Article

Government policy towards small and medium tourism enterprises in Indonesia: Proposal for development and increasing regional revenue

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Abstract: The small and medium tourism enterprises sector has experienced a decline in Indonesia's economic conditions in recent years. This research aims to advise stakeholders regarding factors that must be considered and included in future policy formulation. The research methodology is a mixed method supported by the N-Vivo computer program, interview studies, and FGD. This research focuses on four tourism provinces in Indonesia. The research results using thematic analysis identified 133 codes, 19 categories, nine core themes, and one impact theme. This research's novelty highlights that government policy's effects on tourism SME marketing are not significant due to weak support. Apart from that, partnerships and collaboration between the central regional government and tourism SMEs are the main factors determining their development at the regional level. This research concludes that government intervention and support in encouraging the growth and sustainability of tourism SMEs are necessary. The Government must promote collaboration between tourism SMEs because increasing the number of tourists is crucial, as well as encouraging sustainable marketing practices and simplifying regulations. The recommendation is that the Government immediately simplify regulations, expand partnerships and collaboration, and promote innovation in tourism SMEs. By implementing these recommendations, policymakers can create an environment that supports the development of tourism SMEs, allowing the tourism sector to increase GRDP.

Keywords: government policy; tourism SME; development; NVivo; Indonesia

1. Introduction

Global economic data shows that economic growth in America, China, and other European countries has recovered after COVID-19. The United States grew by 1.6 percent (YoY), China by 4.5 percent, and Japan by 1.3 percent (Wang and Fuyu, 2021). Meanwhile, the economies of South Korea and Singapore experienced a slowdown, with growth of 0.8 and 0.4% (YoY), respectively. Global inflationary pressures eased due to declines in fuel and energy, metal, and agricultural commodity prices, which tended to decline (Abbas and Lan, 2020).

According to the Indonesian Central Statistics Agency 2024, the economy grew by 5.03% (YoY) in the first quarter of 2023 (Indonesia Statistic, 2024). The growth in government consumption was supported by increased spending on goods and personnel and high debt interest payments. From the production side, all sectors experienced positive growth, with the highest growth in the transportation, warehousing, and processing sectors, driven by increasing domestic and global demand.

However, the trade war between America and China influenced Indonesia's international trade policy. It encouraged the Government to develop and implement a

green economy strategy, hoping that this strategy could help reduce the negative impact of economic growth on the environment while improving community welfare (Pangestu, 2019). The Government has implemented a green economy strategy to improve people's welfare and has initiated steps such as increasing renewable energy, developing sustainable agriculture and food, and encouraging sustainable transportation to reduce carbon emissions.

This global condition impacts disparities in economic growth and social welfare and has become an important problem in Indonesia's economic and social development. These inequalities include significant differences in the distribution of wealth, income, access to basic services, and opportunities among different groups in society. Situations like this can have a negative impact on social, political, and development stability in the long term (Bilan et al., 2020).

Another fundamental problem is the low quality of human resources. In December 2019, the Program for International Assessment for Students (PISA) in Paris ranked Indonesia 72nd out of 77 countries in the field of education, losing to neighboring countries such as Malaysia and Brunei Darussalam (Octoria et al., 2023). Central Bureau of Statistics data shows that the number of people attending school looks like a sharp cone. The **Figure 1** below shows the conditions in question.
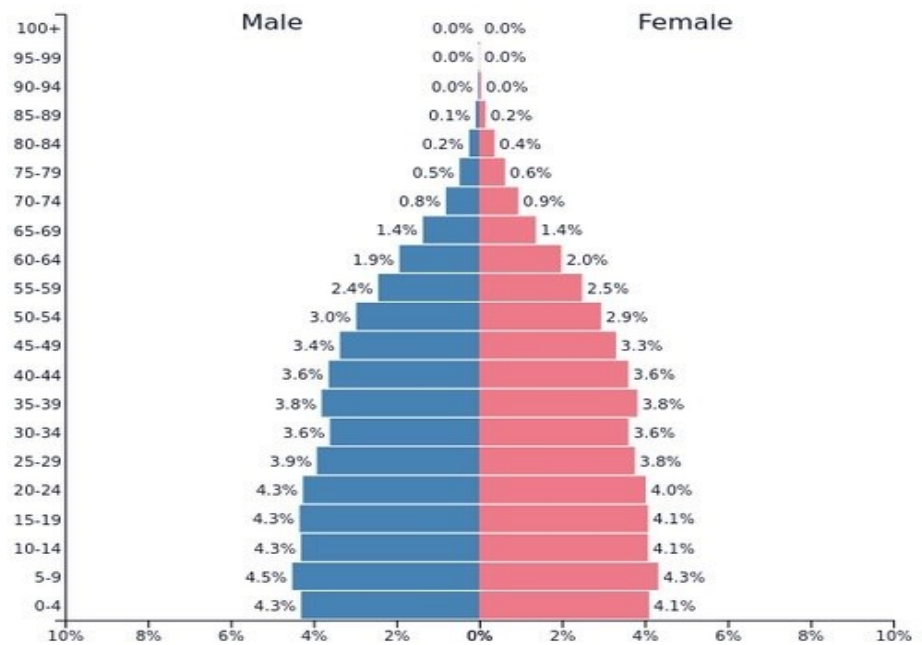

Figure 1. School population pyramid 2023 (Katadata, 2023).

The Government has tried to minimize the imbalance in economic growth and social welfare. One thing that is done is to issue a tourism policy based on the principle of justice to improve the community's quality of life. The policy of economic equality in the tourism sector is implemented by increasing investment in disadvantaged areas, providing easy access for implementers in the field.

The Government is accelerating national economic development by inviting domestic and foreign investors to invest. This pattern is carried out by preparing superior areas in each province geographically and strategically, considering the

community's welfare. The Government has established Special Economic Zones and National Strategy Projects (NSP) to support tourism (Aji and Khudi, 2021). The Government is also making plans to maximize industrial activities, exports, imports, and other economic activities with high economic value, including developing the tourism sector. Tourism believes that the tourism sector is one sector that can reduce disparities between regions. Therefore, the Government appointed the Ministry of Tourism to encourage sustainable tourism and revive tourism SMEs.

To support tourism, the Government is developing adequate infrastructure in the form of strategic projects that are implemented using a cooperative financing model between the Government and business and private entities, both national and foreign. The Committee for the Acceleration of Priority Infrastructure Provision noted that from 2016 to December 2022, 152 national strategic projects (PSN) had been completed and were fully operational. Investment in infrastructure such as roads, ports, and airports are being increased to strengthen connectivity between regions and increase accessibility (Khoirunrofik and Anas, 2023). The Government has recently been serious and focused on building toll roads with a total road length of 2578 km in the new year 2022 and building 14 airport projects to serve a passenger capacity of up to 40 million passengers per year to support the tourism sector.

The Government supports various small businesses in developing tourism policies. Tourism SMEs are a priority to encourage the growth of national, regional, and regional economic investment, especially in the tourism sector (**Figure 2**).
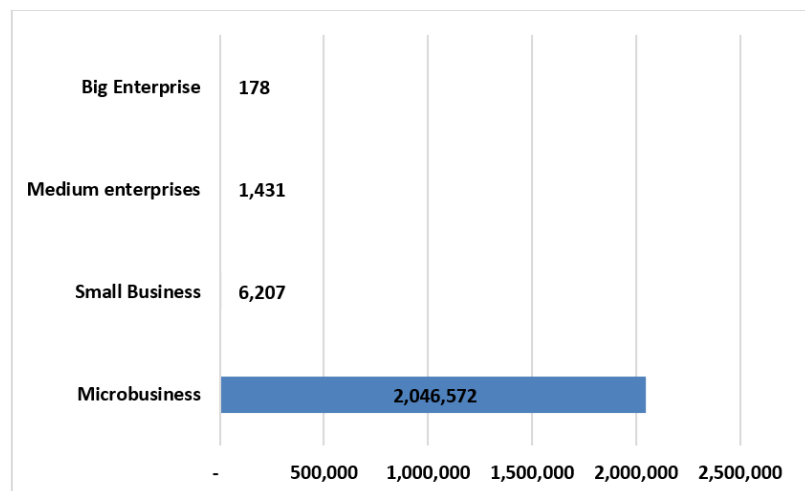
Figure 2. Number of tourism business actors in Indonesia (Nabilah, 2023).

Goals, problems, and research focus:

This research aims to examine the main and supporting themes that determine factors affecting tourism SMEs' capacity increase. It will produce a solution that can be contributed to stakeholders for inclusion in future policy formulation. The study question is: What are the factors, and what is the right solution for tourism SMEs to increase their capacity successfully? This research focuses on finding solutions so that tourism policies can increase equality among communities in the four provinces of the study area.

2. Method

2.1. Research method

The research method uses a qualitative approach supported by phenomenological studies. This research will explain how tourism business actors experience an event. Researchers will explore sensory perception in the critical aspect of what is understood (Lukas, 2023). This research uses interview and focus group discussion (FGD) study methods to obtain various information. Purposive sampling was used to determine the research area (Nyimbili and Nyimbili, 2024). The selected regions are the provinces of Aceh, West Sumatra, Lombok, and Bali. We also used document and photo review techniques to validate the data findings from the FGD.

2.2. Research participants

To carry out the FGD, we chose the location of the provincial capital because we considered Tourism business actors to be empowering in the provincial capital. Each of the four selected provinces has 30 tourism business actors, so the purposive sample produces 120 tourism business actors based on capital scale, number of employees, business facilities, and family economic status. All selected tourism business actors will be interviewed. Then, we conducted an FGD with tourism business actors and group leaders from each business sector. We conducted field observations of Tourism business actors to see their business conditions. In this way, we will get more accurate and valid information.

2.3. Instruments and procedures

In the first step, we developed an interview guide for Focus Group Discussion (FGD). The FGD guide was tested through a pilot FGD. An in-depth interview guide (IDI) was also created and is relatively the same as the FGD guide but was not tested because this guide contains the same questions. During the FGD and IDI implementation, participants were ensured they understood the definition of Tourism business actors. They asked how to identify and increase capital, product quantity, service quality, domestic and foreign marketing, government assistance, training and guidance, and transactions through banking. Participants were also asked how they collaborate with other tourism business actors to find solutions to various problems. FGDs and IDIs were conducted in Indonesian and assisted by local researchers and University staff as moderators, recorders, and local language translators (Acehnese, Minangkabau, Betawi, and Javanese). All FGD and IDI results were recorded and transcribed based on participant consent. The FGD and IDI lasted approximately 2 h and ended when the data was saturated, and there was no additional new data from the participants.

2.4. Participant observation

The participatory observation was carried out on 8–10 selected tourism business actors, who had 1–2 visits through interaction with tourism business actors who were not involved in the FGD. This focused observation was conducted for 2 h on each

tourism business actor. In this activity, observation notes are made. Field observation was conducted from 14 January to 14 March 2024.

2.5. Characteristics of tourism business actors

120 tourism business actors (42 women and 78 men) participated in the FGD. The location of the FGD is determined based on participant agreement. They had an average of 16.2 years of business experience (4–21 years).

2.6. Document review

Researchers, assisted by university staff, check the correctness of the data or information obtained by researchers from various points of view to reduce bias as much as possible when collecting and analyzing data. The method is to collect documents considered relevant to the research obtained from relevant institutions and central government regulations online to validate the data corrected from the FGD and IDI. Before being reviewed, Indonesian language documents were translated into English. The supporting documents used to examine this research are Law Number 10 of 2009 concerning Tourism, Regulation of the Minister of Tourism and Creative Economy/Head of the Tourism and Creative Economy Agency of the Republic of Indonesia No. 3 of 2022 concerning Operational Instructions for Management of Special Physical Allocation Funds in the Tourism Sector; Minister of Tourism and Creative Economy Regulation no. 9 of 2021 concerning Guidelines for Sustainable Tourism Destinations; Minister of Tourism and Creative Economy Regulation No. 10 of 2020 concerning General Guidelines for Distribution of Government Assistance; Regulation of the Minister of Tourism and Creative Economy/Head of the Tourism and Creative Economy Agency of the Republic of Indonesia No. 11 of 2022 concerning the Strategic Plan of the Ministry of Tourism and Creative Economy/Tourism and Creative Economy Agency 2020–2024.

2.7. Site study and SME actors

This research was conducted in four provinces: Aceh, West Sumatra, Lombok, and Bali. The **Figure 3** presents the development of tourism SME actors in the four study areas.
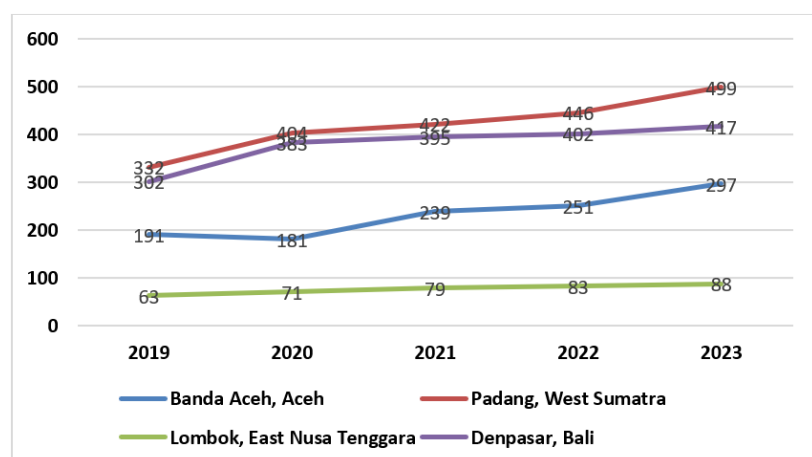

Figure 3. Development of tourism SMEs in the four study areas (BPS, 2022).

2.8. Data analysis

Relevant data in the form of transcripts, discussion results, and audio recordings of FGDs and IDIs obtained in regional languages were rewritten and translated into Indonesian and then into English by native language speakers in the form of MS Word documents. Then, the data was analyzed using thematic analysis. Transcripts were coded repeatedly to ensure data were included and refined. The data was then collected and concluded based on the codes created, resulting in various themes.

3. Literature review

3.1. Policy theories about tourism and SME empowerment

The United Nations World Tourism Organization (UNWTO) explains that tourism is a social, cultural, and economic phenomenon involving people's movement to countries or places outside their usual environment for personal, business, or professional purposes. Tourism is vital because it aims to create better living conditions for humans, both theoretically and practically, with various dimensions and scales: behavioral, social, and cultural. Tourism represents a social and economic phenomenon that fulfills deep human needs (Aljubori, 2022; Beuren et al., 2020).

Tourism is a multidimensional and cross-sectoral industry. All parties need to be involved because tourism needs to stand together. Tourism management is increasingly complicated when developing integrated destinations, considering the interrelationships between sectors. Tourism policy is the product of a complex process that is related to various aspects. Significant changes at local, national, and international levels cause the complexity of tourism. In the context of these changes, environmental policy in tourism has become a strategy for the Government to market its tourism potential. Tourism policy is essential to development (Koerner et al., 2023).

Stakeholders must understand, plan, and implement tourism planning consistently and sustainably. The Government notes that tourism development provides benefits while reducing social and economic costs and environmental impacts (Wu et al., 2023). On the other hand, profit-oriented business people, especially SMEs, cannot regulate what they must do. However, the Government can regulate what they must not do through policies and regulations, such as spatial regulations, permits, licenses, accreditation, and statutory regulations.

Government intervention in tourism development can be carried out through various policy instruments, such as land use regulations, providing tourist access to areas prone to damage, protecting local culture, directing environmentally sound tourist behavior, saving energy use, reducing pollution, and providing incentives to infrastructure development that also benefits the host, such as transportation systems and protection of urban green spaces and national parks (Taufik et al., 2023).

Choosing the right policy instrument is very important and must be based on a complete study of the goals to be achieved efficiently (van Geet et al., 2021). Policy makers have an important role in determining tourism policies to develop sustainable tourism. Therefore, a good understanding of the concept of tourism planning is

necessary for policymakers. Comprehensive planning is essential as a guide to sustainable tourism development. With comprehensive planning, regional tourism development will be sustainable.

Tourism policy theory is a conceptual framework for analyzing tourism industry development policies (Guo et al., 2019). The two theories used in this research are public policy theory and community participation theory. In public policy theory, the policy-making process includes problem notification, agenda-making, policy formulation, implementation, and evaluation (Uzun and Furat, 2022). It helps understand how tourism policies are made, who is involved in the process, and how various parties influence these policies in community participation. This theory emphasizes the importance of local community involvement in decision-making related to tourism development (Riyanto et al., 2023). Community participation is essential to ensure that tourism development considers the interests and needs of local communities and increases income and support for the tourism industry (Diyah Setiyorini et al., 2019). Using these theories, policymakers and researchers can better understand the complexity of the tourism industry and plan and implement more effective and sustainable policies.

3.2. SME management and tourism policy model

Tourism policy models managed by SMEs can be designed by including the unique characteristics and needs of SMEs in the tourism industry. Seven elements are part of the policy model (Chí Công and Thu, 2020; Khokhobaia, 2019):

a) Empowerment of SMEs: The policy model should focus on empowering this sector. It can be done by providing training and mentoring to improve managerial, marketing, and production skills for tourism SMEs.

b) Supporting regulations: Policies must include regulations that support the growth and sustainability of tourism SMEs, including regulations that facilitate their establishment and operation, reduce intellectual property rights, and protect business rights.

c) Access to finance: One of the main obstacles for SMEs is access to capital and financial facilities. The policy model should include initiatives to facilitate access to finance for tourism SMEs through micro-enterprise credit, support for financing programs, or partnerships with financial institutions.

d) Marketing and promotion: Tourism SMEs often face difficulties marketing their products and services. Policy models could include joint marketing programs, developing digital platforms to market SME products online, or training in digital marketing strategies.

e) Product development and innovation: The policy model should encourage tourism SMEs to develop innovative, quality products and services. This can be done by providing research and development support, product design training, or assistance in implementing new technology.

f) Training and development: Investment in human resource development is the key to the success of tourism SMEs. The model policy should include specific training and development programs for tourism SMEs, including technical, managerial, and customer service skills training.

g) Partnership and collaboration: The policy model must encourage the creation of partnerships and collaborations between tourism SMEs, the Government, financial institutions, universities, and other private sectors. These partnerships can increase tourism SMEs' access to resources, knowledge, and markets.

4. Results and analysis

4.1. Results

The results of IDI and FGD from the four study areas are summarized in **Table A1** (Appendix). Some answers from informants were relevant to the study areas we combined, and answers we considered less relevant to the study topic were discarded. The results of the FGD and IDI may be different from the initial themes in **Table A1** but can enrich the previous themes (see **Table A1**: FGD results and themes and detailed descriptions in FGD (summary in Appendix).

The results of the analysis using the N-Vivo computer program show essential themes that need to be paid attention to by decision-makers and SMEs. This thematic analysis identified 133 codes, 19 categories, nine core themes, and one impact theme: (1) empowerment of SMEs, (2) supporting regulations, (3) access to finance (banking transactions), (4) marketing and promotion, (5) product development and innovation, (6) quality of products/services; (7) training and development; (8) partnership and collaboration; (9) policy impact on tourism business SMEs. These themes can be considered indicators of key success factors for tourism SMEs in the field of study.

4.1.1. The word clouds

This study's analysis of NVivo 12 aims to understand government policies towards MSME businesses in the tourism sector and identify the root problems, impacts, and related solutions. NVivo 12 provides powerful tools for performing statistical analysis and visualizing relationships between variables identified in research data. In the findings with N-Vivo 12 (Sotiriadou et al., 2014; Trigueros et al., 2018), we summarize the essential points that are relevant and useful for this study and discard other unnecessary findings.

In NVivo, the term "nodes" is used to describe the main variables or themes that emerge from the data, while "child nodes" refer to more specific sub-themes or indicators (Houghton et al., 2016). The analysis begins by identifying the main themes from interview data and other sources, visualized through word clouds, hierarchy diagrams, and mapping maps. Word cloud is one of the first visualization tools used in NVivo (Swygart-Hobaugh, 2019). A word cloud shows the frequency and relative importance of various words that appear in the data. Words that appear more frequently will be displayed in a larger font size, making it easier for researchers to identify the topics most discussed by informants (Wahyuni et al., 2021). In the context of this research, the word cloud helps illustrate a map of problems that are developing around government policies towards MSME businesses in the tourism sector.

Some of the dominant terminology in this word cloud includes "tourist business," "SMEs," "government," "digitalization," "marketing," and "capital." The
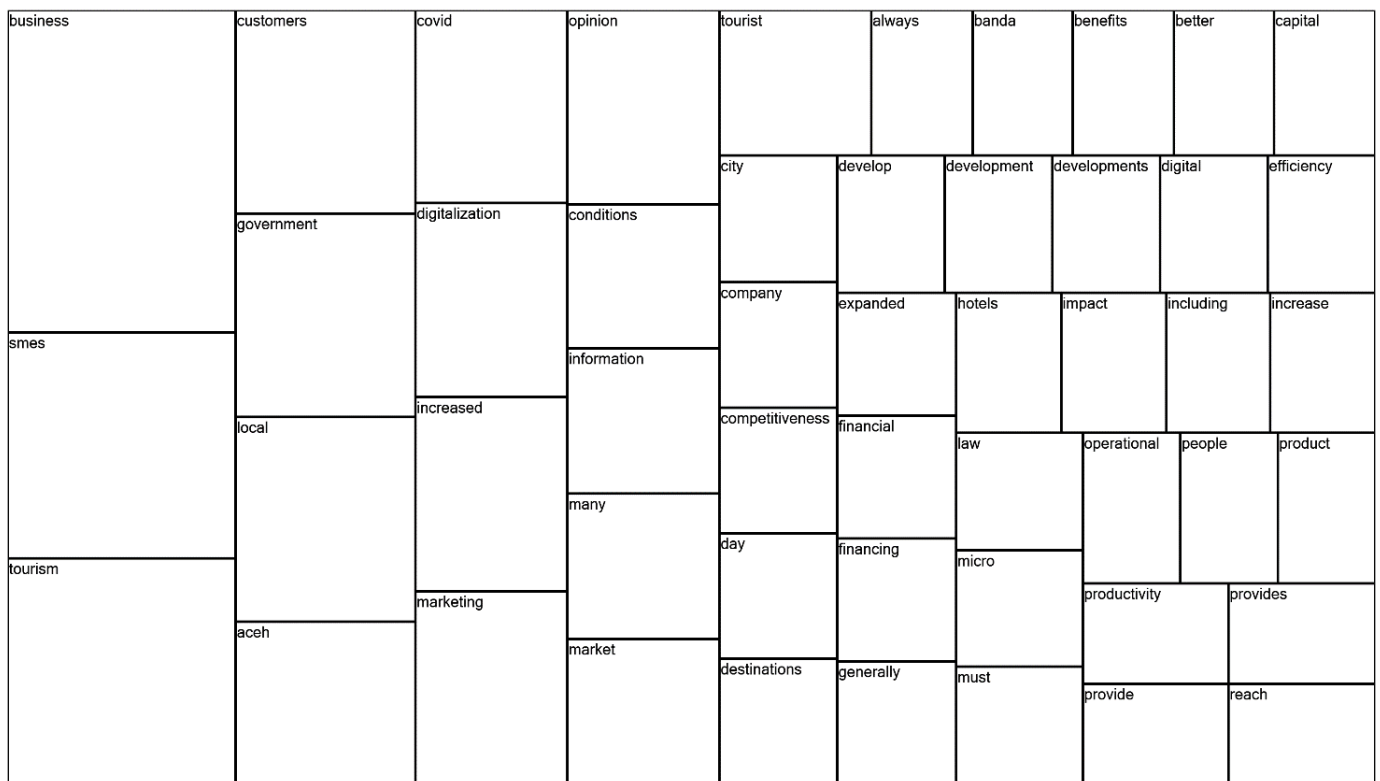
dominance of these words shows the main topics that are the focus of the informants in discussions regarding government policies and their impact on MSME businesses in the tourism sector. Furthermore, the word cloud results can be analyzed further using hierarchical and mapping diagrams. Hierarchy diagrams help display the relationships between key variables and related sub-themes, providing a more structured picture of how various factors relate. Mapping diagrams can map interactions between government policies and various aspects of MSME business in the tourism sector based on the opinions of informants obtained from interviews.

Using NVivo 12 allows researchers to gain deeper insight into government policies toward MSME businesses in the tourism sector. By visualizing data in word clouds and other diagrams, researchers can quickly identify critical problems, understand their impact, and explore possible solutions based on input from key informants (**Figure 4**).

Figure 4. The word clouds (Source: Processed from NVivo 12).

4.1.2. Hierarchical diagram mapping

The second stage is hierarchy diagram mapping (Cahyani et al., 2022). The hierarchical diagram is intended to show the dominance of methods for solving SME management problems and the solutions that must be carried out based on the number of codes in the data source. A hierarchy chart is a diagram that displays hierarchical data in rectangles of various sizes and round shapes (Sungsuwan and Sonsuphap, 2023). The hierarchy chart shows the many factors that result. For example, coding is factored into nodes and code-based references for article interviews, results, and videos. The tree chart must be sized to fit the space available, so it must consider the size of the rectangles relative to each other, not in absolute numbers.

The largest area is shown in the center of the image, while the smallest space is around the perimeter. 'Word clouds' from data sources with a lower similarity level based on node occurrence and word frequency will be separated from the percentage weighted word frequency nodes and highest hierarchy diagram. Cluster analysis can be seen in **Figure 5**.

Figure 5. Hierarchy diagram mapping (Source: Processed from NVivo 12).

4.1.3. Quantitative data analysis

In the third stage, the results of N-Vivo processing produce quantitative data analysis in the form of the Pearson correlation coefficient, which can be interpreted as the relationship between factors as very strong, strong, medium, weak, and very weak. This analysis can be seen in the **Table 1** below.

Table 1. Correlation coefficient between Government policy factors towards SMEs (Source: Processed from NVivo 12).

Node	Nodes	Correlation coefficient	Information
Policy Impact	Nodes\\Partnership and Collaboration	0.70	Strong
	Nodes\\Training and Development	0.56	Moderate
	Nodes\\Marketing and Promotion	0.55	Moderate
	Nodes\\Empowerment of SMEs	0.54	Moderate
	Nodes\\Access to Financial Capital	0.52	Moderate
	Nodes\\Supporting Regulations	0.52	Moderate
	Nodes\\Product or service quality	0.54	Moderate
	Nodes\\Product Development and Innovation	0.35	Weak
	Nodes\\Banking Facilities and Transactions	0.27	Weak

This table explains the strength of the relationship between various factors, thereby helping decision makers understand the dynamics in the tourism SME sector.

4.2. Analysis

a)   Partnership and collaboration

Studies related to the impact of government policies on partnership and collaboration were conducted by Richards (2017) and Yue et al. (2022). They explain the relationship between partnerships, information sharing, and sustainability performance of Chinese sports equipment MSMEs, showing that partnerships between retailers and MSMEs have a positive impact on sustainable performance; they share information that plays an important role in mediating and building trust, cooperation and sustainable performance between them (Choong et al., 2023). Government support can positively impact the partnership's impact on sustainable performance. To realize collaborative ideas, large companies reflect information sharing and collaborative innovation in social responsibility, in environmental, economic, and social dimensions, cooperatives which are part of strategic alliances with SMEs (Beuren et al., 2020). Large companies can collaborate with SMEs as business partners, which helps them achieve superior results and ensure survival in a crisis. Business relationships will help companies access limited resources, share information, and build trust in the community (Fudge Kamal et al., 2022). In Indonesia, the Government encourages collaboration between SMEs, educational tourism institutions, and local communities to create more innovative and competitive tourism products, such as cooperation in developing cultural and nature-based tourism involving local communities. Government policy has a strong relationship with Partnership and Collaboration because the community culture has a concept of deliberation and cooperation between SMEs, and the Government facilitates it with large companies (Pieter and Utomo, 2023).

b)   Training and development

A study by Zulkefli et al. (2021) in Malaysia revealed that the Government has a significant influence in implementing programs to support tourism businesses. Their research proves that implementing policies in the form of programs needs to be revised and more effective. Implementing various tourism programs experiences major obstacles from government organizations, such as a lack of collaboration between institutions a lack of resources, and skilled institutions to implement programs effectively. External factors such as the low involvement of local operators are also the main obstacles government agencies face (Huda et al., 2022; Topimin and Mohd Hashim, 2021). For this reason, the Government needs to clearly understand each tourism program's objectives, functions, and implementation process.

In Indonesia, the Government provides training programs to improve the skills and knowledge of SMEs in the tourism sector. This training covers business management, customer service, digital marketing, and foreign languages, essential for attracting and serving tourists. The Government provides training programs to improve the skills and knowledge of MSME actors in the tourism sector, covering aspects such as business management, customer service, digital marketing, and foreign languages, which are essential for attracting and serving tourists. However, the training has yet to have a significant impact. This study also shows that the results are in a 'moderate' position, which means that the impact of government

policy on SME training education programs is not yet significant.

c)   Marketing and promotion

As stated by Li et al. (2017) and Potter and Frank (2024), in general, the impact of tourism includes foreign exchange earnings, community income, employment opportunities, prices and tariffs, distribution of benefits and profits, ownership and control, development, and government income. Through the Ministry of Tourism and Creative Economy, the Government is aggressively promoting Indonesian tourist destinations at home and abroad (Nusraningrum, 2019). This promotional campaign increases the number of tourists visiting so that tourism SMEs get more business opportunities (Millo and Kumar, 2021). In the tourism industry, destination products and services are synonymous with branding. Marketing serves as a bridge that connects paths to a successful business approach, especially for rural tourism companies. Conditions like this (Ocke and Teixeira, 2024) suggest that all tourism business actors must consider green marketing that protects the environment. In a technological context, the Government is promoting digital technology among tourism SMEs. This support includes e-commerce training, digital marketing, and online reservation platforms, which help SMEs reach a broader market.

In Indonesia, the Government supports SMEs in promoting their products in tourist areas. However, many SMEs are not facilitated with sufficient capital, so they sell their products like street vendors even though they have been trained in marketing concepts, which gives rise to negative perceptions (Mariam et al., 2023). Marketing interests so that SMEs can proliferate also ignore environmentally friendly marketing (Zhang et al., 2022). Some of the challenges of ecotourism include the need to address CO_2 emissions, air consumption, landscape degradation, and biodiversity loss (Saleh and Faisal, 2024). There are also challenges in understanding the dynamics of the concept and overall human well-being. We see much rubbish scattered around tourist areas, which is slow to handle and lacks anticipation (Millo et al., 2024). Therefore, the value of the relationship between the two variables, namely the impact of policy on marketing and promotion, is at the 'moderate' level. In the future, local governments are expected to act more proactively towards environmentally friendly marketing concepts.

d)   Empowerment of SMEs

Empowerment refers to strategic policy measures to attract and retain small and medium enterprises (SMEs) to ensure their continued development in various economic sectors. The resources provided to SMEs include local business expertise and supporting facilities (Bano et al., 2024). The SME growth plan will determine the extent to which the Government can delegate its authority to regional governments and SMEs through statutory regulations, especially in the tourism sector. The aim is to encourage national GDP growth by empowering SMEs through several key initiatives: training and development, marketing and promotion, access to financial capital, facilitating more accessible access to funding, banking facilities and transactions, international access, and product development and innovation (Sawitri, 2023). The Government aims to ensure that stakeholders in the field utilize all available resources effectively, enabling SMEs to operate smoothly and by set standards (Afarini and Hindarto, 2023).

To strengthen the empowerment of SMEs, the Government should invest in

developing tourism infrastructure such as roads, airports, ports, and other public facilities (Budhi et al., 2020). Good infrastructure makes it easier for tourists to access tourism destinations, which benefits tourism SMEs such as hotels, restaurants, and tourism service providers. The three main government programs that encourage SMEs are the Tourism Village Program, which aims to develop villages in Indonesia into attractive tourist destinations (Apriyanti et al., 2024). The Government provides training, promotional assistance, and development of tourist village infrastructure. It provides opportunities for local MSMEs to develop through homestay businesses, handicrafts, culinary, and other tourism services. The Government is also the national movement proudly made in Indonesia, where the Government promotes local products, including tourism MSME products. This campaign helps SMEs gain more recognition and market share. Then there is the Tourism Grant Program, namely, the Government provides grants to tourism business actors, including SMEs, who are affected by the COVID-19 pandemic. This assistance aims to help them survive and recover from the economic impact caused by the pandemic.

e) Access to financial capital

The study by Song et al. (2022) reveals opportunities to finance tourism SMEs that are emerging globally due to the expansion of the tourism sector. However, how these financial arrangements will be controlled reasonably on a larger scale is still being determined. In the contemporary period, the economies of the E7 countries need more financial resources to ensure the availability of funds for acquiring funds for tourism-based SMEs. A study from Ammar et al. (2022) is similar to Indonesia, where SMEs in the tourism and hospitality sectors are responsible for economic growth in Egypt. However, SMEs face significant difficulties in accessing the financial system, even though in Indonesia, the Government provides financial support to tourism SMEs through low-interest credit programs, grants, and tax incentives. For example, the People's Business Credit Program provides easier access to capital for SMEs to develop their businesses, but it is ineffective and triggers growth in SME profitability. One of the most vital reasons comes from banking. A study from Ghi et al. (2024) and Kijkasiwat et al. (2022), which adopted data from the World Bank, explains that the access of companies in Southeast Asia (and SMEs) to finance and social capital significantly increases company performance. The mediating role of companies' access to funding, the association of social capital, and improving company performance must be facilitated and improved (Abu et al., 2024; Thai et al., 2023). In Indonesia, the difficulties for SMEs and medium-sized companies are caused by banks creating complicated procedures by requiring collateral equivalent to a loan or more, while SMEs are small businesses with few assets. The Indonesian SME Minister explained that in the last two years, the biggest reason for rejected MSME credit was because there was no collateral in bank credit collateral at 59.62%, fintech or non-bank credit at 46.43%.

f) Supporting regulations

The Government is linking licensing processes for businesses in the tourism sector, making it easier for SMEs to start and develop their businesses. This policy includes simplifying bureaucracy and reducing licensing costs. Akaninyene (2024) conducted a study investigating the relationship between policy compliance and business growth in SMEs and exploring how compliance with policies affects

various aspects of SME operations and growth paths. SMEs that operate within a supportive regulatory framework are better prepared to deal with external shocks, create jobs, and improve social welfare (Dianu et al., 2021; Pham et al., 2021). Policymakers are urged to develop tailored support mechanisms, including accessible resources and simplified regulatory processes, to assist SMEs in effectively navigating the complex policy landscape by creating an enabling environment for SMEs (Liu, 2024). In Indonesia, regulations at the local level overlap with central regulations regarding SME activities and need improvement in the future because the relationship between the impact of government policy and its supporting regulations is moderate (not significant).

g) Innovation

This research contributes to the theoretical model of organizational innovation and the Schumpeterian innovation concept. These models are a foundation for performance innovation, competitive advantage, and tourism SME business management strategies. Ethical decision-making in government policy aims for tourism SMEs' progress, expansion, promotion, and performance (Modara and Bennet, 2017). An innovation culture in an organization has a more significant influence on encouraging creativity and experimentation. This culture supports creativity and is not afraid of failure, allowing employees to innovate and try new ideas without fear of risk (Hassan et al., 2019). A culture of innovation is also committed and allows SMEs to adapt quickly to market and technological changes (Martins et al., 2018). In an innovation culture, there is continuous learning: A culture that encourages continuous learning and development ensures that employees are always up-to-date with the latest knowledge and skills, which is essential for continuous innovation. Structural, external, and internal factors play an important role in determining innovation among SMEs, and organizational culture is often considered more significant because it serves as the foundation for how other factors are operated and integrated (Naranjo-Valencia et al., 2017).

The right organizational culture creates an environment conducive to innovation, enabling SMEs to effectively exploit opportunities and overcome challenges in an ever-changing business world (Xanthopoulou and Sahinidis, 2022). In Indonesia, the Government admits that there are no objective standards and measurements regarding tourism products, including restaurants, hotels, travel services, transportation, development of tourist destination areas, recreational facilities, and tourist attractions business entities such as travel agents, ticket agents, vehicle rentals, craft production, tour guides, restaurants, and hotels require clear rules and regulations. Meanwhile, Law Number 10 of 2009 concerning tourism needs to be updated and clarified to cover all developing tourism activities. This research also shows that the results are in a 'weak' position, which means that the impact of government policy on SME product innovation programs has yet to be significant.

5. Conclusion and recommendation

This research concludes that the impact of government policy, which refers to Law Number 10 of 2009 concerning Tourism, Regulation of the Minister of Tourism

and Creative Economy/Head of the Tourism and Creative Economy Agency of the Republic of Indonesia Number 3 of 2022, is less significant in increasing the development of SMEs at the local level. Six study propositions have proven to be accurate. Namely, partnership and collaboration between the Central Regional Government and tourism SMEs are the main factors determining their local development. Access to banking is the main obstacle in facilitating the progress of tourism SMEs; product development and innovation require training for tourism SMEs to increase the number of tourists; the impact of Government policy on marketing and promotion of tourism SMEs has an insignificant relationship due to the lack of local government support; The aspect of collaboration between fellow tourism SMEs is crucial in increasing the number of tourists in tourism SMEs; and training and development have a moderate relationship to the impact of government policies to improve the quality of services and products/services. It has resulted in the impact of government policies to advance SMEs in Indonesia, which, on average, is at a moderate to weak level. It requires improvement, especially from government support through regulatory changes supporting tourism SMEs' development.

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Appendix

Table A1. Summary of IDI and FGD results and detailed explanation of themes.

Themes	Reference Notes in FGD
Tourism SME Business (Information)	Some Tourism SME actors are Village-Owned Enterprises (VOE) which have between 5–15 employees. They use digital marketing, and attractive and more elegant brochures to develop their business by utilizing digital marketing. In Kutaraja and Aceh Province there are more than 25 tourist destinations, for example Ketambe Forest, Ulee Lheue Beach, Sarang Cave, Kuta Malaka Waterfall, Laut Tawar Lake, with staycation or camping costs starting from IDR 95 thousand/ days, and 636 hotels, as well as 297 tourism SMEs by the end of 2023 (FGD with Banda Aceh City Government Staff). In West Sumatra Province there are more than 40 tourist destinations, and the most beautiful are Pisang Island and Mandeh Island, 946 hotels, and 499 tourism SMEs at the end of 2023 (FGD with Padang City Government Staff, West Sumatra Province). In NTB Province there are more than 40 tourist destinations, and the most beautiful are the Mandalika Area, Merese Hill, Gili Nanggu, Sade Traditional Village, and the Bau Nyale Festival. Tourism SME actors numbered 88 by the end of 2023 (FGD with Mataram City, Lombok, Government Staff-West Nusa Tenggara Province). The decrease in the number of tourists due to the pandemic has had an impact on regional GRDP in Bali Province. However, if we compare the decline in economic growth nationally, our province only fell −2.12%, but nationally it fell -4.25%. Bali, as the worlds best tourism study area, experienced a decline in economic growth of 11.06%. Bali has international and national priority tourist areas which have more than 55 destinations, 434 3 star hotels and above, 417 tourism SMEs by the end of 2023 (FGD with Denpasar City Government Staff).
1. Empowerment of SMEs (Institutional intervention-Government Assistance)	The government provides training and support to us through the Peoples Business Credit Program and Ultra Micro financing. Digitalization of SMEs. In our opinion, digitalization can provide many benefits, including operational efficiency, increased productivity, expanded market reach, and increased competitiveness (Banda Aceh city government, in IDI). We took part in various training, generally consisting of several stages, namely creating social media, practical implementation of financial management, inputting SOP files and cooperation agreement letters, basic tourism training, and marketing brochures, banners/posters (Denpasar City Government, Bali, in IDI).
2. Supporting Regulations	Basically Law no. 9 of 1990 concerning Tourism needs to be revised because it was created 32 years ago and has not yet adapted to current developments. Moreover, in the COVID-19 case, the government's policy of prohibiting people from traveling has caused many tourism SMEs to collapse. Conditions like this must be anticipated by the regulars FGD with SMEs in Banda Aceh City). According to the Law, regional governments play a major role in increasing tourism potential, facilitating, encouraging investment, developing tourism, managing tourism, and allocating budgets to increase tourism potential. But the reality is not that far, because regulations should also support SMEs' access to finance (banking). This access is weak for local SMEs, because banks have more trust in large companies. We really hope for firm and clear regulatory support (FGD with SME Padang City, West Sumatra). The tourism sector in Indonesia has overlapping regulations, lack of quality human resources, lack of publications, poor infrastructure, lack of investment, lack of attention to environmental aspects, and lack of attention to religious tourism objects even though there are many Muslim tourists who visit, but are less anticipated by local government (FGE with SME, West Nusa Tenggara, in FGD). Supporting regulations should also encourage methods of packaging tourist attractions, because we see limited product diversification, especially weak tourism management by local governments, eliminating the quality of tourism services which is not yet good and disparities in tourist area development are also evenly distributed in each region (FGD with Denpasar City SMEs, Bali).
3. Access to Finance (Capital)	At first, our business capital came from family loans, and during COVID-19, our business went bankrupt. One day, our business friend received an invitation from the city governments SME department, and we received a grant to support the business. Our business is starting again after COVID-19 (FGD with SMEs in Banda Aceh City). Our business started by borrowing money from a local bank, as it grew, the bank offered additional loans, but we refused because the city government offered capital grants for 200 tourism SMEs. We participated in a group guided by the local government (FGD with SME Padang City, West Sumatra). Our business started in 2003, had 2 employees, and now there are 7 employees. The initial capital came from selling the house, and we rented a Shop House, and lived in this Shop House. The local government provides guidance and training to our employees so that they are more efficient and increase profits for our company (FGD with Denpasar City SMEs).
4. Banking Transactions	In our opinion, almost all travel companies have bank accounts, carry out transactions that are considered easier, receive down payments from customers and so on (Members of Lombok Tourism SME, West Nusa Tenggara, in FGD). We use banking facilities because they are considered to make our activities easier and easier. We require customers to deposit travel costs to the bank we determine. We record all proof of customer payments to make it easier for our computerized accounting system for the Denpasar, Bali Tourism SME group, in the FGD).

Table A1. (*Continued*).

Themes	Reference Notes in FGD
5. Marketing and Promotion	Our business focuses on domestic marketing not only in the provinces of Aceh, and West Sumatra (Padang) but throughout Indonesia. In our opinion, the target market should be broad, and please local customers. Usually we use local planes, arrange hotels, buses and guide locals to tourist destinations (FGD with SME in the cities of Banda Aceh and Padang). International marketing is our focus point, the benefits are quite large, because it involves marketing activities in various countries or global markets. We take care of passports, tourist visas, hotels, buses at the destination. The visits currently in demand by customers are Türkiye and Europe because destination prices are cheaper. Usually we use Qatar Airlines, Etihad, and Turkeys Airlines (FGD with SMEs in Denpasar and Lombok).
6. Product Development and Innovation	In general, services in our area focus more on local destinations. More than 40 tourist destinations and we introduced government programs to promote local tourism. The government does not prohibit us from entering foreign business, but we need to prepare this strategy so as not to lose money (FGD with SMEs in the cities of Banda Aceh and Padang). Our product is tour & travel. Our services vary with local and international destinations. Our tour & travel business has expanded to Europe, Saudi Arabia, Australia and East Asia, and is profitable (FGD with SMEs in Denpasar and Lombok-West Nusa Tenggara).
7. Quality of products/ services	We have the best quality of service. We provide a suggestion box. From an average of 60 customers per month, there are 8–12 customers who provide suggestions for improvements, for example regarding itineraries, hotels, and local guides (FGD with SME Denpasar and Lombok-West Nusa Tenggara). Generally, customers want clear information. They book trips 1–2 months before their visit, and always want information about schedule developments, weather, conditions at the destination, whether it is too crowded with visitors. This information must always be conveyed via WhatsApp, telephone, hotel conditions, and so on (FGD with SME in the cities of Banda Aceh and Padang).
8. Training and Development	Tourism stakeholders from local government agencies have trained and made them experts in accounting, compiling financial reports and making simple bookkeeping reports, also the application of internet technology can help increase sales and expand the business, mentoring provides education on how to create or edit social media images using hope to attract more consumers. However, some of these businesses have not yet been registered with the local government, so we urge SMEs to immediately have a legal ID (IDI, Chair of the Kutaraja, Banda Aceh Tourism SME group). In general, they have participated in strategic planning programs and annual work plans, training and mentoring, financial management training, making brochures, making SOPs and business letters, and cooperation agreements (IDI, Chair of the Padang Tourism SME group, West Sumatra). The Tourism SME Group utilizes social media Instagram, X, and meta. They have a business account feature that makes it easy for business owners to create a business profile and post photos of interesting local tourist areas. Even though we have been given training by the government, some members do not yet have legal ID (IDI, Chair of the Lombok Tourism SME group, West Nusa Tenggara). In the training they received material on how to create cool captions to post on social media. (Chair of the Denpasar Tourism SME group, Bali, in IDI).
9. Partnership and Collaboration	Our company collaborates with tourist villages managed by the Regency, Subdistrict, and Tourism Community governments. Generally, tourism management is carried out by Village-Owned Enterprises. So, we are in direct contact with them (FGD with SME in the cities of Banda Aceh and Padang, Wes Sumatra). We collaborate with the Government in terms of assistance regarding the use of digital marketing as a means of developing airline tourism SME (FGD with Denpasar, Bali and Lombok City SME-West Nusa Tenggara).
10. Policy Impact	The impact of providing grants is very pronounced and beneficial for our company. We can develop better now, and have customers intensely contact us. The increase in customers and profits from our business is better than during COVID-19 (FGD with SMEs in the cities of Banda Aceh and Padang, West Sumatra). We observe the impact of government policies that prioritize the micro business sector in the tourism sector, by providing grants and training assistance, especially to enter international markets, from our growing profits. Orders every 3 and 6 months ask us to make business development reports, especially the number of customers coming to Indonesia and local tourists visiting abroad (FGD with SME Denpasar and Lombok, West Nusa Tenggara).

Source: From researchers, 2022.