through a partnership program. Obstacles and solutions in dealing with challenges, both internal and external, must be a priority in handling them. This study focuses on three aspects, namely the quality of MSME, regulations, and partnerships to increase the competitiveness of MSMEs.

3 Methods

This research was conducted in Lake Toba as a super priority destination and focus to MSMEs. This study uses a qualitative approach by conducting interviews with respondents [25]. To describe the topic being researched, namely understanding the characteristics of the condition of the object and research subject, understanding ideas that arise in the field, and assisting in making decisions [26]. In this study, interviews were conducted with MSME actors around Lake Toba who were selected purposively and at the same time made observations on MSMEs around Lake Toba.

Table 1. Interview Guideline

| Interview Guideline | |
|----------------------------|--|
| Quality of MSME | |
| 1 | How is the current business managed? |
| 2 | Are the human resources able to compete in producing products in accordance to the market? |
| 3 | Do you have problems running the business? |
| Regulation | |
| 1 | Does the business have a permit? |
| 2 | Do you have production equipment? |
| 3 | Do you want to be assisted to have permit? |
| Partnership | |
| 1 | How is the partnership system with large scale business? |
| 2 | How to access a wider market? |
| 3 | What are the obstacles faced in partnering? |

Interviews and observations were conducted from May to June 2021 using a purposive sampling technique [27]. Conducting interviews with 10 actors as well as MSME owners. The selection of 10 informants is a representation of MSMEs around Lake Toba with a long operating period of 5 to 20 years.

Primary data collection was carried out through interviews and field observations, which focused on the competitiveness of MSMEs which included three aspects, namely; quality of MSME, regulations, and partnerships. Interviews were conducted with structured interviews by conducting interviews to the informants according to a list of questions that had been compiled according to the focus of research related to the quality of human resources, regulations, and partnerships. Observations were made to confirm that the answers from the informants were in accordance with the facts being faced in the field of study.

Data analysis was carried out by collecting the results of the interviews and then transcribing them to be read and codified. The three aspects that are the focus of this research are the themes that are linked and described. Then, at the final stage interpret according to the meaning of the theme. Stages of data analysis; a) Data reduction. It is a process in which the data obtained are simplified, categorized, b) Data Presentation. After the data is reduced, this stage is carried out to make a selection regarding the relevance of the existing data to the research objectives, c) Conclusion. Conclusions are drawn by comparing the suitability of the statement of the research subject with the meanings contained in the basic concepts in the study. The results of the analysis are themes that are constructed based on the data obtained in accordance to the research focus [28]. The data collected through interviews and observations related to the quality of human resources, regulations, and partnerships were grouped and then reduced according to the research focus.

Air transportation is the most highly regarded mode of transportation among travellers, both for business and pleasure, because it is perceived to be more efficient and effective (1). This occurrence emerges on a global, national, and local scale. According to Statista (2), commercial aircraft carried more than 4.5 billion passengers in 2019 prior to the pandemic. Although it had decreased significantly due to various policies around the world, this travel growth appeared to slowly increase in the post-COVID period, with more than 2.7 billion passengers, or nearly 50% of the period before COVID.

In terms of revenue, this industry had the highest growth in 2019, with a total value of 109.5 billion US dollars. However, the coronavirus outbreak reduced revenue by 47 percent in 2020, to only 58.1 billion US dollars. Statista (2) also reported that prior to the pandemic or in 2019, 59 percent of international tourists travelled by air, 36 percent by land transportation, and only 5 percent by water transportation. As a result, the aviation industry can be considered an important sector, with the ability to directly generate 62.7 million jobs worldwide.

Despite the fact that it was affected by the pandemic and was considered a vulnerable industry. However, due to the enormous growth potential of transportation in the future, this sector has piqued the interest of investors who want to invest in the air transportation industry. This phenomenon is characterized by the recent emergence of Low Cost Carrier (LCC), which is considered to have revolutionized the air transportation industry and is regarded to be the beginning of a period of price competition, particularly in short-haul services (3–6). However, it should be remarked that there are several routes where airline competition does not appear to be competitive (7). As a result, it should be observed that the behaviour of price changes on each flight route may differ (8).

The air transportation industry in Indonesia is highly competitive, with the majority of airlines classified as low-cost carriers (LCC) (9,10). This phenomenon has even earned Soekarno-Hatta Airport the distinction of having the world's eighth busiest flight pattern (11). Meanwhile, four Indonesian flight routes are included in the world's top 26 routeonline version (12), including Jakarta (CGK)-Denpasar (DPS), the world's busiest route No. 10, followed by Jakarta.

4 Result and Discussion

The success of MSMEs cannot be separated from several aspects, namely: the quality of MSMEs, regulations, and partnerships. The quality aspect of MSMEs has an impact on the quality of MSME products and brands. In addition to the human resource aspect, the regulatory aspect is also very important for the certainty of business operations related to the distribution of material and non-material assistance. The third aspect is the partnership of MSMEs with large businesses related to product distribution. The three aspects above will be discussed in the following points. In this study interviewed 10 respondents with a focus on three aspects, namely: MSME quality, regulation, and partnership.

4.1 Quality of MSME

The distribution of MSME products around the super priority destinations of Lake Toba is divided into three categories, namely: craft, culinary, and service products. Based on

Table 2. Informant

| Respondent | SMEs | Years of Production | No. of Employees | Informant's Position |
|------------|----------------------------------|---------------------|------------------|----------------------|
| R1 | Recycled Material Processing | < 5 | < 10 | Owner |
| R2 | Snacks, pastries/wet cakes, food | < 5 | < 10 | Owner |
| R3 | Handmade batik | < 5 | < 10 | Owner |
| R4 | Culinary | > 20 | > 20 | Owner |
| R5 | Samosir's signature dish | < 10 | > 10 | Owner |
| R6 | Andaliman Toba Sambal | < 5 | < 10 | Owner |
| R7 | Broiler chickens | < 5 | < 10 | Owner |
| R8 | T-shirt printing, snacks | < 5 | < 10 | Owner |
| R9 | Clothing, Crafts, and Culinary | < 10 | > 10 | Owner |
| R10 | Toba honey and honey cookies | < 5 | < 10 | Owner |

Source: processed data, 2021

the results of interviews with MSME actors, several important points that emerged were regarding the obstacles faced by MSMEs in developing products, namely limited human resources and capital which had an impact on product quality. The following are the results of interviews with MSME actors:

"We have limitations in entering the market, because in terms of models, we are far behind with large factory production" (R1).

"We manage this business just to survive, the intention to grow is very big but how do we do it?" (R3).

"Production capacity is not yet stable, because consumers are not necessarily there, so if there are buyers in large quantities, we are not ready" (R10).

"Production in large quantities is not possible because it requires large capital, and the most important thing is its continuation" (R7).

"Our products are still not widely known, only around our business location are familiar" (R8).

From the results of the interview above, it shows that the human resource factor is very important in producing quality products. However, for the smooth running of the business, it needs to be supported by sufficient capital and proper management. This is in line with research that the competitiveness of a business must be supported by quality

products, stable finances and proper management [20]. Likewise with research [29] that product innovation is very much needed through product packaging that shows quality.

In addition to product quality, production capacity is also an obstacle for the development of MSMEs around the super priority destinations of Lake Toba. Due to limited capital, the product cannot be made in large quantities. In fact, when partnering with a large business demands a certain amount of production. The development of local products through MSMEs can be an attraction around Lake Toba and at the same time become an added value for tourists when visiting. Because, the existence of industries that support tourism activities can be an attraction for tourists [30]. Based on field observations, it was found that human resources from MSMEs are still not able to innovate in creating products according to market needs. This is in line with the statement from R1 that in terms of models, it has not been able to compete with the products from large-scale businesses.

Limited human resources impact on the quality of production is a serious challenge faced by MSMEs. In addition, local product brands that are still not widely known require the intervention of the government and related stakeholders. If MSMEs have a good human resources, it is certain that they will produce quality products and can compete in a wider market.

4.2 Regulation

Policy decisions arise from the central and local governments. The obstacle that occurs in the field is that information is not conveyed in its entirety to MSME actors which results in not realizing the implementation of existing policies. The following are the results of interviews with MSME actors around Lake Toba.

“We received many invitations for program socialization from the government, there was assistance in the form of production facilities but only that much” (R6)

“Our MSMEs don’t have a business permit yet, how do we do that?” (R8)

“If we apply for government assistance, how do we do it? And we also don’t know whether our MSMEs have been registered or not. But several times was invited and attended meetings, but after that there was no further news” (R4)

“We need certainty regarding the continuation of our business, at least the government facilitates us with large scale businesses, so that we can accommodate our products. (R7)

Implementation of regulations that support the tourism industry is measurable through success [30]. The success in question is that the tourism industry develops through quality products and packaging that can compete in the market. Because, the competitiveness of a destination is supported by the existence of a quality of tourism industry [13]. Many MSMEs realize that it is important to have a permit in running a business, but are constrained by the way it is managed. Whereas regulations exist to facilitate and help SMEs to develop [12, 20].

Based on field observations, it was found that MSME actors did not fully understand regulations, including regulations regarding capital loans from government. One of the

MSME owners said that they did not understand how to apply for a business permit, as well as regulations regarding capital loans (R4, R8). Justification for MSME actors for non-compliance with the regulation must be the concern of all parties, in order to provide solutions.

4.3 Partnership

The partnership pattern of MSMEs with large businesses has become an important issue in increasing the capacity of MSMEs. However, in fact there are still many obstacles faced and no solution has been found in its implementation. The following are the results of interviews with MSME actors around Lake Toba:

“Our products have not been able to enter to large scale business, even though it really accelerates sales” (R1).

“When partnering with a large scale business, there are many conditions that must be met, starting from the quantity, the quality is too picky, and the most difficult is the payment problem. Payment can be three months to six months” (R2).

“It’s not easy to partner with a large scale business, the price is suppressed and too picky, then they don’t want to pay directly” (R5).

“We need buyers, but difficult to access to a wider market” (R9).

MSME partnerships with stakeholders can be demonstrated through a network of sustainable partnerships [31]. MSMEs around Lake Toba must be able to partner with large scale tourism businesses such as hotels, restaurants, and gift shops to accommodate MSME products. The government’s role in facilitating MSMEs to partner with large scale businesses is a manifestation of the implementation of the policy. Entering a wider market is still difficult because it is still controlled by large scale business players. For this reason, the partnership pattern is a solution to MSME products to be known by the market without having capital like large scale businesses.

The Covid-19 pandemic has had a significant impact on the tourism industry [32], the changes to the business model is a challenge for business actors in the era of the Covid-19 crisis that must be overcome through partnerships [23]. This study shows that MSME products are products that are used every day by the community, it means that it has become a necessity that can be measured by the level of consumption. The previous study shows that during the Covid-19 pandemic, the consumption of household needs experienced a significant increase [33].

Based on interviews and field observations, it was found that the system of partnership between MSMEs and large-scale businesses was still very low. According to the statements from R2, R5, R9, it shows that it is very difficult to establish a partnership with a large-scale business because of a number of requirements that must be met. These requirements such as payment system, the amount of production and product quality are main obstacles.

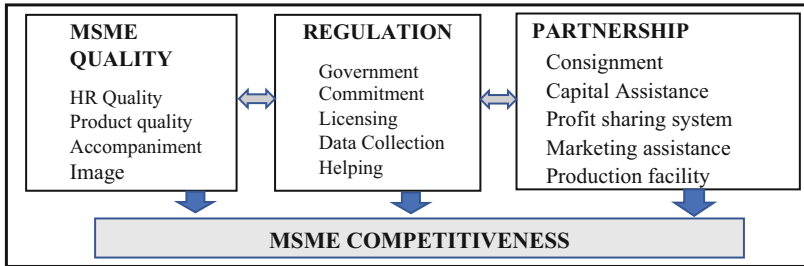


Fig. 1. MSME competitiveness (Source: Data analysis, 2021)

4.4 MSME Competitiveness

The previous study emphasized that most MSMEs experience weaknesses in capital, ability to negotiate, limited information, and limited market access [21]. It takes partisan action for MSME actors, both those identified as having problems and those who have not been identified, to gain opportunities and access to partnerships. The government at the central and regional levels must be the driving force through regulations followed by the implementation of actions. The commitment of large-scale businesses to help MSMEs by providing opportunities to distribute MSME products into business needs or tourist needs. Regulations related to siding with MSMEs through laws and government regulations have clearly regulated the partnership pattern between large businesses and MSMEs. However, it still has not had an impact on MSME actors because of the evaluation of the implementation has not gone well.

MSME products around Lake Toba show diversification and development, but assistance and support from relevant stakeholders is still needed in terms of human resources, regulations, and partnerships. Because the competitiveness of a business must be proven by product quality and proper management [20]. For this reason, the development of MSMEs around destinations can be an attraction for visitors [30], and at the same time as a destination's competitiveness due to the presence of a quality tourism industry [13]. Therefore, the competitiveness of MSME products from tourism sector can be a support in Lake Toba as a super priority destination, if it meets the criteria for the quality of MSMEs, regulations, and partnerships.

5 Conclusion

The quality of MSMEs can be achieved through quality human resources which is realized through quality products. Ownership of business permits and regulations on capital loans for MSME actors need to be implemented through curating MSME products and the government's commitment is required. The MSME partnership system with large-scale businesses requires special attention from the government, enhance the obstacles faced by MSMEs such as the payment system, production capacity, product quality can be resolved through the implementation of regulations. A number of problems faced by MSMEs around Lake Toba have an impact on the expectation that MSME products as a tourist attraction and supporting Lake Toba as a super priority destination are

still not optimal. Collaboration between business actors must be established in order to strengthen the competitiveness of MSMEs, especially during difficult times during the Covid-19 pandemic. MSMEs in the tourism sector around Lake Toba are under pressure due to a decrease of visitors. However, collaboration with related business sectors can reach a wider market by utilizing digital-based technology.

In order to improve the competitiveness of MSMEs, it is necessary to improve the quality of MSMEs, implementation of regulations, and partnership programs between MSMEs and large-scale businesses. In addition, to evaluate program implementation, a transparent evaluation system is needed to ensure that MSMEs in the tourism sector have the opportunity to develop and partnering with large scale businesses. The development of local products, assistance for MSME actors, and MSME partnerships with large scale businesses are required in realizing the implementation of existing regulations.

In order to strengthen the competitiveness of MSMEs, further research can be examined from the perspective of the impact of MSMEs in supporting tourist destinations both from the local community side and from tourists side.

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