Challenges of SME in The Tourism Industry: A review

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Abstract
One of the local economies in the tourism industry is small and medium entrepreneurs (SMEs). In 2020, data on the tourism industry worldwide decreased because of restrictions on the entry of tourists. This study aims to dig up on the challenges of SMEs through literature studies. The method used is to review and analyze all extant articles published in Google Scholar from 2017 to 2021. Articles will be analyzed by the keywords: SMEs, Challenge, and Tourism. Based on the findings, the challenges faced by SMEs are categorized into internal and external factors such as lack of knowledge and government.

Keywords: SME, Tourism, Challenge, Literature Review

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1.0 Introduction
Tourism is defined as a social, cultural, and economic phenomenon that focuses on the movement of people for personal or professional purposes. The tourism industry was the second highest contribution to the economic sector based on Gross Domestic Product (GDP) (Zubair et al., 2021). Tourism provides products and services to fulfill the tourist’s needs to be more comfortable and enjoy their vacation. This was a great opportunity to increase the amount of tourist expenditure. Set (2013) defines tourism products as accommodation services, food, and beverage services, cultural services, travel agency, tour operators, cultural services, transportation, entertainment, zoo, museum, and theme park. In Malaysia, food heritage was one of the tourism products. Malaysia is popular with its different races, ethnic, cooking styles, recipes, and traditions, attracting tourists from different countries. Furthermore, tourists can experience and learn about multiple cultures by eating and consuming the local cuisine (Ghazali, 2020).

The tourism sector allows local people to start a business because the entry barriers are comparatively low. According to Koh and Hatten (2002), a society’s environment, landforms, flora, fauna, historical artefacts, and cultural heritage enclaves only become tourism...
resources when tourism entrepreneurs exist. These resources can then be innovated and turned into tourist attractions and destinations. Through success in the tourism industry, an entrepreneur was one of the main movers. However, for the tourism industry to survive and thrive, there needed to be significant long-term government support, comprehensive training, research, and planning processes (Shimray & Nongsiej, 2017).

Tourism Small and Mediums enterprise (SMEs) are usually the type of entrepreneur that take the chance to start up and grows their business related to tourism services. To become a successful entrepreneur, it is necessary to go through various internal or external challenges. An example of an external factor is crisis covid19. Through World Travel & Tourism Council (WTTC), 100 million people in the global tourism industry might be unemployed due to the covid-19. Moreover, work stoppages prevent many industries from continuing to produce, which causes unemployment and even insolvency. In the same way, WTTC stated that the international visitor expenditure fell by 69.7% in 2020 but increased by 3.8% in 2021. The business world is becoming more competitive, uncertain, and hurried (Mohammed, 2022).

1.1 Objective
This paper aims to identify the challenges SMEs face in the tourism industry.

2.0 Literature Review

2.1 SMEs In Tourism
The worldwide tourism sector is primarily made up of micro, small, and medium-sized businesses (SMEs). According to the United Nations World Tourism Organization (UNWTO), SMEs represent around 80 per cent of all tourism enterprises worldwide (Kukanja et al., 2020). Furthermore, SMEs account for over 90 per cent of all business entities in the EU (Secinaro, Calandra, & Biancone, 2020). Small and medium enterprise (SMEs) is an entrepreneur that needs to have criteria that the government state, such as the number of employees and turnover (Khokhobaia, 2020). The criteria are different depending on each country. For example, in Malaysia, small enterprises must have employees from 5 to less than 30; meanwhile, medium enterprises are 30 to not exceed 75 employees (SMECorp Malaysia). Compared to Georgia, the total number of employees for small businesses is 50 and for medium enterprises is 249 (Khokhobaia, 2020). Furthermore, in Canada, SMEs need fewer than 500 employees and less than $50 million in annual revenues (Ibanescu et al., 2019). Manufacturing and services are the two sectors of SMEs. Furthermore, the tourism industry is classified as a service sector.

There are identified specific business kinds of tourism-related SMEs, including hotels and homestays, cafes, food, and beverages, travelling and guiding, surfing, diving, souvenirs, handicrafts, travel agent, transportation, and boat operator. Due to low start-up costs and barriers, most local communities are SMEs. Successful SMEs in rural areas provide products that only use natural agricultural resources. For example, successful entrepreneurs from Elma Town, Turkey, produce niche tourism like wine tourism (Güzel et al., 2021). Based on a study by Othman (2011), tourism positively impacted the small enterprises’ financial and non-financial performance. The owners' educational background does not significantly affect the SMEs' financial performance. However, it does have a beneficial effect on their non-financial performance. The previous research from Brown et al. (2014) stated that small tourism in Central Kentucky has a relationship between owner, personal values, and market orientation for business performance. Every business starts from small and upgrades to medium enterprise. Successful SMEs include capabilities like taking a chance, developing and producing products, and, most importantly, spotting opportunities everywhere to start a business or improve it.

2.2 An Opportunities for SMEs in tourism
A business opportunity entails selling services that will allow the entrepreneur to start a business in tourism, one of the opportunities in the employment of local people. Encouraging local employment possibilities and income generation can, through access to capital for investment and increase the production of handicraft items in Pakistan (Jabbar & Akram, 2020). In tourism, a family business primarily sells a product with cultural heritage elements such as handicrafts, local traditional food, and souvenirs to maintain a cultural tradition so that it can be inherited from each generation.

Every opportunity in business will come with challenges that will make entrepreneurs create more ideas and plan to survive. SMEs agreed that low operating cost is an opportunity in startup business (Kah et al., 2022). Direct costs of goods sold (COGS) and other operational costs, also known as selling, general, and administrative (SG&A), are included in operating costs. There are SMEs that produce their products home-based and online. Studies about SMEs’ handicraft show they are comfortable working from home because it enables them to do their household duties and childcare with their handicraft production activities (Fabel et al., 2016).

3.0 Methodology
Data collection are thorough literature search that was performed using online databases in Google scholar. The search keyword were challenges, SMEs, and the tourism industry. The search only looks for data from 2017-2022, and the primary language is English. The data collection used is Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) (Pahleven-Sharif et al., 2019). Figure 1 shows the flow diagram of this study.
The first step is the initial search. The paper was selected based on relevant journal articles from Google Scholar data. A search was performed by the following keyword “Challenges”, “SMEs”, “Tourism industry”, “Opportunities”, “Small business”, “Homestay tourism”, “Food Tourism”, “Role”, “Travel agents”, “Handicraft”, “2017”, “2018”, “2019”, “2018”, “2019” “2020”, “2021” or “Entrepreneur Tourism”. A total of 55 Paper that related to the keywords. The next phase is that the articles were excluded if they did not belong to the subject area “Entrepreneur in tourism”, small tourism business”, and “SMEs in tourism”. This phase delimited the number of articles to 50. The third phase articles were excluded based on the title and abstract. The author was gone through every paper and will meet predefined criteria and cut it. An article that is only left for this phase is 30. The next phase is full-text articles assessed for eligibility. This phase only left 16 articles. In the final phases, all the articles in this study used an integrative review strategy, which allowed for the inclusion of multiple research designs, qualitative and quantitative. The final article is 15 papers.

4.0 Finding

Table 1 shows SMEs’ summarization challenges based on finding from the Google School database (2017-2021).

<table>
<thead>
<tr>
<th>Author</th>
<th>Year</th>
<th>Title</th>
<th>Challenges</th>
</tr>
</thead>
</table>
| Makhitha                    | 2017  | Challenges affecting small craft producer business growth and survival in South Africa | 1) Lack of understanding of market needs  
2) Lack of skills  
3) Market  
4) Lack of access to finance  
5) Transportation problems  
6) Inadequate workspace  
7) Limited access to raw material  
8) High costs of material |
| Serefoğlu & Gökay,          | 2017  | Challenges of rural SMEs in Ankara, Turkey                          | 1) Finance is the primary source of failure.  
• Not having the necessary finance |
<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Year</th>
<th>Title</th>
<th>Challenges and Prospects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sade et al.</td>
<td>2017</td>
<td>Preservation of Malaysian handicrafts to support Tourism development</td>
<td>1) Market and financial constraints, 2) Inefficient production, 3) Lack of relevant knowledge, 4) Lack of reliable workers, 5) The absence of young successors to continue the business legacy, 6) Lack of entrepreneurship education in society, 7) Lack of motivation, 8) Cost-making has been continuously increasing.</td>
</tr>
<tr>
<td>Hlengwa &amp; Thusi,</td>
<td>2018</td>
<td>Crucial for economic growth, nonetheless, facing numerous challenges: Tourism SMMEs within uMsunduzi Local Municipality</td>
<td>1) Funding challenge, 2) Marketing challenge, 3) Compliance • Illegal operators and licensing authorities are not efficient, 4) Government, 5) Capacity building, • Not making a profit, staffing issues, and expansion opportunities. Training and development, 6) Red tape • Too much red tape</td>
</tr>
<tr>
<td>Shafiei &amp; Karoubi</td>
<td>2018</td>
<td>E-business adoption in Small and Medium Sized Tourism firms in Iran: Challenges and prospects.</td>
<td>1) Macro-level • Political o International sanctions and limitations on overseas transactions o Instability in political o Lack of support and awareness among policymakers, • Technological o Low speed of internet o Frequent internet interruptions, • Legal and social dimensions o Lack of an official union o Lack of government support for start-ups or low-budget companies, • Environmental, • Economical, • Social o Lack of trust among customers, 2) Micro level • Lack of internet usage at all levels • Mismatches between purchased/promised product/service.</td>
</tr>
<tr>
<td>Khokhobaia</td>
<td>2019</td>
<td>The role of small and medium-sized enterprises in regional tourism development: the case of Georgia</td>
<td>1) Low level of human resources development, 2) Lack of knowledge of tourism as a business activity, 3) Low level of tourism infrastructure development, 4) Weak commercialization of cultural and historical development, 5) Lack of implementation of municipal projects supporting tourism development.</td>
</tr>
<tr>
<td>Author(s)</td>
<td>Year</td>
<td>Title</td>
<td>Challenges</td>
</tr>
<tr>
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<td>------------</td>
</tr>
</tbody>
</table>
| Jabbar & Akram | 2020 | Opportunities and challenges to Small and Medium Enterprise: A study of Sillanwali Wooden Handicrafts | 1) Union Voting and its issues  
2) Technology issue  
3) Loans and grants issue  
4) PSIC and tax rate issues  
5) Labour tax issues |
| Reindrawati | 2020 | The challenges of micro-entrepreneurship Tourism as a New Tourism Destination Surabaya | 1) Lack of learning and knowledge development with regards to the business  
2) Online transportation  
3) Low quality of human resources  
4) The streets vendor sell the same type of drink and food  
5) Lack of financial fund  
6) Pandemic covid-19 |
| Ramzy | 2020 | Entrepreneurship and Small-Medium Enterprises Impact on the Egyptian Tourism Industry | 1) Lack of training provision in the tourism SMEs sector  
2) lack of financial support  
3) lack of assistance by the aiding institution provided for the tourism SMEs and time-consuming administrative procedures.  
4) high rates of taxes especially in the period of low demand and security and safety issues |
| Ekanayake et al., | 2020 | Traditional SMEs with cultural heritage: Challenges in Modernity A case study from Sri Lanka | 1) Batik industry  
2) Palmrya Industry  
3) Woodworking industry  
4) Pottery industry  
5) Brass industry  
6) Rattan Industry  
7) Coconut shell industry  
1) Inability to access funds from the funding support system  
2) Lack of collateral or credit track record stifles enterprise development  
3) Economic instability  
4) Political risk:  
   - Additional elements of uncertainty in the rules  
   - Timing and pricing of the tourism product process  
5) Lack of foreign exchange for tourism development  
6) Lack of skilled manpower  
7) Weak institutional framework for tourism planning  
8) Political instability:  
   - Communal violence  
   - Civil war conflicts  
   - Seasonality |
| Jayasooriya & Perera | 2019 | A review on challenges in small tourism business in Sri Lanka | 1) Inability to access funds from the funding support system  
2) Lack of collateral or credit track record stifles enterprise development  
3) Economic instability  
4) Political risk:  
   - Additional elements of uncertainty in the rules  
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2) Online transportation  
3) Low quality of human resources  
4) The streets vendor sell the same type of drink and food  
5) Lack of financial fund  
6) Pandemic covid-19 |
| Gamage et al. | 2020 | A Review of Global Challenges and Survival Strategies of Small and Medium Enterprises (SMEs) | 1) Global challenges  
2) Local Challenges  
   - High cost of infrastructure  
   - Lack of financing  
   - Low of productivity  
   - Low managerial capabilities  
   - Access to management and technology  
   - Heavy regulatory  
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   - Lack of financing  
   - Low of productivity  
   - Low managerial capabilities  
   - Access to management and technology  
   - Heavy regulatory |

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5.0 Discussion

5.1 Internal Factors
One of the challenges for SMEs in tourism is a lack of knowledge (Ekanayake et al., 2020; Istanti, 2021; Khokhobaia, 2019; Makhitha, 2017; Reindrawati, 2020; Sade et al., 2017; Shafiei & Karoubi, 2018; Shin et al., 2020). SMEs with strong knowledge will be a success factor in their business. Besides, a lack of knowledge will become a barrier for entrepreneurs to innovate and adapt new technologies to their businesses during this new era (Uvarova & Vtola, 2019). Craft producers do not know how to get potential customers and promotional strategies even though identify market opportunities. This leads them to sell a similar product to other producers. SMEs from the Palmyra industry in Sri Lanka faced challenges with knowledge transfer. The young generation is reluctant to inherit their parent's venture. Because they found their parent's ventures are not matched with current market trends and are absent to continue the business legacy. Nowadays, the younger generation is increasingly interested in things that use more technology, are simple to manufacture, and are simple to market. SMEs also lack knowledge of tourism activities even though there are in the tourism industry (Khokhobaia, 2019). According to the most recent Istanti (2021) research, rural SMEs still lack digital knowledge. This demonstrates a disparity among urban businesses that use digital technologies to save costs.

Skills are the expertise or talent needed to do a job or task. Lack of skills will affect the prose of business flow. In tourism, SMEs face challenges such as a lack of skills (Makhitha, 2017; Ekanayake et al., 2020; Khokhobaia, 2019; Istanti, 2021). SMEs in tourism still have no skills in product design and no innovativeness and uniqueness. Mostly SMEs create a product that has no economic benefit. SMEs in Kuala Sepetang face challenges shortage of qualified manpower (Shin et al., 2020). Results show that SMEs do not have skills and are qualified as tourist guides; they do not know the right way to explain their business to visitors.

The next challenge is human resources. Human resources refer to a lack the technical staff and reliable workers. The biggest obstacle to the success of a business is human resource development (Khokhobaia, 2019). The benefit of human resources that it can deliver excellent services and quality management and treat its employees very well. The following factor is financial (Devi, 2019; Ekanayake et al., 2020; Gamage et al., 2020; Makhitha, 2017; Sade et al., 2017; Serefoglu & Gokkaya, 2017). Even though SMEs are low-barrier and low-cost businesses, they face financial challenges. Financial challenges will lead SMEs to fail to repay the loan and get a balanced income in outflow and inflow. Lastly is marketing. SMEs with financial difficulties will face the highest marketing and advertisement cost. Marketing is essential because it focuses on promotion, selling, pricing, market research, and distribution.

5.2 External Factors
The first challenge for external factors is Government (Shafiei & Karoubi, 2018; Serefoglu & Gokkaya, 2017; Hlengwa & Thusi, 2018; Devi, 2019; Gamage et al., 2020; Jabbar & Akram, 2020; Ramzy, 2020). SMEs are not getting much assistance and sufficient business entities. According to Jabbar & Akram's research (2020), SMEs face PSIC tax rates and labour tax issues. Entrepreneurs that want to sell their products here need to pay the tax, and the amount of the tax differs for each seller (Ramzy, 2020). The instability of politics was one of the most challenges for SMEs in tourism. The change in the country’s political system will affect the performance of SMEs and the market needs.

Seasonality is the second challenge (Devi, 2019; Gamage et al., 2020; Shin et al., 2020). Seasonality is the term used to describe predictable changes that take place over a year in an economy or business based on the seasons. It has been blamed for causing or making worse several challenges the sector faces, such as access to capital, difficulties hiring and retaining full-time employees, problems with low returns on investment leading to high operational risk, and issues with peaking and overuse of facilities (Devi, 2019). While boat operators benefit from the brisk business during peak season, weekdays during low season are slower, which makes it difficult for them to employ full-time staff (Shin et al., 2020).

The next challenge is market accessibility (Ekanayake et al., 2020; Hlengwa & Thusi, 2018; Makhitha, 2017; Sade et al., 2017). The tourism industry has a market monopoly, such as exchanging traditional products for modern products. Besides, the SMEs also faced high competition in the foreign market. For example, the new market of Denim in Sri Lanka had low batik production. Besides market challenges, SMEs also face technology challenges which as the low speed of the internet, interrupted data, and do not have new technology updates (Shafiei & Karoubi, 2018; Gamage et al., 2020; Jabbar & Akram, 2020).

6.0 Conclusion and Recommendation
These challenges will help the entrepreneur to overcome and plan their strategies to succeed. To overcome this challenge, firstly, knowledge is a resource for the owner of SMEs in any business. Secondly, for skills, an entrepreneur needs to find specific training. Thirdly, the human resources problem can be overcome by investing in leadership development, such as training opportunities and communication encouragement. Furthermore, retaining great employees can establish positive workplace culture and develop new ideas. Next, the financial challenges can be overcome by identifying the problem and finding an advisor to get solutions and recommendations. Lastly is...
the marketing challenges; SMEs need to develop a marketing mix such as the seven Ps of product, price, promotion, place, people, process, and physical evidence. The 7Ps assist businesses in reviewing and defining critical concerns affecting the marketing of their products and services.

Challenges from external factors such as government, seasonality, market assessability, and technology gave a solution to SMEs in the tourism industry. Firstly for the government, SMEs need to identify initiative programs such as funding schemes, guarantee schemes, or corporate social responsibility (CSR). Secondly, for the seasonality, the SMEs need to create a differential product that suits each season. Even though there are no foreign tourists, they can provide food service to the local's tourists. The third challenge is market assessability. SMEs need to identify the potential, market needs, competitors, and barriers. Market intelligence focuses on external information, including customer demographics and geographic information. Lastly, SMEs owner must ensure that the infrastructure is covered with internet data because of the startup business. Through digitalization, SMEs can reduce costs and reduce reliance on manpower. Many businesses noted a focus on digital processes and increased revenue.

In a nutshell, this paper has identified the challenges of SMEs in the tourism industry through a literature review. A review gives an overview of the literature relating to a research issue and synthesizes past work to build the basis of knowledge on a specific topic. However, the limitation of this paper is only used Google scholar as the database and only found 16 related papers. Nevertheless, the contribution of the study can lead to further studies. Further studies should be in qualitative research because they can go in-depth interviews with entrepreneurs and explore how they stay in business despite many challenges. Next, is the overview of recommendations on overcoming the challenges that will benefit SMEs facilitate sustainable growth, and improve productivity. Finally, this paper also has a positive impact on government policy. This paper suggests that the government expand and focus more on public policies for entrepreneurs. The government needs to implement policies that support a business-friendly environment and drive business growth. This can ensure that the business environment becomes more complete and comprehensive following the business chain which, can create opportunities and support other industries.

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Paper Contribution to Related Field of Study
This paper is related to the tourism and entrepreneurship field of study

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