

## Mitigating Risks in Small Tourism Business: A Qualitative Study on Financial, Operational, Market, and Regulatory Challenges

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### Abstract

The tourism industry is a rapidly growing sector that significantly contributes to economic development, particularly through small tourism businesses. However, these businesses face various risks, including economic uncertainty, natural disasters, regulatory changes, and fluctuations in tourist demand. This study aims to analyze risk management strategies employed by small tourism enterprises to enhance their sustainability and competitiveness. Using a qualitative approach, the research explores various risk mitigation practices, such as financial management, service diversification, and adopting digital technology in business operations. Findings indicate that the ability of small tourism businesses to manage risks effectively depends on the owners' preparedness to identify and address potential threats. Key challenges include limited access to capital, informal business management, and inadequate financial record-keeping, often hindering long-term growth. To overcome these challenges, businesses adopt strategies such as improving financial literacy, implementing structured operational procedures, and leveraging digital marketing tools. Moreover, government support in the form of simplified licensing processes, financial training programs, and tourism promotion initiatives plays a crucial role in strengthening small tourism enterprises. This study contributes to the existing literature by offering empirical insights into small tourism businesses' practical risk management approaches. The proposed conceptual framework is a foundation for future quantitative research, enabling further examination of the relationships between risk factors, mitigation strategies, and business performance. By implementing structured risk management practices, small tourism businesses can enhance their resilience, sustain growth, and remain competitive in the evolving tourism industry.

**Keywords:** risk management, small tourism businesses, business sustainability, strategic adaptation, resilience.

### A. INTRODUCTION

Small tourism businesses play a vital role in local economies, particularly in popular tourist destinations. These businesses—such as homestays, local restaurants, travel agencies, and vehicle rentals—offer unique and personalized services that contribute to the overall tourism experience (Forés et al., 2021; Getz & Carlsen, 2005). However, unlike larger enterprises, small tourism businesses often operate informally, rely on self-taught knowledge, and depend heavily on the owner's involvement (Thomas et al., 2011). These characteristics make them highly vulnerable to various risks, ranging from financial instability to operational disruptions (Ateljevic & Doorne, 2000). The defining traits of small tourism businesses include one-man show management, family-run operations, and informal business practices (Morrison, 2006). Most owners manage multiple roles simultaneously, including customer service, financial management, and marketing (Okazaki, 2008). While this hands-on approach offers flexibility, it poses significant risks due to the lack of delegation and structured management (Camilleri & Valeri, 2022; Millán & Esteban, 2004). Furthermore, many small businesses in the tourism sector do not follow formal accounting practices, making it difficult to track financial performance and secure external funding (Mazanec et al., 2007).

Due to informal management structures, small tourism businesses often face difficulties scaling up and sustaining long-term operations (Lien & Li, 2014; Piyasinchai et al., 2024). Mixing personal and business finances

is common, leading to poor financial decision-making (Migiro & Ocholla, 2005). Additionally, the absence of clear business documentation, such as standard operating procedures (SOPs) and formal contracts, exposes these businesses to operational inefficiencies. These challenges can limit their ability to compete with larger, well-established tourism companies with professional management systems (Lashley & Rowson, 2010). Effective risk management is crucial for the survival and growth of small tourism businesses (Alcázar-Blanco et al., 2024; Mura & Ključnikov, 2018). Identifying potential risks—such as financial mismanagement, operational bottlenecks, market fluctuations, and regulatory issues—can help business owners develop strategies to mitigate these threats (Hall & Williams, 2019; Naldi et al., 2022). Unfortunately, many small business owners lack awareness or formal training in risk management, leaving them vulnerable to unexpected crises (O'Connor et al., 2025; Thi & Thi, 2024). A well-structured risk management approach can enhance their resilience and improve their chances of long-term success (Ritchie & Jiang, 2019).

This study seeks to explore the risk factors associated with small tourism businesses and investigate the strategies used by business owners to navigate these challenges. The key research questions include: 1) How do small tourism businesses manage their daily operations?; 2) What do small tourism enterprises face the most common risks?; 3) What strategies are currently being implemented to mitigate these risks, and how effective are they?

This study employs a qualitative approach through in-depth interviews with small tourism business owners to answer these questions. By gathering insights directly from industry practitioners, this research aims to uncover the real-world challenges they face and the solutions they adopt. The findings will contribute to a better understanding of risk management practices in the small-scale tourism sector and offer practical recommendations for business sustainability.

## **B. LITERATURE REVIEW**

### ***Characteristics of Small Tourism Businesses***

Small tourism businesses typically operate as sole proprietorships or family-run enterprises, where the owner is responsible for nearly all aspects of the business (Peters & Buhalis, 2004). This one-man show management style provides autonomy and direct customer interaction but also creates vulnerabilities regarding business continuity and workload distribution (Buhalis & Main, 1998). Since many owners lack formal business training, they rely on trial-and-error approaches rather than structured management strategies (Okazaki, 2008). Another defining characteristic is the informality of operations, with many businesses functioning without written business plans, financial records, or standard operating procedures (SOPs) (Morrison, 2006). This informal approach can make day-to-day operations easier but poses challenges when seeking external funding or legal recognition (Mazanec et al., 2007). The lack of digital marketing and reliance on traditional word-of-mouth advertising also limit their market reach, making it harder to compete with larger, technology-driven tourism firms (Hall & Williams, 2008).

### ***Common Risks in Small Tourism Businesses***

Small tourism businesses face multiple risks, including financial, operational, market, and legal risks. Financial risks are among the most critical, as many businesses struggle with cash flow fluctuations due to seasonality and a lack of proper accounting systems (Thomas et al., 2011). Owners often mix personal and business finances, making it difficult to track profitability or secure bank loans (Berg et al., 2022). Operational risks arise from over-reliance on a single individual, which can lead to business disruptions when the owner is unavailable (Tinsley & Lynch, 2001). Many small businesses also lack staff training and contingency planning, making them vulnerable to unexpected operational failures (Peters & Buhalis, 2004).

Market risks stem from fierce competition and changing consumer preferences. Many small tourism businesses struggle to compete with large-scale operators and online platforms such as Booking.com and Airbnb (Hall & Williams, 2008). A study by Okazaki (2008) highlights that small businesses underutilize digital

tools, limiting their customer base and revenue streams. Economic downturns, pandemics, and natural disasters have also shown how external shocks can significantly impact tourism (Ritchie & Jiang, 2019). Finally, regulatory and legal risks arise because many small tourism businesses operate without formal permits or licenses, making them susceptible to government fines or forced closures (Alonso & Bressan, 2014). Lack of tax compliance and employment contracts can also lead to legal disputes, further threatening business sustainability (Berg et al., 2022).

### ***Risk Management Strategies for Small Tourism Businesses***

Given these risks, research suggests various risk management strategies that small tourism businesses can adopt to improve their resilience. Regarding financial management, experts recommend that business owners separate personal and business finances and implement basic accounting practices (Mazanec et al., 2007). Digital tools such as BukuKas, QuickBooks, or Excel spreadsheets can help owners track cash flow and profits more efficiently (Buhalis & Main, 1998). Additionally, microfinance programs, government grants, and tourism support funds provide alternative funding sources for small businesses that lack traditional bank credit (Hall & Williams, 2008). To mitigate operational risks, small businesses can implement standard operating procedures (SOPs) and cross-train employees to handle multiple roles in case of absenteeism (Tinsley & Lynch, 2001). Developing a business continuity plan can also help businesses respond to unexpected challenges, such as equipment breakdowns or sudden increases in customer demand (Ritchie & Jiang, 2019). For market risk management, scholars emphasize the importance of digital transformation. Small tourism businesses should leverage social media platforms (Instagram, Facebook) and online travel agencies (OTAs) like Airbnb and Expedia to expand their market reach (Okazaki, 2008). Research also suggests that businesses that offer unique and personalized tourism experiences tend to have a competitive advantage over mass-market competitors (Getz & Carlsen, 2005). Finally, legal compliance is essential to reduce regulatory risks. Business owners should register their businesses, obtain necessary permits, and adhere to labor and tax laws (Alonso & Bressan, 2014). Seeking legal advice or joining tourism associations can help small business owners stay updated on regulatory requirements (Ritchie & Jiang, 2019). Additionally, obtaining business insurance can provide financial protection against liabilities, ensuring long-term stability (Berg et al., 2022).

## **C. METHODS**

### ***Research Approach***

This study employs qualitative research to explore how small tourism business owners perceive and manage risks. A qualitative approach is suitable because it gives an in-depth understanding of business owners' experiences, decision-making processes, and risk management challenges (Creswell & Poth, 2018). Unlike quantitative methods, which focus on numerical data, qualitative research provides rich descriptions and insights into the subjective realities of business owners (Bryman, 2016). Since small tourism businesses often operate informally without structured risk management frameworks, a flexible and interpretive research approach is necessary to capture their lived experiences. This study adopts an exploratory research design using semi-structured interviews to gather first-hand insights from small tourism business owners. Semi-structured interviews balance structured and open-ended questions, allowing participants to share their perspectives while ensuring that key topics—such as financial management, operational challenges, and risk mitigation strategies—are consistently addressed across all interviews.

### ***Participant Selection***

Participants in this study are owners or managers of small tourism businesses operating in various sub-sectors, including homestays, restaurants, travel agencies, and vehicle rentals. A purposive sampling strategy is used to select participants with direct experience relevant to the research questions, ensuring that the study captures meaningful insights from those actively engaged in managing tourism businesses (Patton, 2014). The

inclusion criteria for participants are as follows: 1) the business must be classified as a small enterprise with fewer than ten employees, 2) the business must have been in operation for at least two years to ensure owners have sufficient experience in risk management, 3) the business must belong to the tourism industry, including accommodation, food services, transportation, or tour services, and 4) participants must be willing to participate in recorded interviews and consent to the use of their responses for research purposes. A total of 10 to 15 business owners will be interviewed, with interviews continuing until data saturation is reached—meaning that no new significant insights emerge from additional interviews.

### ***Data Collection Methods***

Data for this study is collected through semi-structured interviews, which allow participants to freely express their thoughts while ensuring discussions remain focused on the study's key themes. Each interview is expected to last 30 to 60 minutes and will be conducted in person or via online platforms such as Zoom or WhatsApp, depending on participant availability. The interview guide is designed to cover the following themes: 1) business background, including years of operation and customer base; 2) risk perception, exploring the major risks faced by small tourism businesses; 3) financial management, particularly whether personal and business finances are separated; 4) operational challenges, including workload distribution and contingency planning; and 5) risk mitigation strategies, assessing how businesses attempt to reduce or manage risks. In addition to interviews, field observations, and document reviews—such as financial records, marketing materials, and operational guidelines—may be conducted where possible to supplement interview findings. All interviews will be audio-recorded and transcribed to facilitate accurate data analysis.

### ***Data Analysis Techniques***

Thematic analysis is used to analyze the collected data, as it is a widely accepted method in qualitative research for identifying patterns and themes within interview responses (Braun & Clarke, 2006). The analysis follows six key steps: first, the researcher familiarizes themselves with the data by reviewing interview transcripts and listening to audio recordings. Second, initial codes are generated by identifying key phrases, recurring words, and relevant patterns in the data. Third, themes are searched for by grouping similar codes into broader themes, such as "financial risk," "operational challenges," and "digital marketing adoption". Fourth, the identified themes are reviewed and refined to represent the data accurately. Fifth, each theme is defined and named, explaining its significance in the study. Finally, a comprehensive report is produced, integrating the findings with supporting quotes from participants. Additionally, member checking will be conducted, where participants review their transcribed responses to confirm accuracy and authenticity, thereby ensuring the credibility and trustworthiness of the findings.

### ***Ethical Considerations***

This research adheres to ethical guidelines to protect participants' rights and privacy. Before each interview, participants will receive an informed consent form outlining the study's objectives, how the data will be used, and confidentiality measures. Participation in the study is voluntary, and participants have the right to withdraw at any time without consequences (Creswell & Poth, 2018). To protect participant identities, pseudonyms will be assigned, and all collected data—including audio recordings and transcripts—will be securely stored and accessible only to the research team. Additionally, the study will comply with institutional ethical review board requirements to ensure it meets academic and professional research standards.

## **D. RESULTS AND DISCUSSIONS**

### ***Informant Profile***

This study involves semi-structured interviews with 15 small tourism business owners from different sectors, including homestays, restaurants, travel agencies, and vehicle rentals. The informants were selected using a

purposive sampling technique, ensuring they met the following criteria: 1) the business is classified as a small enterprise (fewer than 10 employees), 2) the business has been operating for at least two years, 3) the business belongs to the tourism industry, and 4) the owner is willing to participate in recorded interviews and share their risk management experiences. Table 1 below provides an overview of the informants, including their business type, years in operation, number of employees, and primary customer base.

**Table 1. Informant Profiles**

Informant	Business Type	Years in Operation	Number of Employees	Primary Customers
I1	Homestay	5	3	Domestic & and international tourists
I2	Local Restaurant	7	5	Local tourists and residents
I3	Travel Agency	4	4	International tourists
I4	Vehicle Rental	6	2	Tourists and business travelers
I5	Guesthouse	3	4	Backpackers and solo travellers
I6	Tour Operator	8	6	Group travelers and adventure tourists
I7	Café & Souvenir Shop	5	3	Local visitors & and walk-in customers
I8	Eco-Lodge	6	7	Eco-conscious travelers
I9	Boat Rental	4	2	Island-hopping tourists
I10	Cultural Tour Guide	9	1	History and culture enthusiasts
I11	Boutique Hotel	10	9	High-end tourists and honeymooners
I12	Handicraft & Art Center	6	5	Culture-focused tourists
I13	Diving Tour Company	7	4	Adventure and marine tourists
I14	Traditional Cooking Class	3	2	Culinary tourists
I15	Bicycle Rental	5	3	Adventure travelers and eco-tourists

Source: Research data, 2025

These 15 informants represent small tourism businesses covering accommodation, food services, travel, and tour-related activities. Participants have at least two years of experience, ensuring their insights are based on practical, real-world challenges. The variety in business type and customer demographics allows for a comprehensive exploration of small tourism enterprises' risk factors and mitigation strategies.

### Financial Risks

Financial instability is one of the most prevalent challenges small tourism businesses face, often stemming from irregular cash flow, limited access to external funding, and poor financial management practices. Most informants reported that the seasonal nature of tourism significantly affects their revenue streams, making it difficult to sustain operations throughout the year. Businesses that rely heavily on international tourists, such as travel agencies, eco-lodges, and diving tour operators, experience sharp revenue declines during off-peak seasons. Many of these businesses struggle to cover operational costs without alternative sources of income, leading to financial distress.

Another critical financial challenge is the limited availability of external funding. Many business owners reported difficulties securing bank loans, government grants, or private investments, primarily due to a lack of formal financial records, inadequate credit history, or insufficient collateral. Informant I8 (eco-lodge owner) described the frustration of being denied bank financing:

*"We applied for a business loan, but the bank rejected our request because we lacked proper documentation. They do not trust small businesses like ours."*

In addition, mixing personal and business finances is a common issue that hinders financial transparency and long-term sustainability. Without clear financial separation, it becomes difficult for owners to track profitability, reinvest in the business, or plan for future expansion. Informant I3 (travel agency owner) admitted:

*"I do not separate my personal and business money. At the end of the month, I use what is left to cover expenses. It is hard to save for business growth."*

Similarly, revenue volatility caused by seasonal tourism cycles makes it challenging for small businesses to build financial resilience. Informant I5 (guesthouse owner) emphasized this struggle:

*"During peak season, we earn well, but we barely break even in the off-season. We do not have a financial cushion, so preparing for slow months is always a struggle."*

Without proper financial planning and risk management, small tourism businesses remain highly vulnerable to unexpected crises, such as pandemics, economic downturns, or sudden shifts in tourist demand. The COVID-19 pandemic, for instance, forced many tourism-dependent businesses to close temporarily or permanently due to cash flow shortages and an inability to access emergency funds. Those without financial reserves or diversified revenue streams suffered the most. Furthermore, a lack of financial literacy and strategic budgeting exacerbates these challenges. Some informants acknowledged that they do not maintain structured financial records, relying instead on estimates and informal bookkeeping methods. This lack of documentation affects daily financial decision-making and prevents businesses from qualifying for financial aid programs or investment opportunities. Financial risks in small tourism businesses arise from irregular cash flow, poor financial management, limited funding access, and a lack of financial preparedness for crises. These factors collectively hinder business stability and long-term growth. To overcome these challenges, businesses must adopt structured financial planning, separate business and personal finances, explore alternative funding sources, and build emergency savings to withstand economic uncertainties.

### **Operational Risks**

Operational risks in small tourism businesses primarily arise from over-reliance on the owner, a limited workforce, inadequate contingency planning, and asset dependency. Many of these businesses are owner-operated, meaning that business operations may come to a complete halt if the owner is unavailable due to illness, personal emergencies, or other obligations. This challenge is particularly evident among tour guides, small restaurants, and family-run accommodations, where no alternative management structure exists. Informant I10 (cultural tour guide) highlighted this issue:

*"My business stops if I fall sick or need to travel for a family emergency. I do not have employees to take over."*

A limited workforce further exacerbates operational risks. Many small tourism businesses operate with minimal staffing, often relying on family members or a small team to handle multiple responsibilities. While this approach helps reduce labor costs, it makes the business highly vulnerable to workload imbalances and service disruptions. For example, if a key employee leaves or is unavailable, no replacement may be readily available, leading to operational delays and customer dissatisfaction.

Another critical operational risk is asset dependency, particularly for businesses that rely on physical equipment such as rental vehicles, boats, or lodging facilities. Equipment failure or maintenance issues can directly impact service availability, resulting in revenue losses and negative customer experiences. Informant I9 (boat rental owner) explained:

*"If one of my boats needs repair, I lose customers because I do not have a backup."*

The inability to promptly maintain and replace essential assets can severely impact service delivery, particularly during peak tourism seasons when demand is high. Many small business owners lack structured maintenance schedules or financial reserves to cover unexpected repairs, increasing their vulnerability to unplanned downtimes. Additionally, many small tourism businesses lack formal Standard Operating Procedures (SOPs), relying instead on experience-based decision-making rather than structured management practices. While this informal approach allows for flexibility, it leads to inefficiencies, inconsistent service quality, and difficulty scaling the business. Without standardized operations, customer service, and crisis management guidelines, businesses may struggle to maintain quality control and ensure continuity in service delivery. The absence of contingency planning is another significant operational risk. Most informants do not have structured business continuity plans to handle unexpected events such as staff shortages, equipment failure, or sudden surges in customer demand. This lack of preparedness makes it difficult for small tourism businesses to adapt

quickly to disruptions, placing them at a disadvantage compared to larger, professionally managed tourism enterprises.

In summary, operational risks in small tourism businesses stem from over-dependence on owners, limited staffing, asset-related vulnerabilities, and the absence of structured management systems. These risks create service inconsistencies, business disruptions, and reduced competitiveness in the tourism industry. To mitigate these risks, small businesses should focus on staff training and delegation, implementing SOPs, establishing contingency plans, and ensuring regular maintenance of essential assets. By adopting these strategies, small tourism businesses can improve operational efficiency, enhance service quality, and build resilience against unexpected challenges.

### **Market and Competitive Risks**

Market and competitive risks pose significant challenges for small tourism businesses, primarily due to competition with larger companies, limited digital marketing capabilities, and shifting consumer preferences. The rise of online travel platforms such as Airbnb, Booking.com, and large tour operators has intensified competition, making it harder for small businesses to attract and retain customers. Many informants highlighted that strong branding and extensive marketing budgets give larger businesses a competitive edge, making it difficult for small enterprises to stand out in the crowded tourism market. Small business owners' limited marketing strategies and weak online presence are major concerns. Unlike well-established tourism companies, many small businesses do not utilize digital marketing tools effectively, relying instead on word-of-mouth and walk-in customers. Informant I7 (café & souvenir shop owner) described this challenge:

*"Big coffee chains and souvenir brands attract more tourists because they have strong branding. We do not know how to compete with them."*

Similarly, Informant I12 (handicraft and art center owner) emphasized the importance of online visibility in modern tourism marketing:

*"Tourists often buy souvenirs from well-known stores because they appear first on Google. We rely mostly on walk-in customers."*

Small businesses struggle to reach a broader customer base without a strong search engine presence, social media engagement, or online booking options, limiting their ability to increase sales and brand recognition. Beyond digital visibility, changing consumer preferences further challenge businesses that fail to innovate and adapt. The growing demand for eco-tourism, digital convenience, and experience-based tourism has shifted traveler expectations, making traditional business models less attractive to younger tourists. Informant I14 (traditional cooking owner) noted this trend:

*"Many younger tourists prefer quick, modern dining experiences instead of traditional cooking classes. We need to find ways to attract them."*

Many small tourism businesses lack the resources or expertise to adapt to these evolving market demands, leaving them at a disadvantage compared to businesses that actively innovate by offering personalized experiences, sustainability-focused services, or integrated digital booking options. Market and competitive risks in small tourism businesses stem from competition with large brands, inadequate digital marketing, and failure to adapt to shifting consumer preferences. Small tourism businesses struggle to remain competitive without strong branding, online visibility, and innovation. To address these risks, business owners must invest in digital marketing strategies, leverage social media for customer engagement, and adapt their services to align with evolving tourism trends. By embracing these strategies, small tourism businesses can enhance their market position, attract new customers, and build long-term resilience in the competitive tourism industry.

### **Regulatory and Legal Risks**

Regulatory and legal risks pose significant challenges for small tourism businesses due to complex licensing procedures, frequent regulatory changes, and tax compliance difficulties. Many small businesses operate

without formal business licenses, which exposes them to legal risks such as fines, forced closures, or ineligibility for financial assistance. Obtaining the necessary permits is often bureaucratic, time-consuming, and costly, discouraging small business owners from formalizing their operations. Several informants shared their struggles with navigating complex regulatory requirements. Informant I6 (tour operator) expressed frustration with the licensing process:

*"Getting a tourism business license takes too long and requires many documents. Some owners operate without one."*

Similarly, Informant I15 (bicycle rental owner) highlighted the frequent changes in regulations, making compliance even more difficult:

*"There are so many regulations, and they change frequently. It is hard to keep up."*

This regulatory uncertainty creates an unstable business environment where small tourism enterprises must constantly adjust to shifting legal requirements, often without clear guidance or support. As a result, many businesses choose to operate informally, increasing their risk of government-imposed sanctions or business interruptions.

Another major legal challenge is tax compliance. Many small business owners lack sufficient knowledge of tax regulations, which can lead to unintentional non-compliance, financial penalties, or issues during government audits. The absence of proper tax documentation also limits access to funding opportunities, as financial institutions and government agencies require proof of business registration and tax compliance before approving loans or grants. Without legal formalization, small tourism businesses are often excluded from government support programs, business development initiatives, and financial assistance schemes, further restricting their growth potential.

The findings suggest that simplifying licensing procedures, providing clear regulatory guidelines, and offering tax compliance training could help small businesses navigate legal complexities more effectively. Additionally, incentives for formalization, such as reduced licensing fees or financial aid for legally registered businesses, could encourage more small enterprises to operate within the formal economy. Regulatory and legal risks in small tourism businesses arise from bureaucratic licensing processes, frequent regulatory changes, and challenges in tax compliance. These factors expose businesses to legal repercussions and limit their access to financial resources and growth opportunities. Addressing these challenges requires collaborative efforts from government agencies, tourism associations, and business support organizations to ensure that small tourism businesses receive the guidance and resources needed to comply with legal requirements while remaining competitive in the industry.

### **Compliance with Government Regulations**

While some small tourism business owners have taken steps to formalize their businesses by obtaining necessary permits and tax registrations, many still struggle with complex regulatory requirements. Legal compliance is often considered burdensome, time-consuming, and costly, discouraging many businesses from formalizing their operations. However, those who completed the process found significant advantages, particularly in gaining access to financial aid, business grants, and government support programs.

Informant I11 (boutique hotel owner) shared their experience after formalizing their business:

*"Once we registered legally, we became eligible for tourism grants and business support programs."*

This suggests that legal compliance opens up new opportunities for business growth, including access to funding, increased credibility, and stronger market positioning. Additionally, formal businesses can build stronger relationships with local tourism authorities, participate in tourism development programs, and collaborate with larger enterprises.

Despite these benefits, many small business owners still face significant barriers in complying with government regulations. Bureaucratic hurdles, frequent policy changes, and a lack of clear guidance on

regulatory processes make it difficult for small businesses to navigate the formalization process. Some owners find it challenging to keep up with changing tax requirements, while others hesitate to register due to concerns about additional financial burdens, such as taxes and compliance costs.

The findings highlight that financial, operational, market, and regulatory risks are the main challenges faced by small tourism businesses. While some owners have successfully implemented basic financial management, contingency planning, and digital marketing strategies, many still struggle with formalizing their businesses and competing with larger enterprises. The lack of access to funding, training, and regulatory support further complicates their ability to sustain and grow their businesses. To address these challenges, the next section discusses best practices and strategic recommendations to help small tourism businesses strengthen risk management strategies, enhance compliance with regulations, and improve long-term sustainability.

### Thematic Summary

Qualitative coding techniques were employed to process the interview responses to ensure a structured and scientific analysis of the collected data. The study utilized thematic analysis to identify patterns and key themes, categorizing the data into four primary risk areas—financial, operational, market, and regulatory risks—along with the corresponding risk management strategies adopted by small tourism business owners. This thematic framework provides a comprehensive understanding of the challenges faced by small tourism enterprises and the strategies they implement to enhance business sustainability and competitiveness. Table 2 presents a systematic breakdown of the qualitative data processing, illustrating the coding and categorization process from raw interview excerpts to final thematic interpretations. The findings highlight how small tourism businesses perceive risks and implement mitigation strategies, offering empirical insights into the operational realities of small tourism enterprises.

**Table 2. Expanded Qualitative Data Processing and Analysis**

Themes	Sub-Themes	Explanation	Examples from Informants
Financial Risks	Poor Financial Management	Many owners mix personal and business finances, making it difficult to track profits and losses.	Some business owners struggle to determine whether they are making a profit because they do not maintain separate financial records.
	Seasonal Revenue Fluctuations	Tourism businesses experience significant income fluctuations between peak and low seasons.	A guesthouse owner stated that revenue during the low season barely covers operational costs.
	Limited Access to Funding	Due to a lack of financial records, small businesses struggle to obtain loans or investments.	A travel agency owner reported that banks rejected their loan applications due to missing financial documentation.
Operational Risks	High Dependency on Owners	Many businesses rely entirely on the owner, meaning operations stop if unavailable.	A cultural tour guide mentioned that all bookings must be canceled if they fall sick.
	Lack of Business Continuity Planning	There are no contingency plans for handling unexpected disruptions such as equipment failure.	A boat rental owner shared that if their boat breaks down, they lose customers for days until it is repaired.
Market Risks	Strong Competition from Larger Firms	Small businesses struggle to compete with well-known brands and large hotel chains.	A homestay owner observed that tourists prefer booking accommodations through big platforms like Airbnb.
	Low Digital Presence	Many small businesses do not utilize digital marketing, limiting their customer reach.	A handicraft store owner noted that tourists buy from businesses with strong online visibility, making it hard to attract customers.
	Over-Reliance on One Customer Segment	Businesses that depend only on international tourists suffer during travel restrictions.	A diving tour operator mentioned that their business had no income for months during the pandemic.

Themes	Sub-Themes	Explanation	Examples from Informants
Regulatory Risks	Bureaucratic Barriers	Many business owners find licensing processes complex, slow, and costly.	A tour operator reported that acquiring a business permit took months and required excessive paperwork.
	Changing Policies & Compliance Issues	Regulations and tax laws change frequently, making it difficult for businesses to stay compliant.	A bicycle rental business owner mentioned that frequent updates in tax rules are confusing.
Risk Management Strategies	Financial Planning and record-keeping	Some business owners have started using simple financial tracking methods.	A vehicle rental owner shared that Excel spreadsheets helped them monitor cash flow.
	Digital Marketing & Branding	Businesses are learning to use social media and Google My Business to attract customers.	A restaurant owner reported increased sales after actively promoting their business on Instagram.
	Workforce Training & Delegation	Some businesses train staff to handle operations, reducing owner dependency.	A tour operator mentioned that training employees to manage bookings allows them to take time off without disrupting services.
	Business Diversification	Some businesses expand their services to reduce reliance on one customer type.	A tour agency started offering local tours in addition to their international packages to attract domestic travelers.
	Legal Compliance & Formalization	Some owners register their businesses legally to access financial aid and avoid penalties.	A boutique hotel owner noted that formal registration made them eligible for government support programs.

Source: Research data, 2025

Key findings from the thematic analysis include:

1. Financial Risks – Small tourism businesses struggle with poor financial management, seasonal revenue fluctuations, and limited access to funding. Many owners do not separate personal and business finances, making tracking profitability and reinvesting in business growth difficult. Additionally, the seasonal nature of tourism leads to unstable income, while a lack of financial documentation prevents businesses from securing loans and investments.
2. Operational Risks – The high dependency on owners means businesses often halt operations if the owner is unavailable, highlighting a lack of business continuity planning. Moreover, many businesses rely on physical assets such as boats, vehicles, and lodging facilities, making equipment failure a major operational risk affecting service delivery.
3. Market and Competitive Risks – Small businesses struggle to compete with large tourism companies and online travel platforms, such as Airbnb and Booking.com. Additionally, a lack of digital presence limits their ability to attract customers. Changing consumer preferences further challenges traditional tourism businesses, which struggle to adapt to eco-tourism, experience-based travel, and digital bookings.
4. Regulatory and Legal Risks – Many small tourism businesses operate without formal business licenses, exposing them to legal penalties, fines, or forced closures. Complex bureaucratic procedures and frequent regulatory changes make it difficult for business owners to comply with legal requirements. Tax compliance is also challenging, as many owners lack sufficient knowledge of taxation laws, limiting their access to loans and financial aid programs.
5. Risk Management Strategies – Some business owners have adopted basic financial planning, digital marketing, and workforce delegation to improve business resilience. Strategies such as service diversification, social media marketing, and legal formalization have helped some businesses mitigate risks. However, many still lack the skills, resources, or training to fully implement these strategies, preventing them from maximizing their growth potential.

The findings suggest that while some small tourism businesses have begun implementing risk management strategies, many still struggle with formalizing their businesses, securing financial stability, and adapting to a competitive market. These challenges underscore the need for capacity-building programs, financial literacy

training, digital marketing support, and regulatory simplification to help small tourism enterprises enhance their long-term sustainability and resilience.

## **Discussion**

### **Financial Risks and Management Strategies**

The study found that poor financial management, seasonal revenue fluctuations, and limited access to funding are major financial risks for small tourism businesses. Many business owners mix personal and business finances, making it difficult to assess profitability or apply for bank loans. This aligns with (Migiro & Ocholla, 2005), who noted that small tourism enterprises often operate informally, resulting in weak financial planning and poor investment capacity. Moreover, businesses that depend on seasonal tourism revenue struggle to maintain cash flow during low seasons, as seen in previous studies on financial sustainability in tourism (Lien & Li, 2014; Morrison, 2006).

To mitigate financial risks, some business owners have begun using basic bookkeeping tools, such as Excel or mobile finance apps, to track expenses and revenue. This reflects recommendations that argue that simple financial tracking can enhance business stability. Some participants also mentioned creating emergency savings funds for off-season months, a strategy supported by (Hall & Williams, 2019), who emphasized the importance of financial reserves in tourism enterprises. However, most businesses still lack access to formal funding, indicating a need for government or private sector support in financial literacy training and small business credit programs.

### **Operational Risks and Business Continuity**

A significant operational risk identified in this study is over-reliance on the business owner, leading to service disruptions if the owner is unavailable. This aligns with (Camilleri & Valeri, 2022), who noted that family-run tourism businesses often lack delegation and structured workforce management. Furthermore, limited contingency planning and equipment failure (e.g., broken-down rental vehicles or boats) pose additional operational risks. Some business owners have started training employees to handle tasks independently, reducing reliance on the owner. Staff cross-training enhances operational resilience. Other strategies include regular equipment maintenance and business continuity planning, but many businesses still lack structured contingency measures, making them vulnerable to unexpected crises.

### **Market Risks and Competitive Strategies**

Market risks in small tourism businesses are mainly caused by competition with larger brands, lack of online visibility, and dependency on specific customer segments. Many businesses struggle to compete with well-branded tourism companies and international hotel chains, and small businesses face difficulties differentiating their offerings. Additionally, businesses with low digital presence fail to attract online customers. Some business owners have adopted social media marketing to address market risks, such as Instagram promotions and Google My Business listings. Others partner with local travel agencies to attract more customers, describing the collaboration as a key strategy for small tourism businesses. However, many businesses still lack digital marketing expertise, limiting their ability to compete fully in the digital tourism landscape.

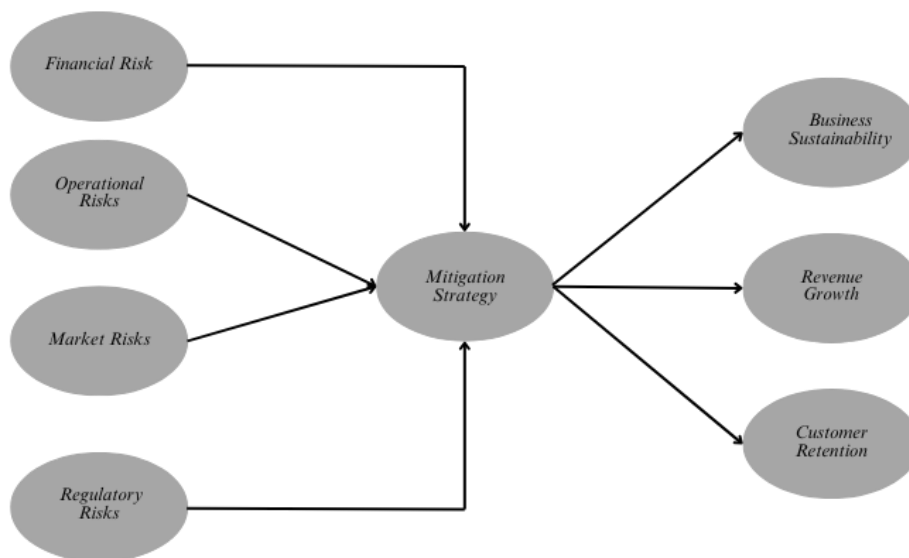
### **Regulatory Risks and Compliance Strategies**

A major regulatory challenge identified in this study is the difficulty in obtaining business permits and licenses, as many business owners find the process bureaucratic, expensive, and time-consuming. This is consistent with (Alonso et al., 2014), who found that complex legal requirements discourage small tourism businesses from formalizing their operations. Additionally, frequent policy changes create uncertainty, making it difficult for businesses to stay compliant, similar to the findings by (Jiang et al., 2019). Some business owners have registered their businesses legally, allowing them to access government grants and financial aid. However,

many participants still prefer operating informally, which limits their ability to apply for loans or receive business development support. Simplified licensing processes and legal support programs could encourage more businesses to formalize.

### **Implications of the Findings**

This study extends the existing literature by providing empirical evidence on how small tourism businesses perceive and manage risks in real-world settings. While previous research has examined risks in tourism enterprises, this study offers qualitative insights from business owners, shedding light on specific challenges and adaptive strategies. The findings emphasize the need for capacity-building programs in key areas such as financial literacy, digital marketing, and contingency planning. Governments and tourism organizations can be crucial in supporting small tourism businesses by offering financial management training, simplifying licensing procedures, and promoting digital tourism initiatives. Building on these findings, the conceptual framework developed in this study illustrates the relationship between key risks faced by small tourism businesses, mitigation strategies, and their impact on business performance. This model is a foundation for future quantitative research, providing a structured basis for empirical validation and hypothesis testing.



**Figure 1. Proposed Future Research**

Source: Research data, 2025

As shown in Figure 1, the model consists of three main components. First, risk factors represent the primary challenges encountered by small tourism businesses, categorized into four types:

1. Financial risks: Limited access to capital, poor financial record-keeping, and difficulties obtaining funding.
2. Operational risks: High dependency on the owner, lack of employee training, and operational inefficiencies.
3. Market risks: Competition with larger businesses, changing tourism trends, and weak marketing strategies.
4. Regulatory risks: Difficulty obtaining permits, unpredictable regulatory changes, and limited knowledge of taxation and legal obligations.

Second, mitigation strategies mediate, indicating that these risks can be effectively managed through appropriate measures. These strategies include proper financial management, enhanced operational efficiency through training and structured procedures, digital marketing adoption, business diversification, and regulatory compliance. Implementing these measures is crucial in reducing the adverse effects of risks and enhancing business resilience. Finally, the third component highlights the impact of risk management on business

performance, demonstrating that effective mitigation strategies contribute to three key outcomes: 1) Business sustainability, The ability to maintain long-term viability despite various challenges; 2) Revenue growth: Stable and increased income from tourism activities; and 3) Customer retention: Improved customer loyalty and satisfaction through better service quality.

This model provides a structured foundation for further empirical testing using quantitative methods such as Structural Equation Modeling (SEM) or multiple regression analysis. By examining the relationships between risk factors, mitigation strategies, and business performance, future research can generate empirical insights into the most critical determinants of success for small tourism businesses. These findings will enrich the academic literature on risk management and offer practical guidance for small tourism entrepreneurs seeking to enhance their competitiveness and resilience in an increasingly dynamic industry.

## **E. CONCLUSION**

This study provides valuable insights into how small tourism businesses perceive and manage risks, highlighting key challenges and adaptive strategies. The findings reinforce that financial, operational, market, and regulatory risks significantly affect the sustainability of these businesses. Due to their informal management structure, reliance on owner-driven operations, and limited financial literacy, small tourism businesses often struggle with risk mitigation, making them highly vulnerable to external disruptions. To address these risks, mitigation strategies such as improving financial management, adopting digital marketing, enhancing operational efficiency, and ensuring regulatory compliance have been identified as critical solutions. When effectively implemented, these strategies contribute to business sustainability, revenue growth, and customer retention, ensuring long-term competitiveness in the tourism industry. The conceptual framework developed in this study provides a structured foundation for future quantitative research, enabling empirical testing of the relationships between risk factors, mitigation strategies, and business performance. Methods such as Structural Equation Modeling (SEM) or multiple regression analysis can be used to validate the model, offering deeper insights into the most influential factors driving business resilience and growth.

From a practical perspective, the study emphasizes the need for capacity-building programs in financial literacy, digital skills, and contingency planning to strengthen the resilience of small tourism enterprises. Governments, tourism organizations, and policymakers should support small businesses by simplifying licensing procedures, providing financial management training, and promoting digital transformation initiatives. This study contributes to academic literature and practical policymaking by highlighting risk management challenges and solutions for small tourism businesses. By integrating structured risk mitigation approaches, these businesses can enhance their long-term sustainability, adaptability, and competitive advantage in an increasingly dynamic tourism industry.

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