



# Small and Medium Enterprises Reinforcement as a Form of Sustainable Tourism Development: A Literature Review

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**Abstract:** Sustainable Tourism Development is a form of tourism that considers its beneficial impact on the environment and local communities. To maintain benefits for the local communities, sustainable development must be integrated with the community's participation as the destination's leading actor. Sustainable development must be able to provide benefits directly to society. One of the ways for people to experience the benefits of tourism is through Small and Medium Enterprises (SMEs). People usually run small and Medium Enterprises (SMEs) from the local communities. The fact that people run Small and Medium Enterprises (SMEs) from local communities needs to be reflected in the benefits felt by the locals. Low competitiveness from the Small and Medium Enterprises (SMEs) may be the problem; however, more studies need to explore this area. This study collects existing literature regarding sustainable tourism development, especially literature regarding the involvement of Small and Medium Enterprises (SMEs) in the community that contribute to tourism activities. This study is a literature study to determine how far this topic has been studied and whether this topic can indeed be continued into a follow-up study that requires further data processing.

**Keywords:** Sustainability, Sustainable Development, Community-Based Tourism, Small and Medium Enterprises.

## 1. Introduction

Sustainable tourism must make optimal use of environmental resources, which are key elements in tourism development, maintain important ecological processes, and help preserve natural heritage and biodiversity (Ardika, 2018). Sustainable tourism should respect the socio-cultural authenticity of host communities, preserve their cultural heritage and traditional values that are built up and alive, and contribute to intercultural understanding and tolerance, while also ensuring viable and long-term economic operations, delivering socio-economic benefits. Economic benefits for all stakeholders that are equitably distributed, including stable employment and income-generating opportunities and social services for host communities, and contribute to poverty alleviation (Ardika, 2018).

Sustainable tourism is a form of tourism development that fully considers its current and future economic, social, and environmental impacts, providing for the needs of visitors, industry, environment and host communities (World Tourism Organization (UNWTO), 2011). Sustainable tourism development is challenging to maintain without support and community participation. Local community support is a good starting point for sustainable tourism development (Zhu et al., 2017). Understanding community support for sustainable tourism development is an important factor in the successful management and marketing of community-based tourism, such support takes the form of nature-based tourism, ecotourism, rural tourism, and heritage sites (Lee, 2013).

From a sustainable development perspective, it can be argued that increasing the benefits for local residents, reducing their costs from tourism, increasing their positive perceptions of and trust in tourism, and inspiring their attachment to the community will help increase their support for tourism development. They may then be more enthusiastic about local policies and tourism development matters and maintaining local resources' sustainability (Zhu et al., 2017). From the community's point of view, their perception of the potential for sustainable tourism development in their particular place is very important for their attitude and behavior. Tourism development potential (TDP) describes the foundation of tourism development and is an assessment to predict tourism development (Elliot, Papadopoulos, & Kim, 2011).

One of the forms of community involvement in tourism is Small and Medium Enterprises (SMEs). A community could feel the direct impact of tourism activities through SMEs. Small and Medium Enterprises (SMEs) play a central role in the economic performance of developing countries. It is considered as the engine of any economy due to its great contributions to the economic growth both in develop and developing countries (Amoah et al., 2023). Small and Medium Enterprises (SMEs) have important role in the economy nowadays through new development of products and the enhancement of entrepreneurial skills (Raouf et al., 2021).

Tourism has a direct impact on local communities through SMEs, and strengthening these SMEs could serve as a means of promoting sustainable tourism development. However, there is a limited number of studies addressing the reinforcement of SMEs as a driver of sustainable tourism development. This study aims to

address this gap by conducting an initial literature review focused on the role of SME reinforcement in promoting sustainable tourism development.

## 2. Methodology

The method used in this study is a literature study. Creswell (2013) states that once the researcher has identified a topic that can and should be studied, a search can be initiated for related literature on that topic. Literature study achieves several objectives, one of which is sharing the results of other studies that are closely related to what is being carried out. This is related to a larger discussion and is still ongoing. Literature studies search and try to summarize various studies on a topic (Creswell, 2013).

## 3. Results and Discussion

The growth of SMEs has contributed positively to strengthening the economy (Knezović et al., 2020), and at the same time, opened up opportunities to absorb labor. However, they still have a small production capacity. Quality of human resources According to Camilleri (2018), one of the obstacles to the development of small and medium enterprises is limited access to financing for business operations. For this reason, financial support is needed from banks, large businesses, and financing institutions, including regulations to make it easy to enter global markets, which is a priority.

Amoah et al. (2023) find the driving factors to the competitive sustainability of SMEs in Ghana, West Africa. Those factors are pricing mechanism, site maintenance, and entrepreneurial competencies (Amoah et al., 2023). Moreover, factors like tourists' contentment, technological adoption, and regulatory environment did not affect the SMEs in Ghana.

Gonzales-Torres et al. (2021) state that the diverse, intersecting, and interdependent nature of tourism products means that companies must create cooperative relationships with various stakeholders in the industry - suppliers, distributors, competitors, governments, and other companies. This is what forms the Tourism Supply Chain. Collaboration is considered a driver for agility, flexibility, and company performance. However, in industries that have coordinated intensively, there are still risks due to the high dependence on the supply chain. (Gonzales-Torres et al., 2021). Based on what was stated by (Gonzales-Torres et al., 2021) the character and variety of tourism products require good cooperation to produce competitive tourism products. Cooperation especially in the supply chain can help increase competitiveness.

Supply Chain is a network of companies involved with various functions of each company, from supplying raw materials to production and shipping products to consumers. (Zhang et al., 2009). Furthermore, according to Zhang et al. (2009), the characteristics of the supply chain are the forward flow of goods and the backward flow of information and consists of several key business processes: customer relationship management, customer service management, demand management, order fulfillment, manufacturing process management, purchasing, product development, and commercialization. The tourism supply chain is a network of tourism service companies involved in a variety of different activities ranging from supplying different components of tourism, such as flights and accommodation to the distribution and marketing of complete tourism products in tourist destinations and involving a wide range of participants in either the public or private sector. (Zhang et al., 2009).

Zhang et al. (2009) identified a variety of areas that need attention to reap the full benefits of the Tourism Supply Chain. Consider the nature and characteristics of the Tourism Supply Chain, which requires coordination. In line with Zhang et al. (2009), Gonzales-Torres et al. (2021) stated while the Tourism Supply Chain is often studied from a global perspective and research on two-group relationships is based solely on service, the contribution from the study results of Gonzales-Torres et al. (2021) Another is the identification of the critical linkages of the two groups that should be managed by tourism service companies – governments, travel operators, and competitors – focusing not only on the provision of tourism services but on the possible economic disruptions that may arise. Understanding the characteristics of tourism products and the tourism industry is essential to identify challenges and realize the success of the Tourism Supply Chain. As part of the global economic sector, tourism has several characteristics that differentiate it from the manufacturing and other major sectors.

Zhang et al. (2009) describe the characteristics of tourism as follows. First, tourism is an industry that requires intensive coordination where different products/services (transportation, accommodation, etc.) are integrated with the form of tourism products. Second, as services cannot be stored for the future, so are tourism products (perishable). Third, tourists must travel to destinations where tourism products are produced. Tourism products usually cannot be tested before the purchase process is carried out, which means that the sale of tourism products depends solely on the presentation and interpretation of the product. For this reason, the tourism industry is an industry that is very information based or can be said to depend on information. Fourth,

tourism products have a complex nature or nature. Generally, tourism products are mixed and heterogeneous, consisting of many different services such as accommodation, transportation, attractions, eating and drinking, and shopping. The tourism industry often faces erratic demand levels and complex dynamics of competition among service providers. Many factors contribute to market uncertainty in terms of demand for tourism products. For example, effective advertising can attract more tourists, and negative word-of-mouth can decrease demand. Economic conditions in tourism-producing countries and regions also play a driving factor, influencing the demand for tourism products in destinations (Zhang et al., 2009).

The government fully supports establishing regulations in developing SMEs (Andriati & Kamello, 2018). The management of SMEs, which are still individual in nature, experience many obstacles both in material and non-material aspects in their development. The non-material aspects faced by SMEs are the readiness of human resources, effective management (Wiesner et al., 2018), and marketing of their products (Chatterjee & Kumar Kar, 2020). Therefore, managerial aspects and the use of technology in developing products for SMEs have become necessary in the operations of competitive small and medium enterprises. In terms of strengthening small and medium businesses, it is inseparable from the capital regulated in regulations (Andriati & Kamello, 2018) to support operational activities and increase production capacity.

The integration of SMEs with large businesses in the tourism sector is necessary for the progress and sustainability of SMEs. However, the implementation requires strengthening in the supply chain sector (Zhang & Song, 2018). The strengthening of the tourism supply chain referred to by Zhang & Song (2018) is the involvement of stakeholders in optimizing the role of both the government as a regulator and other institutions that support small and medium enterprises. The condition of small and medium businesses that experience several limitations must have a variety of innovations to increase production results and the capacity of the small and medium enterprises themselves (Verreynne et al., 2019). Because innovation is evidence of quality human resources and at the same time, opens access to capital from financing institutions (Knezović et al., 2020).

Hulu et al. (2021) found that SMEs in Indonesia, especially in Palembang are limited in terms of human resources, product quality, legal aspects, marketing aspect, and funding. Moreover, Hulu et al. (2021) explain all these limitations cause the SMEs to hardly compete with the professional players in the industry, namely large industries. Products from large industries are more reliable dan dependable.

#### 4. Conclusion

Small and Medium Enterprises (SMEs), when integrated into local communities at tourist destinations, embody a sustainable tourism approach. The empowerment of SMEs holds the potential to foster sustainable tourism development, particularly in a country like Indonesia where such empowerment is greatly needed. Providing support to strengthen SMEs and enhance their competitiveness is also highly recommended. This emphasis on competitiveness is crucial, as SMEs have been shown to make a positive contribution to the economy, with the potential for an even greater impact if they can compete effectively. In summary, there are several aspects that warrant further investigation in subsequent research, one of which is the development of models to enhance the competitiveness of SMEs.

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