

Innovation Strategies of Tourism MSMEs for Sustainable Tourism Development: A Systematic Literature Review

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Abstract

MSMEs constitute the structural backbone of global tourism economies, yet their capacity to pursue innovation-driven sustainability pathways remains systematically undertheorised and empirically fragmented. While individual studies have examined specific innovation types or barriers in isolation, no comprehensive synthesis simultaneously maps dominant innovation strategies, interrogates prevailing methodological and theoretical orientations, and critically identifies barriers, success factors, and future directions for tourism MSME innovation. This study addresses that gap through a SLR of 63 peer-reviewed articles retrieved from the Scopus database covering the period 2020–2026. The PRISMA 2020 protocol guided the screening and selection process across 217 initially identified records. Three research questions structured the synthesis. The findings reveal seven dominant innovation strategy clusters: digital innovation, green innovation, business model innovation, marketing innovation, social innovation, service innovation, and community-based innovation. Methodologically, the corpus is dominated by quantitative survey-based approaches underpinned by Resource-Based View and Innovation Diffusion Theory, while longitudinal, ethnographic, and multi-stakeholder designs remain scarce. Financial constraints, digital literacy deficits, institutional voids, and fragmented governance structures are identified as primary barriers, with leadership capacity, collaborative ecosystems, and sustainability orientation serving as key enablers. The study's novelty resides in its cross-cutting synthesis integrating strategy classification, theoretical critique, and future research agenda, with explicit attention to developing-country and Indonesian MSME contexts.

Keywords: digital innovation, green innovation, innovation strategy, sustainable tourism, tourism MSMEs

INTRODUCTION

Micro, small, and medium enterprises represent not a peripheral category of tourism business but its structural foundation. Across both developed and developing economies, MSMEs account for between 80 and 95 percent of all registered tourism businesses and generate the majority of tourism-related employment (OECD, 2022; WTO, 2023). In countries such as Indonesia, where the tourism sector comprises over 30 million micro and small enterprises embedded across accommodation, food services, transport, guiding, and handicraft production, this structural reality is especially pronounced (BPS, 2023). Yet despite this demographic dominance, the MSME sector has remained disproportionately marginalised in high-impact scholarship on innovation and sustainability, two of the most consequential strategic concerns shaping the future of global tourism.

The transition toward sustainable tourism development, as codified in the United Nations 2030 Agenda and its Sustainable Development Goals (SDGs), particularly SDGs 8, 12, and 17, requires not merely the compliance of large-scale operators but the active participation and innovative capacity of the millions of small enterprises that constitute the lived fabric of tourism destinations (Streimikiene et al., 2021). Innovation in this context is not a luxury but a competitive and existential necessity: as consumer expectations shift toward authentic, low-impact, and digitally mediated experiences, tourism MSMEs that fail to adapt risk progressive

marginalisation in rapidly evolving markets (Cordova et al., 2025; Setiowati & Bandur, 2025).

The existing literature on tourism MSME innovation, while growing in volume, exhibits three structural limitations. First, it is characterised by fragmentation across innovation types, with studies examining digital innovation (Gutierriz et al., 2023), green practices (Wei et al., 2023), or business model transformation (Nguyen et al., 2023) in relative disciplinary isolation. Second, methodological asymmetry is evident: the dominance of cross-sectional, quantitative, survey-based approaches Cordova et al. (2025); Streimikiene et al. (2021), limits the field's capacity to capture dynamic processes and relational dimensions of collaborative innovation central to MSME performance in destination ecosystems. Third, the majority of published studies originate from European, East Asian, or North American contexts (Sharuddin & Roddin, 2025; Wei et al., 2023), generating theoretical frameworks whose transferability to developing-country settings is rarely interrogated.

Innovation in tourism MSMEs intersects with sustainability through at least three distinct pathways. The first is ecological: green innovation, encompassing renewable energy adoption, waste reduction, and circular supply chain integration, directly reduces the ecological footprint of MSME operations (Wei et al., 2023). The second is economic: business model and digital innovation enable MSMEs to reach new market segments and reduce transaction costs

(Gutierriz et al., 2023; Nguyen et al., 2023). The third is social: community-based and social innovation foster inclusive value distribution, cultural preservation, and local stakeholder empowerment (Sharuddin & Roddin, 2025). Academic treatment of these pathways has not kept pace with their practical significance.

Three specific research gaps motivate this review. First, no existing synthesis comprehensively maps the full spectrum of innovation strategies deployed by tourism MSMEs, leaving unclear which strategies are most adopted, most strongly associated with sustainability outcomes, and how different strategies interact. Second, the theoretical pluralism evident in the MSME innovation research, with Resource-Based View (Simarmata et al., 2024), Dynamic Capability Theory (Nguyen et al., 2023), Innovation Diffusion Theory (Cordova et al., 2025), and Institutional Theory (Bhuiyan et al., 2023) all appearing across the corpus, has not been critically synthesised to assess complementarity and tensions between these frameworks. Third, barriers and enablers of MSME innovation have been catalogued in individual case studies (Cordova et al., 2025) but not systematically assessed across diverse geographic and institutional contexts.

This study contributes to these gaps by conducting a rigorous SLR of Scopus-indexed literature on tourism MSME innovation and sustainability published between 2020 and 2026. Three research questions guide the synthesis:

RQ1: What innovation strategies are most frequently implemented by tourism MSMEs to support sustainable tourism development?

RQ2: What research methods and theoretical perspectives dominate studies on innovation strategies in tourism MSMEs?

RQ3: What barriers, success factors, and future strategic directions are identified in the implementation of innovation strategies for sustainable tourism development?

METHOD

This study employs the Systematic Literature Review (SLR) methodology, which applies a predefined, structured protocol for identifying, screening, evaluating, and synthesising evidence from existing research (Ateljevic & Page, 2021). SLR is distinguished from narrative review by its explicit, reproducible procedures, which minimise selection bias and enhance the transparency and verifiability of conclusions (Ateljevic & Page, 2021). The protocol followed in this study conforms to the PRISMA 2020 framework, the internationally recognised standard for reporting systematic reviews in the social and management sciences.

Database Selection and Search Strategy

The search strategy yielded 217 records from the Scopus database before duplicate removal and eligibility screening. These records formed the initial dataset for the systematic review process. Data collection was conducted exclusively using the Scopus database, selected for

three methodologically grounded reasons: (1) it provides the most comprehensive coverage of peer-reviewed social science and management literature; (2) it supports advanced Boolean search across TITLE-ABS-KEY fields, enabling reproducible and precisely bounded search; and (3) its subject classification system facilitates systematic filtering by document type, language, and discipline (Gutierriz et al., 2023). The following search string was applied:

TITLE-ABS-KEY (("tourism SME" OR "tourism MSME" OR "tourism enterprise" OR "small tourism business" OR "hospitality SME*") AND (innovation OR "innovation strategy" OR "business model innovation" OR "green innovation" OR "digital innovation" OR "social innovation") AND ("sustainable tourism" OR sustainability OR "sustainable development"))

The publication window of 2020–2026 was chosen deliberately to capture the structural discontinuity produced by the COVID-19 pandemic, which triggered accelerated digital adoption, heightened sustainability demand, and intensified policy attention to MSME resilience. The search was limited to English-language journal articles and reviews. Earlier foundational studies published before 2020 were retained exclusively for theoretical background and were not included in the SLR corpus.

Inclusion and Exclusion Criteria

Inclusion criteria required studies to: (1) be published between 2020 and 2026 in peer-reviewed

Scopus-indexed journals; (2) be written in English; (3) specifically address MSMEs, SMEs, or small enterprises in tourism, hospitality, or experience economy sectors; (4) examine at least one dimension of innovation strategy; and (5) contribute findings relevant to sustainable tourism development or SDG-aligned goals.

Exclusion criteria eliminated studies that: (1) focused exclusively on large-scale corporations without reference to SME dynamics; (2) treated innovation as peripheral rather than central; (3) examined sustainability in purely normative terms without empirical or analytical content; or (4) were conference papers, book chapters, or grey literature not subject to peer review.

Quality Assessment

Each document was evaluated against four QA criteria:

QA1: Was the article published between 2020 and 2026 in a peer-reviewed Scopus-indexed journal?

QA2: Does the study specifically focus on tourism MSMEs, SMEs, or small tourism enterprises as the primary unit of analysis?

QA3: Does the study examine innovation strategy as a central theoretical or empirical construct?

QA4: Does the study produce findings relevant to sustainable tourism development, sustainability outcomes, or SDG-aligned goals?

The study selection process followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA 2020) guidelines to ensure transparency,

rigor, and replicability. The screening procedure consisted of four stages, namely identification, screening, eligibility assessment, and final inclusion. Figure 1 illustrates the complete article selection process employed in this review.

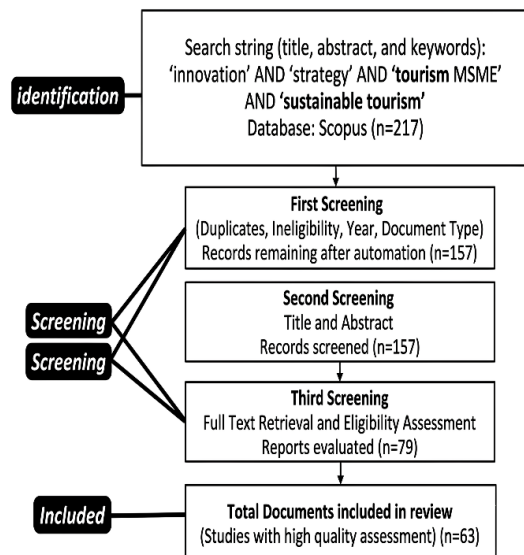


Figure 1. PRISMA Diagram

Research Questions

Three research questions structured the synthesis:

RQ1: What innovation strategies are most frequently implemented by tourism MSMEs to support sustainable tourism development?

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RESULT AND DISCUSSION

Following the PRISMA screening process, 63 articles met all inclusion

and quality assessment criteria and were retained for final synthesis. The selected studies represent diverse methodological approaches, geographical contexts, and innovation themes within tourism MSMEs. Table 1 presents an overview of the characteristics of the included studies.

Table 1. Characteristics of Included studies (n = 63)

Category	Classification	n
Publication Period	2020–2021	35
	2022–2023	19
	2024–2026	9
Research Method	Quantitative	29
	Qualitative	18
	Mixed Methods	8
	SLR/Bibliometric	8
	Geographic Context	
Geographic Context	Asia	24
	Europe	20
	Americas	9
	Multi-country/Others	10
Innovation Focus	Digital Innovation	17
	Green Innovation	14
	Business Model Innovation	10
	Marketing Innovation	8
	Service Innovation	6
	Social Innovation	4
	Community-Based Innovation	4

As shown in Table 1, quantitative studies dominated the literature, accounting for 29 of the 63 reviewed articles. Most studies were conducted

in Asia and Europe, reflecting the growing interest in tourism MSME innovation within these regions. Digital innovation and green innovation emerged as the most frequently investigated themes, indicating a strong research focus on technological transformation and sustainability-oriented business practices. These patterns suggest that innovation is increasingly viewed as a strategic mechanism for enhancing both competitiveness and sustainable tourism development.

RQ 1: Innovation Strategies in Tourism MSMEs

Thematic synthesis of the 63 reviewed articles identified seven discrete innovation strategy clusters. These are not mutually exclusive: empirical studies frequently document multiple innovation types co-occurring within a single enterprise or destination context (Sharuddin & Roddin, 2025; Wei et al., 2023). However, categorical differentiation is analytically productive because it reveals which types of innovation have received most research attention and the distinct sustainability pathways each enables.

Table 2. Innovation strategy themes in tourism MSME research (n = 63)

Innovation Strategy Cluster	No. of Studies
Digital Innovation	18
Green Innovation	15
Business Model Innovation	10
Marketing Innovation	7
Social Innovation	5
Service Innovation	5
Community-Based Innovation	3
Total	63

Digital Innovation

Digital innovation constitutes the most extensively studied cluster (18 studies; 28.6%), reflecting the broader digital transformation imperative reshaping the competitive landscape for tourism enterprises since 2020. Within this cluster, studies range from accessible digital tools, including social media management, e-commerce integration, and mobile booking platforms (Cordova et al., 2025), to more sophisticated applications such as data analytics for visitor profiling, AI-assisted customer engagement, and cloud-based operational management (Gutierriz et al., 2023). A consistent finding across studies is that digital adoption by tourism MSMEs is strongly bifurcated by size and resource endowment: micro-enterprises, which constitute the numerical majority of the sector, demonstrate adoption rates significantly lower than small and medium enterprises, primarily owing to capital constraints and low digital literacy (Gutierriz et al., 2023; Wei et al., 2023).

Several studies document the catalytic role of COVID-19 in accelerating adoption among previously resistant MSMEs, with Gutierrez et al. (2023), framing the pandemic as a 'forced experiment' in digital pivot that produced durable changes in business model orientation among enterprises that survived. Nguyen et al. (2023), further document how crisis-induced digital adoption created a bimodal distribution within the MSME sector: enterprises that achieved substantive digital transformation during the pandemic emerged with significantly enhanced competitive positioning, while those that adopted surface-level digitalization without underlying process reconfiguration reverted to pre-crisis operational models. A critical analytical distinction emerges from the corpus between surface-level digitalization, the adoption of a social media presence or digital payment without strategic reconfiguration, and substantive digital innovation that transforms value creation and delivery. The former is far more prevalent among tourism MSMEs in developing economies (Efendi, 2025; Rahman et al., 2024).

Green Innovation

Green innovation, examined in 15 studies (23.8%), represents the most theoretically diverse cluster, drawing on environmental management theory, ecological modernisation, and circular economy frameworks. Studies examine practices ranging from energy efficiency and renewable energy adoption (Wei et al., 2023), through sustainable sourcing and

waste minimisation, to environmental certification systems such as Green Key and GSTC standards (Wei et al., 2023). A significant finding is that green innovation in MSMEs is strongly moderated by institutional context: enterprises operating in destinations with well-developed regulatory frameworks and DMO-promoted sustainability standards demonstrate significantly higher adoption rates than those in institutional voids (Wei et al., 2023).

A persistent theoretical tension in this cluster concerns financial viability: while RBV frameworks position green innovation as a sustainable competitive advantage through cost reduction and premium market access, several empirical studies find that the financial payback period for green investment exceeds the time horizons accessible to capital-constrained MSMEs (Wei et al., 2023). Wei et al. (2023), term this the 'green investment gap', arguing it cannot be resolved through firm-level strategy alone and requires enabling institutional infrastructure including green financing schemes and collective certification arrangements.

Business Model Innovation

Business model innovation (10 studies; 15.9%) addresses the reconfiguration of value creation, delivery, and capture architectures at the enterprise level. This cluster encompasses experience-economy reorientation, collaborative consumption models, and social enterprise hybrids (Nguyen et al., 2023). Multiple post-COVID studies document how the pandemic forced

MSMEs to reimagine value delivery systems, with enterprises that had invested in relationship-based, loyalty-intensive models demonstrating greater adaptive capacity than those relying on transaction-volume models (Gutierriz et al., 2023; Nguyen et al., 2023). Wei et al. (2023), document how hospitality MSMEs in Southeast Asia that adopted circular value propositions, embedding resource recovery and community benefit directly into their service architecture, achieved both sustainability certification and enhanced guest loyalty simultaneously.

Marketing, Social, Service, and Community-Based Innovation

The remaining four clusters collectively reflect the multi-dimensionality of sustainable innovation in tourism MSMEs. Marketing innovation studies (7 studies; 11.1%) document how MSMEs leverage storytelling, authentic brand narratives, and niche market targeting to access sustainability-conscious consumer segments without large-operator marketing budgets (Cordova et al., 2025; Sharuddin & Roddin, 2025). Setiowati & Bandur (2025), find that marketing innovation oriented around local identity and place-based authenticity generates significantly higher willingness-to-pay premiums among sustainable tourism consumers than generic green marketing. Social innovation studies (5 studies; 7.9%), while the most theoretically under-developed, present compelling case evidence for MSMEs as vehicles for inclusive development and cultural

preservation (Sharuddin & Roddin, 2025). Service innovation studies (5 studies; 7.9%) examine guest experience co-creation and personalisation through service-dominant logic frameworks (Setiowati & Bandur, 2025). Community-based innovation (3 studies; 4.8%), the least researched cluster, documents how MSMEs in indigenous and rural destinations generate innovation through participatory governance that simultaneously advances commercial viability and community sovereignty (Cordova et al., 2025; Sharuddin & Roddin, 2025).

RQ2: Research Methods and Theoretical Perspectives

Analysis of methodological orientations across the 63 reviewed studies reveals a pattern broadly consistent with the tourism management literature at large, but with specific inflections that have important implications for knowledge production in this domain.

Table 3. Research methodologies across the reviewed corpus (n = 63)

No	Research Approach	N
1	Quantitative (survey/questionnaire; SEM, PLS-SEM)	29
2	Qualitative (interviews, case study, ethnography)	16
3	Mixed methods (quantitative + qualitative)	10
4	Bibliometric or systematic review	8

Quantitative approaches dominate the corpus (46.0%), primarily through survey instruments analysed with SEM or PLS-SEM. This dominance reflects the prevailing influence of variance-based theories, particularly RBV, Innovation Diffusion Theory, and TAM, which are operationally well suited to hypothesis testing. Qualitative studies (25.4%), predominantly case studies and semi-structured interviews, are notably more prevalent than in comparable technology-focused tourism reviews (Gutierriz et al., 2023), reflecting the inherently contextual nature of MSME innovation processes. (Streimikiene et al., 2021) argue that the dominance of quantitative approaches in MSME innovation research systematically underweights the processual, relational, and institutional dimensions of how small enterprises actually develop and implement innovation, dimensions better captured through case study and ethnographic designs. Mixed-method designs (15.9%) offer enhanced explanatory power by integrating quantitative breadth with qualitative depth, and their relatively higher prevalence compared to earlier SLRs on related topics suggests a gradual maturation of the field's methodological repertoire.

Resource-Based View constitutes the most frequently applied theoretical framework, underpinning 22 of the 63 reviewed studies. Its dominance reflects its intuitive alignment with the MSME context: the focus on heterogeneous, firm-specific resource bundles as sources of competitive advantage maps naturally onto the

distinctive competencies, often embedded in individual owner-managers, that characterise tourism MSME performance (Cordova et al., 2025; Nguyen et al., 2023; Simarmata et al., 2024). However, several authors raise substantive critiques: Barney's original framework presupposes clear property rights over resources and relatively stable competitive environments, neither condition reliably present in the fluid, platform-mediated tourism landscape of the 2020s. Dynamic Capability Theory from Nguyen et al. (2023), is increasingly applied as a complement, precisely because it incorporates the processes of resource sensing, seizing, and reconfiguration that characterise MSME responses to the volatile post-pandemic environment (Nguyen et al., 2023; Wei et al., 2023). Institutional Theory from Bhuiyan et al. (2023), provides the most analytically powerful framework for understanding how external pressures, including regulatory requirements, certification systems, and destination management norms, shape MSME innovation behaviour, particularly in the green innovation cluster where normative isomorphism is empirically well documented (Wei et al., 2023).

RQ3: Barriers, Success Factors, and Future Strategic Directions

Barriers to Innovation

Implementation

The synthesis identifies six primary barrier clusters that consistently moderate the innovation capacity of tourism MSMEs across geographic and cultural contexts.

Financial constraints emerge as the most pervasive structural barrier. Tourism MSMEs, particularly micro-enterprises, operate with minimal retained earnings, limited access to formal credit, and short planning horizons that make innovation investment, especially green innovation with extended payback periods, structurally difficult (Wei et al., 2023). Studies in Southeast Asian contexts document how the absence of innovation-specific financing instruments forces MSMEs to rely on personal savings or informal credit networks (Cordova et al., 2025). Digital literacy deficits constitute a second structural barrier with particular severity in developing-country contexts. Owner-manager digital competency is consistently identified as the single most important internal predictor of digital innovation adoption (Gutierriz et al., 2023; Wei et al., 2023). A critical finding from the corpus is that digital literacy is not binary but a continuum: MSMEs achieving minimal functional digital literacy frequently stall without progressing to strategically transformative digital capabilities (Efendi, 2025).

Human resource limitations including high staff turnover, low sectoral wages, and seasonal employment, undermine the accumulation of innovation-relevant human capital at the organisational level. Several studies document a 'training trap' in which MSMEs invest in human capital only to lose trained staff to larger competitors, producing disincentives for continued investment (Cordova et al., 2025).

Technology adoption barriers encompass both supply-side constraints, including cost, infrastructure availability, and vendor reliability, and demand-side constraints including managerial risk aversion (Gutierriz et al., 2023; Nguyen et al., 2023). In rural and remote tourism destinations, infrastructure deficits, particularly unreliable electricity and internet connectivity, represent physical barriers that firm-level strategy cannot overcome without destination-level investment. Institutional barriers arise from regulatory frameworks misaligned with MSME innovation needs, certification systems imposing disproportionate compliance costs, and governance structures prioritising large operator interests (Streimikiene et al., 2021; Wei et al., 2023). Policy barriers at destination and national levels, including inadequate MSME-specific tourism policy and fragmented institutional mandates, complete the structural barrier picture (Sharuddin & Roddin, 2025; Wei et al., 2023).

Success Factors for Innovation Implementation

Against these barriers, the synthesis identifies five success factors consistently enabling sustainable innovation among tourism MSMEs. Leadership and innovation orientation at the owner-manager level is the most consistently documented internal success factor (Cordova et al., 2025; Sharuddin & Roddin, 2025). Collaboration and network embeddedness constitute the most significant relational success factor:

studies across all seven innovation clusters document how access to knowledge, resources, and markets through tourism clusters, industry associations, and DMOs moderates innovation capacity in ways that individual MSME resources cannot replicate (Sharuddin & Roddin, 2025).

Digital readiness as an enabling precondition, rather than an outcome of digital innovation, is identified in several studies as critical for durable digital transformation outcomes (Cordova et al., 2025; Gutierrez et al., 2023). Sustainability orientation embedded in the enterprise's core value proposition, rather than appended as a marketing consideration, is associated with stronger green innovation outcomes and greater resilience (Setiowati & Bandur, 2025; Wei et al., 2023). Destination ecosystem support, encompassing DMO facilitation, collective marketing, shared digital infrastructure, and coordinated certification programmes, is identified as the single most important exogenous success factor, carrying a structural implication that MSME innovation capacity is co-produced by destination governance context (Sharuddin & Roddin, 2025; Wei et al., 2023).

Future Strategic Directions

The synthesis identifies six strategic directions as priority areas for both research and practice. AI and data-driven personalisation represents the technology frontier for tourism MSME innovation over the 2025–2030 horizon, with emerging low-cost AI tools beginning to reduce technology

cost barriers (Gutierrez et al., 2023). Smart and regenerative tourism frameworks, integrating digital and sustainability innovation at the destination level, create contexts where MSME digital innovation is amplified by shared infrastructure (Nguyen et al., 2023). Circular economy integration in MSME operations represents an emerging practice frontier with limited but promising evidence in food tourism and accommodation (Setiowati & Bandur, 2025; Wei et al., 2023). Collaborative innovation and platform co-operatives are identified as institutionally innovative responses to collective action problems preventing individual MSMEs from accessing innovation resources available to larger enterprises (Streimikiene et al., 2021). Community resilience and adaptive governance emerge from the social innovation cluster as a strategic direction with particular relevance in the post-pandemic, climate-change-affected landscape (Sharuddin & Roddin, 2025). Green financing and certification ecosystems represent the most critical enabling infrastructure for accelerating green innovation adoption, with several studies identifying co-funded certification and blended green finance instruments as high-leverage interventions (Wei et al., 2023).

Theoretical Implications

The most significant theoretical contribution of this review concerns the explanatory limits of Resource-Based View as the field's dominant framework. While RBV provides a tractable conceptual vocabulary for

MSME-specific innovation advantages, the framework's unit of analysis, the individual firm, is poorly suited to capturing the fundamentally relational and ecosystem-dependent character of innovation in MSME-dense tourism destinations (Cordova et al., 2025; Nguyen et al., 2023). The evidence reviewed consistently demonstrates that innovation outcomes are co-produced at the destination or cluster level. A theoretical reorientation toward systems innovation frameworks, innovation ecosystem theory, and institutional logics would better capture the multi-level causality evident in the literature (Sharuddin & Roddin, 2025).

A second theoretical implication concerns the treatment of sustainability in innovation studies. The dominant framing positions sustainability primarily as an outcome variable or market positioning strategy, reducing it to measurable environmental or economic indicators. A conceptually important minority of studies, particularly those drawing on social innovation and community resilience frameworks, reposition sustainability as a constitutive value shaping innovation processes from within (Setiowati & Bandur, 2025; Sharuddin & Roddin, 2025). This distinction between sustainability as a goal and as a practice has significant implications for both theory-building and measurement design.

Implications for Developing Economies and Indonesia

The geographic concentration of the reviewed corpus in European and

East Asian contexts constitutes both a limitation and a research opportunity. The structural conditions shaping MSME innovation in developing economies, including heterogeneous regulatory environments, informal economic practices, limited institutional infrastructure, and acute capital constraints, require theoretically adapted frameworks rather than direct transfer of findings from high-resource contexts (Sharuddin & Roddin, 2025; Streimikiene et al., 2021). Indonesia presents a particularly instructive case. With over 17,000 islands, more than 300 distinct ethnic groups, and a tourism MSME sector of over 30 million enterprises, Indonesia's landscape encompasses virtually the full range of innovation challenges identified in this review. The national government's commitment to sustainable tourism development through the 10 New Bali program, the Creative Economy Agency's MSME development programmes, and regional autonomy arrangements that empower destination-level governance all create institutional opportunities for innovation support not yet systematically documented in the academic literature (Efendi, 2025; Rahman et al., 2024; BPS, 2023).

In the context of Indonesia, these synthesized dimensions of digital and green innovation offer immediate practical pathways for local destination management. With 96.3% of the country's tourism businesses classified as MSMEs according to recent Online Single Submission (OSS) data, the structural transition from attraction-based promotion to value-

based sustainability is highly critical. The findings from this review suggest that frameworks like the Ministry of Tourism's "Desa Wisata" (Tourism Village) and initiatives such as the "Policy Forum on Green Tourism MSMEs" must move beyond baseline infrastructure. Specifically, digital innovation shouldn't merely focus on basic social media marketing but should advance toward digital ecosystem integration—as demonstrated by regional champions in programs like "Jagoan Pariwisata". By mapping global barriers such as digital illiteracy and financial constraints onto the Indonesian landscape, local operators can design targeted competence-based training. This shift aligns with the national mid-term development agenda, ensuring that micro-operators do not just adopt technology superficially but build resilient, circular, and green business models that preserve local heritage while capturing digital market shares.

Policy Implications

The synthesis generates three priority policy implications. First, MSME-specific innovation financing instruments, including innovation vouchers, green transition subsidies, and collective certification cost-sharing schemes, are identified as the most critical demand-side policy intervention (Wei et al., 2023). Second, destination-level digital governance, in which DMOs assume a coordinating role in providing shared digital infrastructure and collectively funded training programmes, is identified as the most cost-effective supply-side intervention for expanding MSME

digital innovation access (Gutierriz et al., 2023). Third, integration of MSME innovation support into national sustainable tourism certification systems, through streamlined certification pathways and staged compliance frameworks, would align institutional incentives with MSME innovation trajectories more effectively than current one-size-fits-all regulatory frameworks (Wei et al., 2023). From a regulatory standpoint, policy frameworks must transition from generic financial stimuli to strategic, ecosystem-oriented interventions. First, rather than offering isolated micro-credits, governments should tie fiscal incentives (such as specialized KUR or tourism credit schemes) to the adoption of green and circular practices among hospitality MSMEs. Second, policies need to actively foster hybrid collaboration models. This can be achieved by institutionalizing structured mentoring channels where digital creative winners or established private tech-platforms act as digital aggregators for rural homestays and community-based operators. Lastly, to overcome the critical resource barriers identified in the literature, national tourism offices must shift from macro-promotional budgeting toward decentralized, competency-based capacity building. This entails curating specialized travel paths and narrative-driven storytelling frameworks that force MSMEs to systematically co-create sustainable value, rather than leaving innovation to be fragmented, individual efforts.

CONCLUSION

This study provides the first comprehensive synthesis of innovation strategies in tourism MSMEs within the sustainable tourism development frame. The findings reveal a field characterised by both conceptual richness and structural limitations. Seven innovation strategy clusters were identified, with digital and green innovation receiving the most research attention, while community-based and social innovation remain substantially underresearched despite their direct alignment with sustainable tourism principles. The theoretical landscape is dominated by Resource-Based View and Innovation Diffusion Theory, frameworks that, while productive, exhibit explanatory limits in the relational, ecosystem-dependent, and institutionally embedded contexts that characterise MSME innovation in tourism destinations. Quantitative, cross-sectional designs account for nearly half the corpus, limiting the field's capacity to capture dynamic and institutional dimensions of innovation. Identified barriers include financial constraints, digital literacy deficits, human resource limitations, and institutional and policy barriers, which together constrain MSME innovation capacity. The most consistently documented success factors point toward collective and institutional, rather than purely firm-level, solutions.

The review contributes theoretically, through a critical reappraisal of dominant frameworks and a call for systems innovation perspectives; empirically, by

documenting the full spectrum of strategies and key knowledge gaps; and practically, through an evidence-based synthesis for policymakers, destination managers, and MSME practitioners.

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