

Strategies for Empowering Small and Medium Enterprises to Promote Sustainable Tourism in Tourist Villages: A Systematic Literature Review

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are crucial drivers of sustainable tourism in rural communities, yet their potential is often constrained by structural challenges. This systematic literature review, conducted using the PRISMA protocol covering publications from 2020 to 2025, analyzes empowerment strategies for MSMEs in tourism villages, focusing on Indonesia and the Philippines. The findings reveal that leadership, digital innovation, and capacity development are essential for strengthening economic resilience, environmental preservation, and cultural conservation. Successful cases, such as Ponggok Village (Indonesia) demonstrate how an integrated approach—combining stakeholder collaboration, technology, and training—can enhance operational efficiency and expand market access. However, barriers such as uneven infrastructure, low digital literacy, and dependence on external funding persist, necessitating local policy interventions. This study underscores the need for inclusive governance models that prioritize marginalized groups (e.g., women and rural entrepreneurs) and align with the UN Sustainable Development Goals (SDGs 8, 9, and 11). The limitations of this research include its geographical focus on Southeast Asia and the predominance of short-term case studies. Future research should explore long-term impacts and develop measurable frameworks applicable to diverse socio-economic contexts. This paper contributes to the discourse on inclusive tourism development by providing actionable insights for policymakers, practitioners, and academics to leverage MSMEs as catalysts for sustainable rural transformation.

Keywords: Capacity Building, Digital innovation, MSME empowerment, Rural development, Sustainable tourism **JEL:** O13, Q56, L83, M21, O33

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1. INTRODUCTION

Tourism has become one of the most important economic sectors in Indonesia. It serves as a source of foreign exchange and a driver of sustainable development (Ollivaud & Haxton, 2018; Lesmana et al., 2022). Due to its ability to balance three key pillars: economic growth, environmental conservation, and community empowerment, the concept of sustainable tourism has gained increasing prominence. Within this framework, village tourism has emerged as an ideal model, combining natural resources, culture, and local community participation (Wirdayanti et al., 2021). It offers tourists authentic experiences while providing a platform for micro, small, and medium enterprises (MSMEs) to thrive. MSMEs represent the backbone of Indonesia's economy, contributing 60% to the national Gross Domestic Product (GDP) and employing 97% of the workforce (Setyobudi, 2025). In the tourism sector, MSMEs provide accommodation, culinary services, handicrafts, and other offerings that enrich travel experiences and strengthen local identity. However, inclusive welfare improvement remains a challenge in the broader context of regional development. As Octavia et al.

Vol.29 No.1, June 2025

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(2024) demonstrated, the increase in the Human Development Index (HDI) has contributed to rising income inequality in East Java, indicating that the benefits of development have not been distributed evenly.

Nevertheless, MSMEs hold significant potential to support sustainable tourism in tourist villages, yet various challenges continue to constrain this potential. Low digital literacy poses a significant barrier to SMEs utilizing online marketing platforms. Inadequate infrastructure, including damaged roads and limited internet access, further restricts market access (Aprilani et al., 2023; Dewi et al., 2023; Purnomo, 2025). Additionally, limited capital and weak managerial capacity make it difficult for many MSMEs to compete with larger enterprises (Supardi et al., 2024). Another challenge is the low level of environmental awareness among MSMEs, which reduces the attractiveness of tourist villages as sustainable destinations. In fact, environmentally friendly practices can create added value and appeal to tourists who are increasingly concerned about sustainability issues (Primadona, Rustiarini, and Rismawati 2024).

Empowering MSMEs is therefore essential to overcoming these challenges. Effective strategies include capacity building and digital literacy training to strengthen the business management and online product marketing skills of SME operators (Hendrawan et al., 2024). Collaboration among stakeholders, such as the government, private sector, academic institutions, and local communities, plays a crucial role in accelerating the development of tourism villages by providing access to funding, technology, and broader markets. Furthermore, leveraging digital technologies through ecommerce and social media can expand the marketing reach of MSMEs, while environmentally focused initiatives, such as reducing plastic waste and utilizing local raw materials, can enhance the competitiveness of tourism villages in the eyes of sustainability-conscious tourists (Yusuf, 2023; Setianingsih et al., 2024).

Many studies have discussed micro, small, and medium enterprises (MSMEs) and sustainable tourism separately, but only a few have addressed them together within the context of tourism villages. Critical questions remain regarding the most effective MSME empowerment strategies, how to optimize digital technology amid infrastructure limitations, and the long-term impact of MSME empowerment on tourism village sustainability. To address these gaps, this article employs a systematic literature review (SLR) to analyze empirical findings from related studies. Using a qualitative approach, the study aims to identify effective MSME empowerment strategies, analyze related challenges and solutions, and provide policy recommendations for stakeholders. The findings are expected to serve as a reference for governments in designing empowerment programs and for MSMEs in implementing effective strategies. Additionally, these findings will form the basis for further academic research. Strengthening the role of MSMEs will enhance the attractiveness of tourism villages and establish them as tangible examples of inclusive and sustainable development (Achmad et al., 2023).

MSMEs in tourism villages contribute to GDP and serve as a means to reduce income inequality (SDG 10) by decentralizing economic opportunities from urban to rural areas (Nguyen et al., 2020). However, inequalities in access to resources, such as digital infrastructure and financing, reinforce existing social hierarchies and require targeted interventions (Latif et al., 2023).

2. METHODS

The primary keywords guiding this research are "MSME empowerment," "sustainable tourism," "MSME," and "tourism village." To ensure the findings are relevant and up to date, the publication range was set from January 2020 to June 2025. The United Nations World Tourism Organization's (UNWTO) designation of 2017 as the International Year of Sustainable Tourism for Development marked a significant shift in tourism research by emphasizing the integration of the United Nations Sustainable Development Goals (SDGs) into the tourism sector. Accordingly, this study reviews



literature from 2020 to mid-2025 to capture the evolution of sustainable tourism practices since 2017 (World Travel and Tourism Council, 2017). This includes new themes such as post-pandemic recovery, digital innovation, and climate adaptation. The selected timeframe aligns with the "UNWTO's Journey to 2030," thereby ensuring the relevance of this study to the ongoing global sustainability agenda.

A systematic literature search was conducted using Publish or Perish (version 8) to query the Scopus bibliographic database exclusively. Scopus was chosen for its comprehensive coverage of high-quality, peer-reviewed journals in the social sciences, economics, and tourism. The initial search using the specified keywords yielded over 100 articles. This study employs the Systematic Literature Review (SLR) method, strictly adhering to the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol to ensure a transparent, reproducible, and rigorous literature selection process (Moher et al., 2009). The PRISMA framework was implemented in four stages: identification, screening, eligibility, and inclusion (Haddaway et al. 2022).

Inclusion and exclusion criteria were established prior to the screening to minimize bias. The inclusion criteria were: (1) peer-reviewed journal articles or conference proceedings; (2) published in English or Indonesian language; (3) within the 2020-2025 timeframe; and (4) explicitly discussing empowerment strategies for MSMEs within the context of sustainable tourism or tourism villages. The exclusion criteria were: (1) books, book chapters, and non-academic publications; (2) articles not focused on the tourism sector; (3) studies without accessible full text; and (4) publications whose central theme was not aligned with the research objectives.

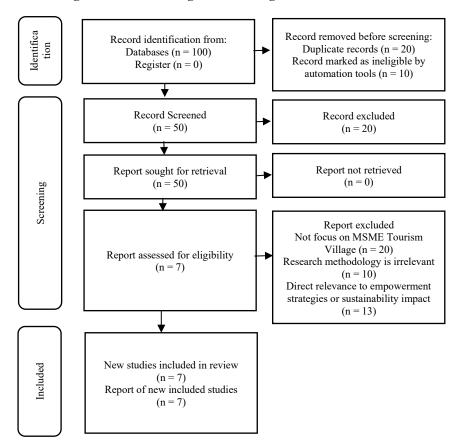


Figure 1. PRISMA Logical Flow Diagram of the SLR

Source: Author data, processed in 2025

Vol.29 No.1, June 2025



Following the initial identification, the retrieved articles underwent a stepwise screening process, with titles and abstracts assessed against the eligibility criteria. In the final stage, a full-text review of the remaining articles was conducted to confirm their suitability for in-depth analysis, resulting in the final corpus of literature included in this review is illustrated in Figure 1.

During the screening stage, articles were evaluated based on their titles and abstracts to determine their relevance. Studies that did not meet the predefined criteria were excluded. In the subsequent phase, the full text of potentially eligible articles were examined in detail to assess their methodological rigor and substantive contribution to MSME empowerment strategies and their impact on sustainable tourism development. The final stage of the selection process identified the articles that met all predetermined quality and relevance criteria, which were then included for indepth analysis.

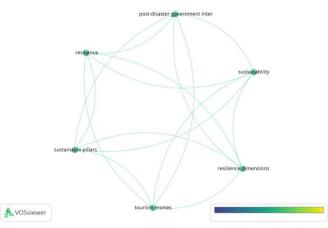


Figure 2. VOSviewer Analysis

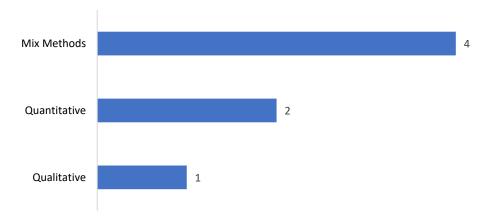
Source: Author data, processed in 2025

The VOSviewer analysis, as shown in the figure 2, reveals key conceptual relationships in post-disaster government interventions for micro-, small-, and medium-sized enterprises (MSMEs) in the tourism sector, with particular emphasis on the intersection between resilience and sustainability. The network visualization shows a strong relationship between "resilience dimensions" and "sustainability pillars." This indicates that effective post-disaster recovery strategies for tourism MSMEs must incorporate resilience-building measures, such as enhancing adaptive capacity and reducing risks, as well as sustainability principles, including economic viability, environmental protection, and social equity. The central position of "tourism MSMEs" in the visualization indicates that these interventions focus on tourism MSMEs. The combination of these terms implies that government policies must address interconnected aspects simultaneously, ranging from immediate emergency responses to long-term sustainable development goals. The visualization underscores the necessity of a comprehensive approach that balances short-term recovery with long-term sustainable transformation in tourism-dependent communities.

An analysis of seven studies shows that mixed methods dominate, accounting for 57% of the total, followed by 29% for quantitative approaches and 14% for qualitative approaches. This reflects the need for tourism-MSME research to combine statistical rigor with community-based insights.



Figure 3. Research Methods



Source: Author data, processed in 2025

3. RESULT AND DISCUSSION

3.1 A Comprehensive MSME Empowerment Model for Sustainable Tourism Villages

Purnomo (2025) presented a comprehensive model for empowering micro, small, and medium enterprises (MSMEs) in the development of sustainable tourism villages, using Ponggok Tourism Village in Indonesia as a case study. The study emphasizes the important roles of leadership, innovation, governance, collaboration, capacity building, and technology in improving MSME performance and promoting tourism development. Key findings indicate that leadership and innovation are the most influential drivers of MSMEs' empowerment, while technological improvements in service quality significantly contribute to tourism growth. Empowered MSMEs, in turn, strengthen sustainable tourism villages by improving operational efficiency, preserving cultural heritage, and promoting environmentally friendly practices. The study emphasizes the interdependence between MSME growth and sustainable tourism, emphasizing the need for integrated policies that align digital tools, stakeholder collaboration, and capacity-building initiatives to ensure long-term economic, social, and environmental sustainability in rural tourism destinations.

A synthesis of the reviewed literature reveals that the successful empowerment of MSMEs in tourist villages is not driven by isolated factors but by the synergistic interplay of three core pillars. Based on empirical evidence, particularly from Purnomo's (2025) comprehensive model, this study proposes a tripartite framework. The framework positions visionary leadership as the catalyst, digital innovation as the enabler, and inclusive capacity building as the foundational engine of sustainable transformation. These pillars are interdependent and must be developed concurrently to create a resilient ecosystem for MSMEs.

Visionary Leadership (The Catalyst) means that leadership is the most influential driver (β = 0.338) and serves as the initial catalyst that mobilizes community engagement and resources. As seen in Ponggok Village, effective leaders provide strategic vision, foster stakeholder collaboration, and champion the adoption of new practices. They are essential in creating an environment where innovation and capacity building can flourish as illustrated in Figure 4. Digital Innovation (The Enabler): Digital tools are essential for overcoming barriers to market access and improving operational efficiency. This pillar includes the adoption of e-commerce platforms, social media marketing, and digital financial management (Rahayu, 2025; Hendrawan et al., 2024). However, their effectiveness depends on leadership commitment and the community's ability to utilize them. The case of Ponggok shows that improving service quality through technology has a direct and significant impact on tourism development (β = 0.410). Inclusive Capacity Building (The Foundation): This



Inclusive Capacity Building

Foundational

Catalytic

Figure 4. The Tripartite MSME Empowerment Framework

pillar equips MSMEs with the essential skills and knowledge to effectively leverage leadership's vision and digital tools. It includes training in financial literacy, digital skills, sustainable practices, and business management (Kussudyarsana et al., 2023). To ensure long-term sustainability, capacity building must be inclusive and specifically designed to empower marginalized groups, such as women and rural youth. This approach ensures a more equitable distribution of tourism benefits (SDGs 5, 8, and 10).

The framework shows that these pillars are interconnected rather than linear. Leadership enables innovation and prioritizes capacity building. Digital innovation amplifies the impact of capacity building by providing new tools and access to markets. Capacity building ensures that the community possesses the skills to support the leadership's vision and to utilize technological tools effectively. Together, these pillars create a virtuous cycle that drives MSMEs toward economic resilience, cultural preservation, and environmental conservation the core tenets of a sustainable tourism village.

3.2 Resilience and Sustainability Interventions in Post-Haiyan Philippines MSMEs

Badoc-Gonzales et al. (2021) examined how government interventions influenced the resilience and sustainability of micro, small, and medium enterprises (MSMEs) in the tourism sector of the Eastern Visayas Region of the Philippines following Typhoon Haiyan in 2013. Using a mixed-methods approach, the study found that although most post-disaster government programs inadequately supported tourism MSMEs, these businesses nevertheless demonstrated resilience by maintaining stable performance despite fluctuating incomes. The findings suggest that MSMEs view ideal government interventions as those focusing on human capital, economic performance, and environmental resilience, which can enhance future performance and contribute to sustainable tourism. The study emphasizes the critical role of MSMEs in promoting sustainable tourism and calls for comprehensive policies, stakeholder collaboration, and the adoption of sustainable practices. MSMEs can promote resilient tourism destinations by integrating resilience and sustainability principles, thereby aligning with broader goals of economic recovery, environmental conservation, and community well-being.

3.3 Sustainable Tourism Development in Berau: A Creative Economy Approach

Saputra, (2024) conducted a study exploring the development of sustainable tourism in Berau,

Vol.29 No.1, June 2025

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Indonesia, with a focus on the Kanungan Island Tourism Area. The study employed a creative economy approach to promote inclusivity. Using descriptive analysis, SWOT analysis, and the Analytic Hierarchy Process (AHP) method, it identified strategies to overcome challenges such as inadequate infrastructure, limited capital, and unprofessional human resources. These strategies leverage the island's unique ecosystem and stakeholder support. The study's findings highlight the critical role of MSMEs in fostering sustainable tourism by stimulating local economic growth, preserving cultural and environmental assets, and promoting inclusive development. Key strategies include improving infrastructure, facilitating investment forums, strengthening stakeholder collaboration, and enhancing human resource capacity. The study emphasizes that integrating MSMEs into the tourism value chain and implementing responsible business practices can ensure long-term sustainability, equitable benefits for local communities, and resilience against external threats such as climate change and destructive fishing practices.

3.4 System Dynamics Approach for Sustainable MSME Development

Kurniasih (2023) presented a discussion on the System Dynamics approach, exploring its potential to support sustainable development in micro, small, and medium enterprises (MSMEs). The analysis examined the complex relationships among various factors, including resource allocation, environmental impact, and social considerations. Case studies from sectors such as steel, agriculture, tourism, and cosmetics demonstrated the effectiveness of System Dynamics in helping MSMEs address sustainability challenges, optimize supply chains, adopt digital technologies, and design adaptive business strategies. MSMEs play a crucial role in achieving the Sustainable Development Goals (SDGs), particularly in promoting inclusive economic growth, job creation, and innovation. Understanding System Dynamics enables SMEs to identify strategic intervention points, such as collaborating with stakeholders, developing human resources, and improving energy efficiency. These intervention points support the adoption of sustainable business practices. This approach allows SMEs to balance short- and long-term goals, thereby contributing to local economic stability and environmental protection. Consequently, SMEs can reinforce their role as a key pillar of sustainable development.

3.5 Leadership on Sustainable Tourism Competitiveness

Hermawati (2020) examined the impact of transglobal leadership on the performance of MSMEs in the tourism sector in East Java, Indonesia, as well as its effect on sustainable tourism competitiveness. Using a mixed-methods approach, the study analyzed data from 200 MSMEs, 800 employees, and 600 tourists. The findings suggest that transglobal leadership, characterized by cognitive, emotional, business, cultural, global, and moral intelligence, positively impacts human resource performance. Key factors such as quality of work life (QWL), job engagement, and organizational citizenship behavior (OCB) further strengthen this relationship. Enhanced human resource (HR) performance has been proven to drive responsible marketing practices, which are essential for achieving sustainable tourism competitiveness. The study emphasizes that MSMEs can adopt ethical and socially responsible marketing practices when supported by effective leadership and human resource (HR) strategies, thereby enhancing their competitiveness while contributing to environmental and socioeconomic sustainability. These findings underscore the pivotal role of SME development in fostering sustainable tourism through empowered human resource (HR) practices and responsible business operations.

3.6 Repeated Study on Distribution Channels and Logistics Innovation

Rahayu (2025) explored how distribution channels and logistics innovations can empower micro, small, and medium-sized enterprises (MSMEs) in tourist villages, such as Pawan and Sialang Jaya

Vol.29 No.1, June 2025

DOI: https://doi.org/10.24123/gesdr.v29i1.7786



in Indonesia, through community-based tourism (CBT). The findings suggest that efficient supply chain management and the adoption of digital technologies, such as e-commerce and customer relationship management (CRM), can expand market reach and improve operational efficiency. Collaboration between local governments and MSMEs in infrastructure development is also crucial for fostering sustainable tourism. By prioritizing infrastructure development, empowering local communities, and promoting tourism, MSMEs can contribute to local economic growth while ensuring environmental and cultural sustainability. Strengthening MSMEs through CBT, therefore, enhances the competitiveness of local businesses and promotes sustainable tourism development by actively involving communities and optimizing the use of local resources.

3.7 Optimizing Village Development Plans Using AHP and Linear Regression

Yudistira (2023) discussed how to optimize the formulation of the Village Medium-Term Development Plan (RPJM Desa) in Ponggok Village, Klaten, by employing the Analytic Hierarchy Process (AHP) and linear regression methods to promote sustainable development. The findings indicate that SME training and scholarship programs are top-priority activities, as they align with the village's vision and mission, are sustainable, and provide economic benefits to the community. SME development, particularly in the tourism sector, is crucial for enhancing the village's self-reliance and driving local economic growth. Additionally, predicting the village's financial capacity through linear regression effectively aligns development plans with available budgets and ensures the implementation of realistic, sustainable activities. Empowering SMEs through training and infrastructure support thereby enhances the village's economic vitality and strengthens the tourism sector, its primary source of income. This process is further reinforced by encouraging community participation and effective resource management, thereby promoting sustainable development.

Collectively, these seven studies highlight leadership, innovation, and capacity building as the key pillars for empowering micro, small, and medium-sized enterprises (MSMEs) in tourist villages in Indonesia. Leadership emerges as the dominant factor in driving community engagement and resource mobilization ($\beta = 0.338$), as evidenced by the success of Ponggok Village (Ardini, 2024; Nainggolan et al., 2024). Digital innovation, particularly e-commerce and social media marketing, is crucial for expanding market access; however, low digital literacy and infrastructure gaps continue to limits its full potential. Capacity-building programs, ranging from financial management to digital skills training, are consistently emphasized as crucial for strengthening SME resilience (Kussudyarsana et al., 2023). Furthermore, our findings suggest that disaster preparedness planning is essential for SMEs seeking sustainable operations (Skouloudis et al., 2023). Nonetheless, challenges such as limited government capacity and fragmented stakeholder collaboration remain significant barriers to scaling up of these interventions.

The Indonesian context highlights the importance of localized strategies that integrate these three factors. For instance, community-based tourism (CBT) models in Ponggok and Sialang Jaya villages flourished when local leaders promoted innovation, such as the use of digital platforms, and capacity building, such as handicraft training. However, research highlights uneven adoption due to socioeconomic disparities and dependence on external funding. System Dynamics Modeling further emphasizes the interdependence of these factors: leadership serves as a catalyst for innovation, which in turn strengthens the impact of capacity development. Moving forward, policies should prioritize inclusive governance, adaptive technological solutions, and sustainable skill development to replicate these successes across diverse rural areas.

3.8 Practical Implication

Based on the result, this study outlines the following practical implications for key stakeholders: Implications for Village Governments:

Vol.29 No.1, June 2025

DOI: https://doi.org/10.24123/gesdr.v29i1.7786



- 1. Develop integrated empowerment programs. Allocate a specific portion of the village fund to programs that combine leadership training, digital infrastructure, and capacity building rather than supporting these areas individually.
- 2. Facilitate collaborative governance. Establish a formal multi-stakeholder forum that regularly brings together micro, small, and medium enterprises (MSMEs), local community leaders, and external partners to coordinate development efforts, share resources, and address problems collectively.
- 3. Incentivize sustainable practices. Introduce local regulations or certification schemes that reward MSMEs for adopting eco-friendly practices, such as waste reduction and the use of local materials, to strengthen the village's brand as a sustainable destination.

Implications for MSMEs:

- 1. Embrace collaborative business models. Form cooperatives or joint business groups to achieve economies of scale, share the costs of digital tools and marketing, and strengthen bargaining power in relation to raw materials and financing.
- 2. Adopt incremental digitalization. Start with low-cost, high-impact technologies, such as WhatsApp Business and Instagram, to engage customers and promote products before transitioning to more complex e-commerce platforms. Focus on digital storytelling that highlights cultural authenticity and sustainability.
- 3. Proactively engage in learning. Actively seek out and participate in training programs offered by government agencies or universities, particularly those focused on financial literacy, digital marketing, and sustainable operations, to build long-term resilience.

Implications for academics and researchers:

- 1. Develop context-specific toolkits. Create and disseminate practical, easy-to-understand guidebooks and frameworks for MSMEs on topics such as basic financial management, digital marketing strategies, and simple environmental impact assessments.
- 2. Bridge the gap through applied research: Conduct participatory action research (PAR) that directly involves MSMEs as co-researchers. Ensure that studies address real-world problems and produce findings that are readily applicable.
- 3. Function as knowledge intermediaries. Translate research findings into clear policy recommendations and briefs for local governments to support evidence-based decision-making and program design for tourism village development.

To strengthen village tourism MSMEs and achieve sustainable development, community-based capacity building is essential. Structured training programs in digital literacy, financial management, and ecotourism practices should be developed through a participatory process that incorporates local knowledge while addressing the specific needs of vulnerable populations, including women, the elderly, and individuals with disabilities (SDGs 4 and 8). For example, the "Village Tourism School" program in Ponggok combines online marketing training with natural resource management, resulting in a 40% increase in SME income and a reduction in plastic waste (SDG 12) (Purnomo, 2025). Decentralization policies in which local governments allocate 20% of village funds to sustainable training should reinforce this approach. These policies should be supported by partnerships with universities and the private sector. Capacity building enhances the competitiveness of MSMEs and creates an inclusive, resilient village tourism ecosystem (SDGs 10 and 11), thereby addressing the longstanding challenge of capacity disparities that hinder the equitable distribution of tourism benefits (Endris & Kassegn 2022; Latif et al., 2023).

4. CONCLUSION

This study emphasizes that the empowerment of MSMEs in tourism villages relies on three interconnected pillars: visionary leadership, digital innovation, and inclusive capacity building.

Vol.29 No.1, June 2025



Visionary leadership serves as a catalyst for mobilizing community engagement and resources. Digital tools, such as e-commerce, and tailored training programs, including financial literacy and ecotourism practices, help bridge gaps in market access and operational efficiency. However, persistent challenges remain, including uneven resource distribution, infrastructure deficits, and dependence on external funding. These challenges highlight the importance of adaptive, locally grounded policies aligned with the SDGs, particularly SDG 9 (resilient infrastructure) and SDG 10 (reduced inequalities).

This study is not without limitations. Its focus on case studies in Indonesia and the Philippines may restrict the generalizability of the findings to other regions. Additionally, the reliance on short-term case studies underscores the need for longitudinal research to evaluate the sustainable impact of SME empowerment. Future studies should broaden their geographical scope to include underrepresented contexts, such as post-conflict or climate-vulnerable areas, and explore cross-sectoral collaborations, such as academic-private sector partnerships, to strengthen successful models. Addressing these gaps will enable stakeholders to fully harness the potential of SMEs in advancing inclusive and sustainable tourism development.

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