

# OPPORTUNITIES TO MINIMISE THE RISKS OF INNOVATION IN TOURISM

## POLICY RECOMMENDATIONS

for decision makers  
at national, regional,  
local level

Full report  
May 2018

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INNOVATE



MINISTERIO  
DE INDUSTRIA, COMERCIO  
Y TURISMO

SECRETARÍA DE ESTADO  
DE TURISMO



SEGITTUR  
turismo e innovación



## **ACKNOWLEDGEMENTS**

This work has been drafted by Dr Isabel Rodríguez under the direction of Professor Allan William both from the University of Surrey. We would like to thank the European Union for the provision of the funding necessary to conduct this work (Marie Skłodowska-Curie grant agreement N° 700893). We extend our deepest gratitude to the many entrepreneurs who participated both in the qualitative and quantitative stages of the research. The initial discussion with Segittur (the Spanish national agency responsible for fostering tourism innovation), the co-creation of the online survey, and the subsequent final discussion of the findings with this project partner has been a crucial methodological input into this report. Special thanks to the contribution of Carlos Romero the Director of Segittur and the expert guidance of Ana Fernandez and Yigal Montejo responsible for the innovative entrepreneurship programme. Our special thanks are extended to Dr Sangwon Park from the Hong Kong Polytechnic University in China who has conducted the statistical data analysis. Finally, we would like to thank all the stakeholders involved in distributing the online survey, including individual entrepreneurs and innovation and entrepreneurial institutions.

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# 1

# Summary

*The innovation journey of tourism entrepreneurs: evidence from Spain and the UK and policy implications-INNOVATE* is a research project that aims to deepen understanding of the different stages of the innovation journey followed by entrepreneurs in tourism to contribute to the design of more effective innovation policies. This project has received funding from the European Union's Horizon 2020 research and innovation programme under the Marie Skłodowska-Curie grant agreement N° 700893. This report is based on the results of more than 70 interviews and an online survey undertaken by 269 innovative entrepreneurs from Spain and the UK. It has been written by Dr Isabel Rodriguez and Prof Allan Williams.

## Background

Innovation is a highly **complex** and **uncertain** process which explains the high failure rates. In fact, when facing innovation all actors (both private and public) operate under conditions of uncertainty during the whole process. Success or failure will largely depend on the entrepreneurs' capacity to manage risks but also will depend on external factors in the product market or the financial market where policy makers can play a key role. While uncertainty pervades the whole journey of all actors, entrepreneurs specifically face different types of risks: operational, financial, personal, market-related, etc. Governments can influence the balance, or minimisation, of risks.

Although the concepts of risk and have been used interchangeably and they can coexist, there is a distinction between them.

Knight (1921) distinguished between **risk** (known risks where some measure of probability can be attached to possible outcomes) and **uncertainty** (unknown risks).

## The risk of failure is an intrinsic aspect of innovation and all actors operate under conditions of uncertainty

This 2 year project included an analysis of the innovation pathways of 70 entrepreneurs (both successful and unsuccessful). Critical factors for success or failure were identified from the innovators' narratives and were discussed with policymakers in Spain. The results of this discussion was the co-production of an online survey allowing the potential policy measures and issues to be discussed with a wider sample of innovative entrepreneurs. The survey was completed by 269 tourism innovators both in Spain and the UK. The policy recommendations included in this report are informed by the views of all the participants at different methodological stages.

### Key findings and recommendations

The research has highlighted multiple types of risks that entrepreneurs could not overcome, and critical events and factors that could facilitate the process at different stages. Critical factors are: finances (persistent financial

underperformance and impossibility to secure private investment), customer-related factors (lack of market credibility and trust, lack of understanding of the value proposal, etc.), insufficient knowledge (of the tourism sector or innovation/managerial key skills) and the existing administrative and institutional framework.

Recommendations were developed in response to these key issues and include calls for:

- Improvements in tax incentives for innovators and for private investors.
- Improvements in public funding schemes
- Expansion of innovation diffusion support measures.
- Lower levels of bureaucracy and simplified administrative processes.
- Introduction of more effective mentoring formulas.
- More effective administration procedures and a higher political commitment towards tourism innovation.

#### Further information

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#### Further reading

Rodriguez-Sanchez, I., Williams, A.M., & Brotons, M. (2017). The innovation journey of new-to-tourism entrepreneurs. *Current Issues in Tourism*, <https://doi.org/10.1080/13683500.2017.1334763>

**Press release:** University of Surrey's leading research reveals the secrets of success of tourism entrepreneurs (<https://www.surrey.ac.uk/mediacentre/press/2018/university-surrey%E2%80%99s-leading-research-reveals-secrets-success-tourism>)

**Surrey news:** <https://www.surrey.ac.uk/news/innovation-journey-tourism-entrepreneurs-evidence-spain-and-uk-and-policy-implications>

**INNOVATE evidence briefing:** Challenges and opportunities to minimise the risks of innovation in tourism <http://epubs.surrey.ac.uk/847121>

#### Links

**Marie Curie actions** <http://ec.europa.eu/research/mariecurieactions>

**Project web site** <https://www.surrey.ac.uk/people/isabel-rodriguez>  
<https://www.surrey.ac.uk/school-hospitality-tourism-management/research/competitiveness-visitor-economy>

**INNOVATE YouTube channel** <https://bit.ly/2kaSZwW>

# 2

# Introduction

## 2.1 About the INNOVATE project

The aim of this project has been to deepen understanding of the different stages of the innovation journey followed by entrepreneurs in tourism. More specifically the project has addressed the following objectives:

- 1) To understand tourism entrepreneurs' innovation journey, analysing key aspects of the process (risks, networks, facilitators, etc. at different stages) in Spain and the UK.
- 2) To analyse the development and performance patterns of young innovative entrepreneurs in tourism through a longitudinal study in Spain, specifically focusing on the determinants of innovation success or failure.
- 3) To inform policy guidelines and business practices through co-production of applied knowledge and guidelines with entrepreneurs identified during the research, and via secondments with policy and practice partner organizations.

## 2.2 Aims of the report and methodology

This report aims to provide recommendations for local, regional, national policy makers on critical factors that could facilitate the innovation process and minimise the risks of innovative entrepreneurs in general, and specifically, in the tourism sector.

The policy recommendations are the result of extensive engagement with innovative tourism

entrepreneurs in Spain and the UK and policy makers in Spain together with an extensive benchmarking of innovation policy practices and literature review.

The work involved in creating the policy recommendations draws on the findings of a mixed method research design which involved several methodological steps (Figure 1):

**Step 1.** Qualitative in-depth interviews with 73 start-up entrepreneurs in Spain and the UK to provide insights into risks and facilitators of their innovation pathways, including the role of government interventions.

### Specific policy-related interview questions

- 1) Put yourself in the policy makers' shoes, what would you do to help other entrepreneurs? What would be most helpful in reducing the risks of innovation as the company progresses over time?
- 2) State the level of appropriateness of current policies/measures (all administrative/geographical levels)

**Step 2.** Key policy aspects of the innovation process and the entrepreneurs desired measures and proposals were discussed with policy representatives during a secondment and as a result of these discussions a quantitative survey was co-produced.

**Step 3.** The online survey, designed and administered using the *Qualtrics* software, aimed to:

- a) Evaluate individual policy measures against standardized scales and prioritise these, in order to select different policy options.
- b) Identify policy preferences in both countries Spain and the UK.

After an initial pre-test, in which the survey was refined, this was distributed to an estimative sample of 800 entrepreneurs located in Spain and the UK. The total number of survey participants for both countries reached 269. The data analysis has involved exploratory and confirmatory factor analyses using a Structural Equation Modelling.

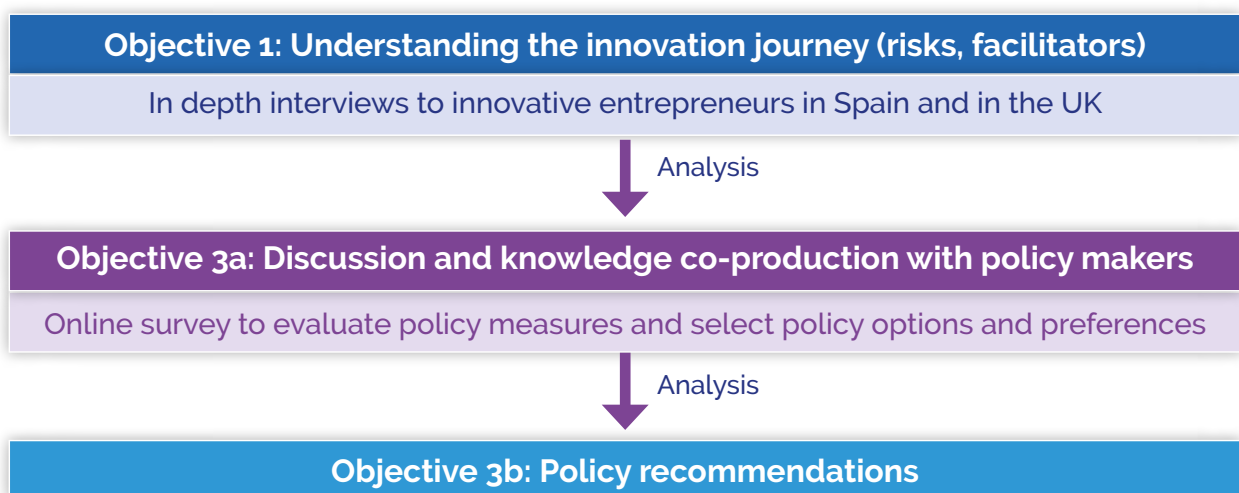
Both methodological stages, qualitative and quantitative, faced the same challenge: building the sample of innovative – as opposed to any – entrepreneurs in tourism since there are no comprehensive data sources at country or EU-level, particularly for startups. At both methodological stages, qualitative and quantitative, a snowball sampling was adopted using multiple entry points unknown to each other and geographically dispersed in order to minimise the risk of encapsulated networks; that is, parallel snowball networks. Initial respondents (entrepreneurs or key informant

stakeholders) were identified in a range of settings in both countries: governmental institutions with entrepreneurial programmes providing funding, tutoring or acceleration (both national and regional), private investors, entrepreneurial communities (e.g. Google Campuses, Tech Hubs, and LinkedIn professional networks), universities, innovation research centres and tourism and hospitality industry organizations. For the distribution of the online survey which required a large sample of individuals, the research benefitted from the high levels of engagement of many public and private stakeholders from the innovation ecosystem who distributed the survey among their entrepreneurial networks.

#### Innovative entrepreneurs:

those who implement a new idea with a degree of novelty (from incremental to radical) in their product/services.

Figure 1. Methodology to produce the policy recommendations



## 2 Introduction

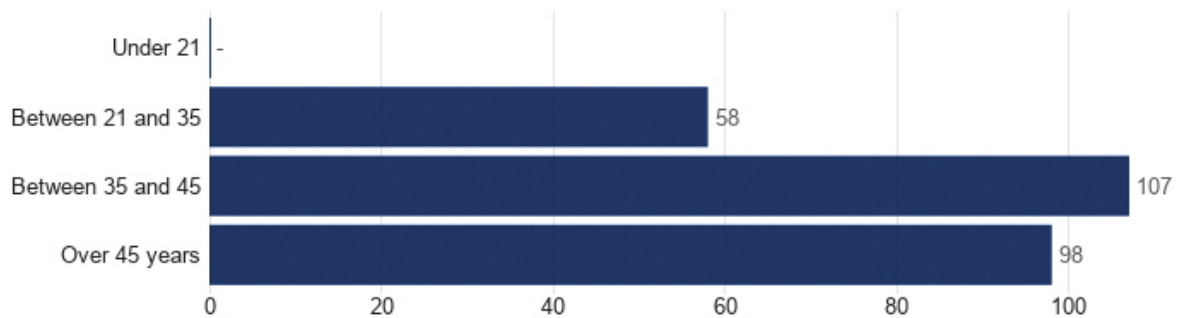
### Types of participants

The qualitative part the study incorporated a variety of innovative companies including innovations in more traditional hospitality businesses (e.g. themed hotels and gastronomy related businesses) and of the travel sector

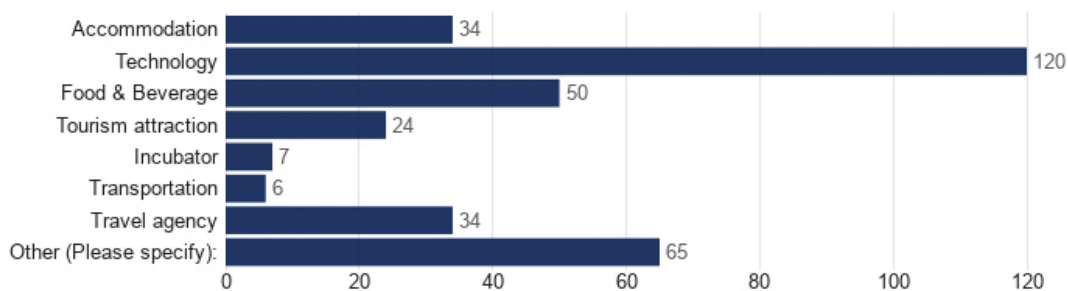
(niche travel agencies). However, there was a predominance of technology-related innovative companies in the sample. For the online survey, this is an overview of the survey respondents' characteristics:

Gender Male: 211 / Female: 52

Age



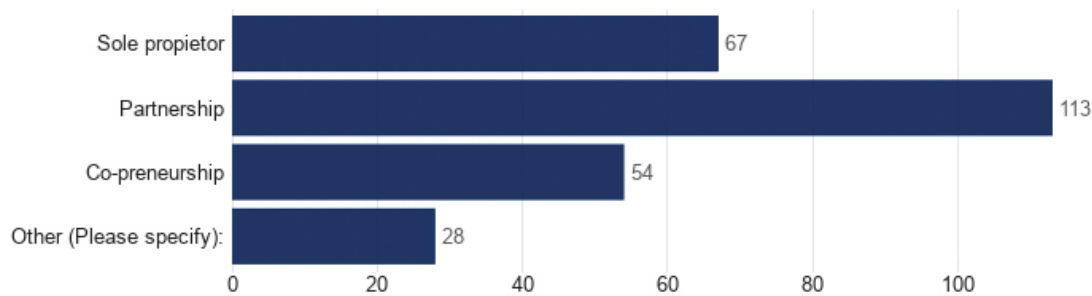
### Main sectors of activity



Other includes activities such as: cultural routes and tourist guides, marketing, vineyard, sports, mobility, corporate events, social media, rehabilitation charity, active tourism, consultancy services.



### Type of ownership



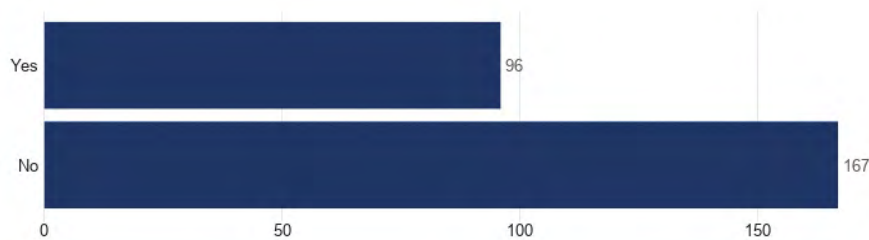
### Simultaneous ownership and management of another company:

Yes: 98 / No: 164

### Previous company owned before:

Yes: 139 / No: 124

### Participation in a funding governmental programme:



## Key policy issues identified

The policy recommendations are designed to address a range of issues broadly affecting the following government-related factors identified as critical facilitators for the innovation process:

- Tax incentives (lower taxes, tax reliefs) for innovators and for private investors, particularly in the early stages of innovation.
- Guaranteed governmental loan schemes with competitive interest rates and reasonable/patient capital return timetables.
- Demand-side innovation measures: networking with customers, help in credibility building, innovation testing in the real market, public procurement, etc.
- Lower levels of bureaucracy and simplified administrative processes
- Access to specialised knowledge and expert mentoring at different stages of the innovation process.
- Commitment and engagement of all the relevant stakeholders in fostering innovation in tourism through entrepreneurship.

# 3

## Discussion of key policy

### facilitators and opportunities to minimise the risks of innovation in tourism

This part of the report focuses on key policy issues that could facilitate the innovation pathways of entrepreneurs by presenting the main issues raised by the interviewed entrepreneurs and by presenting the results of the online survey.

#### 3.1 Key issues identified at the qualitative stage (in-depth interviews)

A wide range of aspects were identified in the qualitative interviews and the most popular ones were grouped together into 4 main themes (see Figure 2). Each theme was discussed with Segittur, the national agency dedicated to

promote tourism innovation in Spain. During the discussion the most relevant proposals were selected and subsequently transformed into survey items to reach a wider population of innovative entrepreneurs.

Figure 2. Topics discussed with policymakers and incorporated to the online survey

Funding and finance	Market diffusion support	Provision of knowledge	Administration and strategic issues
<p><b>Government loans, grants and subsidies</b></p> <ul style="list-style-type: none"> <li>• Level of appropriateness of funding schemes</li> <li>• Competitive conditions of funding schemes</li> <li>• Government intervention</li> </ul> <p><b>Scope for taxes improvement</b></p> <ul style="list-style-type: none"> <li>• Taxes-revision and reduction</li> <li>• Taxes-according annual income</li> <li>• Taxes-lower and flexible</li> <li>• Taxes-deferred to future capital gains.</li> </ul>	<p><b>Government support for credibility building</b></p> <ul style="list-style-type: none"> <li>• Connection start-ups with established firms</li> <li>• Public spaces to present innovations</li> <li>• Support in promotional strategies</li> <li>• Certificates of trust</li> <li>• Innovation annual awards</li> </ul> <p><b>Government support to access the market</b></p> <ul style="list-style-type: none"> <li>• Public innovation procurement</li> <li>• Innovation testing (by established firms and administration)</li> <li>• Innovation sharing and re-use</li> </ul>	<p><b>Government actions in entrepreneurial mentoring</b></p> <ul style="list-style-type: none"> <li>• On-line mentoring real-life experts</li> <li>• Network of face-to-face volunteer mentors</li> <li>• Mentoring pairing programme (early stage / scale up firms)</li> </ul>	<p><b>Administrative/strategic issues</b></p> <ul style="list-style-type: none"> <li>• Bureaucracy</li> <li>• Information provision</li> <li>• Strategic commitment-National pact.</li> </ul>

### 3.2 Results of the online survey

#### SECTION A: Funding and finance

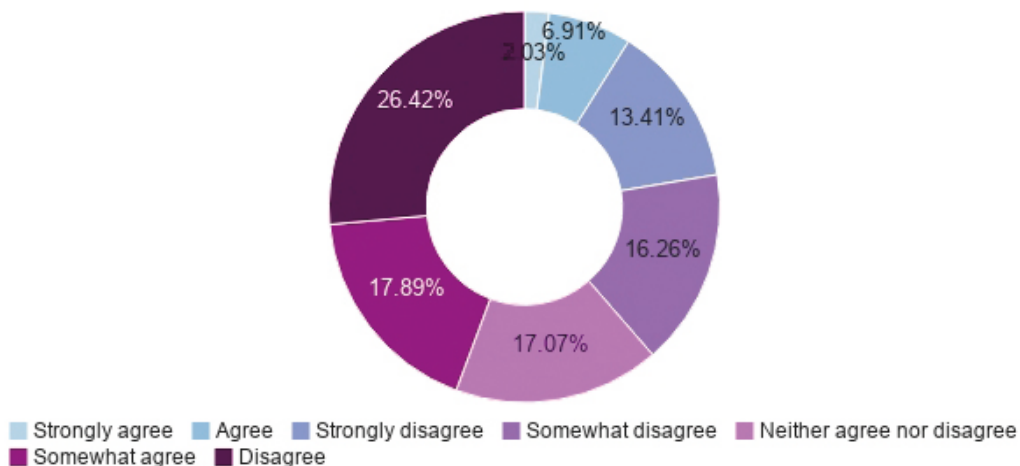
The analysis of the interviews revealed that funding was a crucial issue for the entrepreneurs in general and that the stage of development was a determinant of the sources of finance needed. Government subsidised loan schemes were relevant to speed up the innovation development process and had contributed positively to the sources of finance, facilitating a high rate of companies to arrive to the market. When facing the new challenges of growth and giving the company a qualitative leap, access to venture capital represented another critical factor since this requires established firms to have strong track records and significant cash flows. A failure to access this source of external finance is a common reason for entrepreneurs to exit the market. The existence of guaranteed loans, reduced-interest loans and subsidies were considered positive incentives by the vast majority of those interviewed while the existing tax regime was considered a big disincentive

especially in Spain, since the participants from the UK were more satisfied with their national tax scheme. Consequently, it was decided to focus further attention on these two broad aspects to observe levels of agreement or disagreement towards the following issues:

#### 1) Positive incentives: government loans, grants and subsidies

This section of the survey covered issues associated with the level of appropriateness of the funding schemes since there were divergent opinions in the qualitative interviews. Some entrepreneurs positively valued the existence of funding schemes but others raised concerns about the non-coordination of schemes between different administration levels and the still uncompetitive nature of the governmental schemes compared to lower interest rates prevalent in the commercial sector. The results of the survey confirm that there is scope for improvement since most interviewees disagree with the statement that current funding schemes are appropriate (Figure 3).

Figure 3. The current government funding schemes for innovative entrepreneurs in tourism are appropriate and do not need to be changed



When asked about their views on the competitive terms and conditions of the current funding schemes, the answers of the survey respondents are highly polarised between agreement and disagreement (Figure 4).

During the interviews some interviewees manifested an anti-governmental funding position, considering that funding in a free

market economy should only concern private actors. This was transformed into a specific survey item and the results show that this is not a shared view and that entrepreneurs do expect governments to continue compensating for financial gaps in the market by providing financial tools (Figure 5).

Figure 4. The current innovation funding schemes offer competitive terms and conditions compared to other ways of raising capital in the market

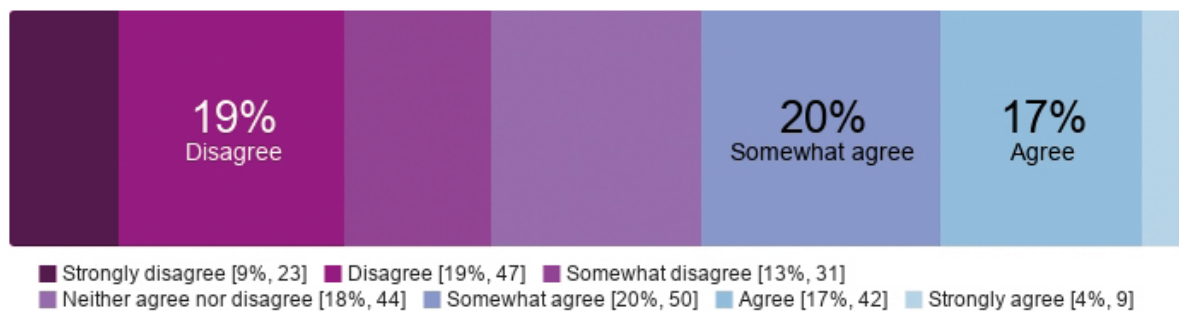
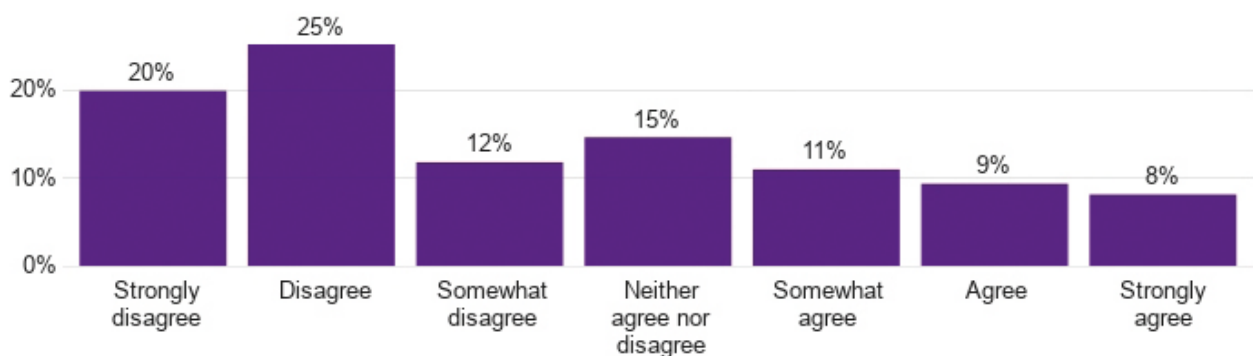


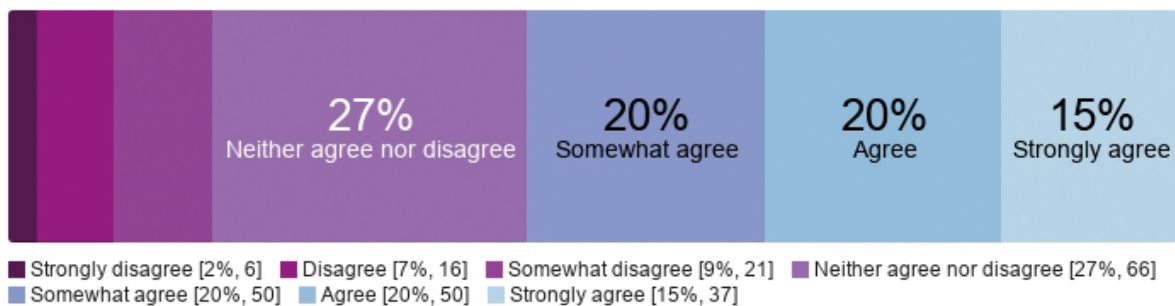
Figure 5. In a free market economy the government should not intervene with financial instruments to support some innovations in detriment of others



In the qualitative interviews some entrepreneurs developing non technological innovations raised attention to the fact that there was a governmental and general ecosystem bias towards technological innovations and a more favourable approach towards these types of businesses. As stated earlier, in this research technology-related companies are

predominant in the market and to a certain extent ICT is important for the tourism industry which heavily relies on process information and tools to enable improvements in tourism business productivity and tourism destinations' efficiency. The survey respondents agree on the fact that 'techno-starters' are highly encouraged in relation to non-technology related projects.

Figure 6. There is a governmental bias in favour of funding technology-related projects compared to other types of innovation



## 2) Disincentives: taxes

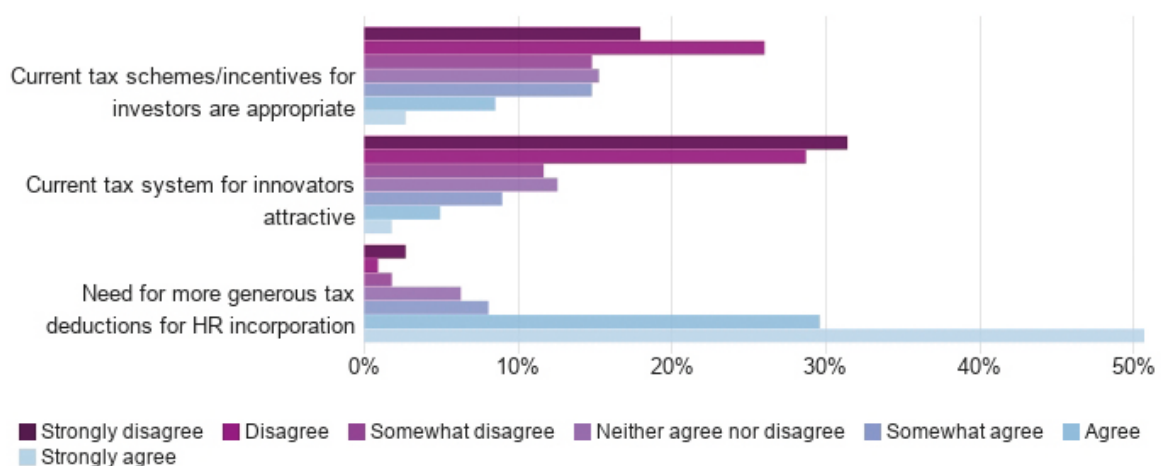
This section of the survey covered issues associated with the level of appropriateness of the overall tax regime applied to entrepreneurs and to private investors and to incorporate human resources since these were relevant issues identified in the qualitative interviews. Taxes were considered a discouraging aspect for many entrepreneurs (especially in Spain) who considered them too high and too difficult to cope with especially in the early stages when there were not yet innovation profits. This was transformed into a specific survey item to check if there was general agreement or disagreement on this issue. The results of the survey suggest that most of the interviewed of the agree on the fact that current tax schemes are an important disincentive (Figure 7).

Another aspect often mentioned by the interviewees was the need to reinforce the venture capital industry and to attract more investors from within their respective countries

and from abroad in order to have a stronger private investment environment, suggesting that there should be more incentives in the form of tax reliefs or benefits together with a favourable regulation. Evidence was also provided by some entrepreneurs of the positive effects of governments investing in privately managed funds to help grow a stronger venture capital industry. The results of the online survey shows that opinions tend to concentrate on the idea that the current incentives to encourage venture capital investments are inappropriate (Figure 7).

The last key issue of this section mentioned by the interviewees was the high labour costs of incorporating skills and human resources into the innovation process suggesting the possibility to have tax deductions or more immediate benefits. The online survey results show a general agreement on the need for social tax deductions to incorporate skills into the process (Figure 7).

Figure 7. Agreement-disagreement tax policies issues



During the interviews many entrepreneurs highlighted the need to revise and reduce taxes and suggested different options to improve the tax regimes. All these issues were transformed into survey items to check for general preferences. There is consensus on the idea that lower taxes could influence positively the process of innovation (Figure 8) while the highest consensus is found on the item that tax regimes should be lower and more flexible at early stages when the innovators

have low internal cash-flows. Tax deferrals to future capital gains and gradual increases in taxes according to annual income were also considered moderately and extremely positive.

A specific survey question asked the respondents to prioritise all the tax related measures above presented and to select the one that was considered the most important or a priority. For 47% of the respondents the priority measure was early stage lower taxes (Figure 9).

Figure 8. Scope for improvement to taxes- how would you evaluate these measures and their capacity to influence innovation?

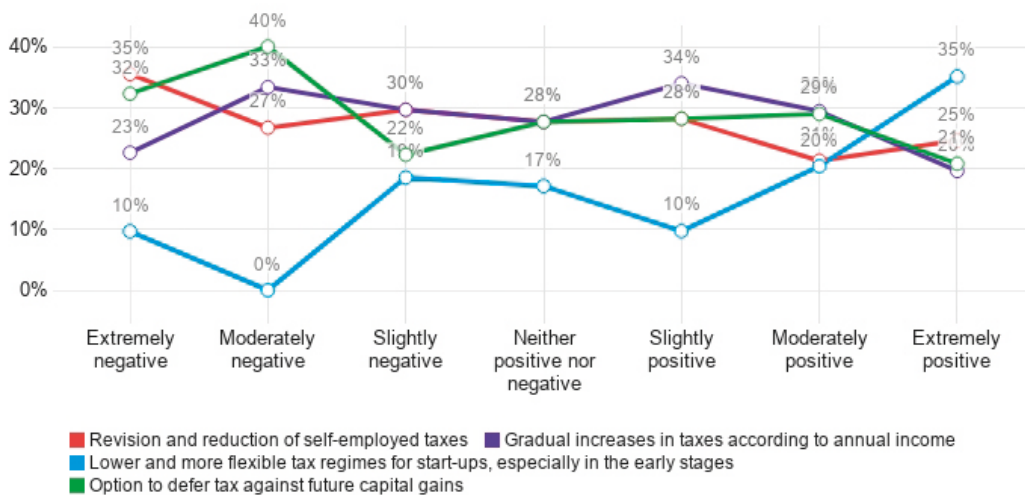
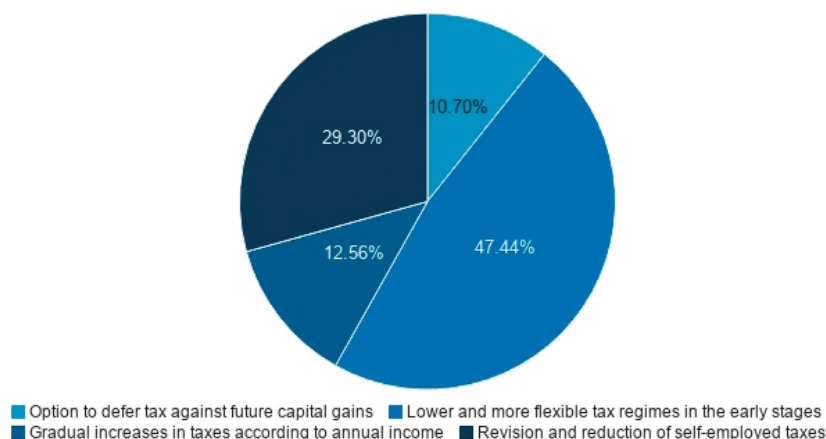


Figure 9. From all the tax-related measures previously presented, please select the one that you consider most important or a priority



### 3) Ranking of preferred financial instruments

This section ended by asking the respondents to rank in order of preference a whole spectrum of financial instruments: loans, subsidies, tax incentives to entrepreneurs and tax incentives to investors. For most entrepreneurs the most appropriate type of public stimulus are tax incentives followed by government grants or subsidies (Figure 10).

## SECTION B: Innovation diffusion support

While risks exist in all stages of the innovation process, perhaps the most critical stage is innovation diffusion since the market place is the battleground where the fate of the innovation will be decided. Once at this stage, the entrepreneurs have reported many customer-related types of risks namely: risks inherent to any innovation (there are no observable prior experiences, and clear points of reference for the innovation to be compared to and evaluated with confidence); lack of business reputation or credibility which start-up entrepreneurs have not had sufficient time to develop; time to market or difficulties

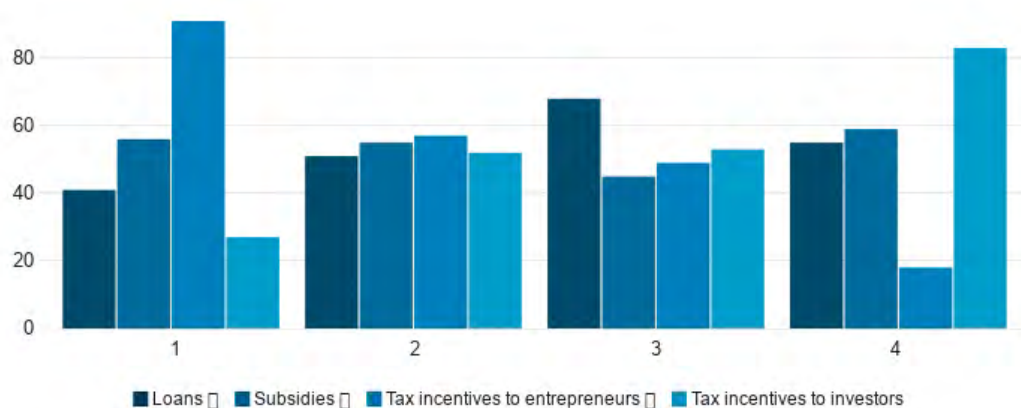
encountered stemming from being pioneers and having arrived too early at the market. The risks increase since a significant number of innovations are developed by entrepreneurs from outside the field of tourism (especially in the case of technological innovations) and there is a further need to engage and connect with the tourism stakeholders. Overcoming some of these risks requires time and according to the entrepreneurs the government could play a key role in the task of helping to diffuse the innovation and minimise some of the risks encountered at the commercialisation stage.

The survey then focuses attention on these two broad aspects to observe levels of importance attached to the following issues:

### 1) Government support to credibility building in the tourism industry

This section of the survey covered issues associated with the need that most entrepreneurs have to improve the interaction with potential customers (both Business-to-Business –B2B- or Business-to-Customer- B2C- innovation types) in order to convince them of their innovation value and credibility.

Figure 10. Which of the following financial instruments to stimulate tourism innovation should be prioritised?





It covers a wide range of instruments to improve this innovators-market interaction. First, in order to bring together entrepreneurs with important or already established players, face-to-face forums with decision makers in leading companies were suggested. The interviewed entrepreneurs also suggested the possibility to get governmental subsidies for their communication strategies. Additionally, two different instruments were suggested in order to provide information, legitimisation and recognition for their innovations: 1) certificates of trust for those innovations meeting a specific performance criteria and 2) annual awards for outstanding innovative firms, both measures to create awareness and gain social visibility and reputation.

There is agreement on the importance of face-to-face forums to connect start-ups with decision makers in leading companies confirming the innovators' need to establish direct and strategic connections with the market. There was also consensus about the importance of the availability of public spaces to show or demonstrate how the innovations work and a high percentage of respondents valued as extremely important the existence of subsidies for their market strategies (Figure 11). When asked to select the most important or priority measure both face-to-face forums and government support in the form of subsidies to private marketing activities were the two more popular tools selected by 36% of the sample each (Figure 12).

Figure 11. Importance attached to the following governmental measures to increase innovation visibility and credibility

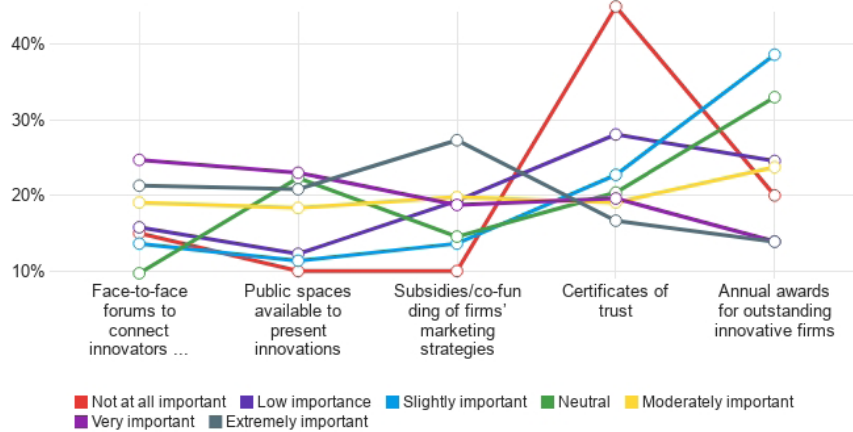
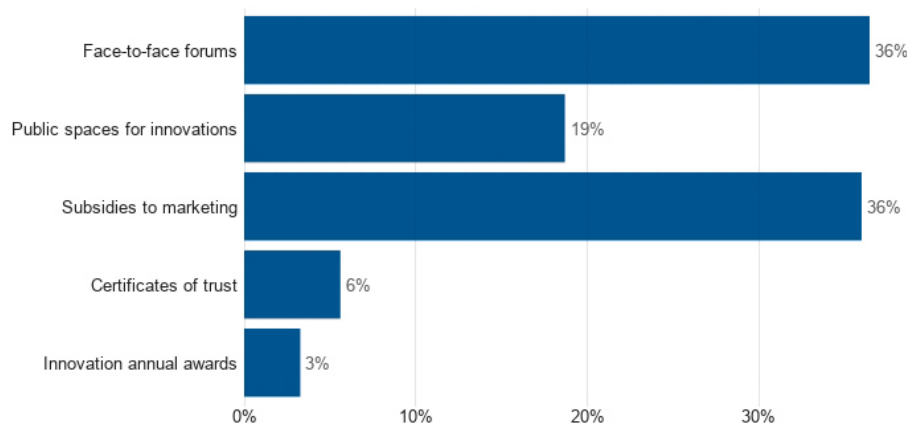


Figure 12. Selection of the most important or priority measure from the above mentioned

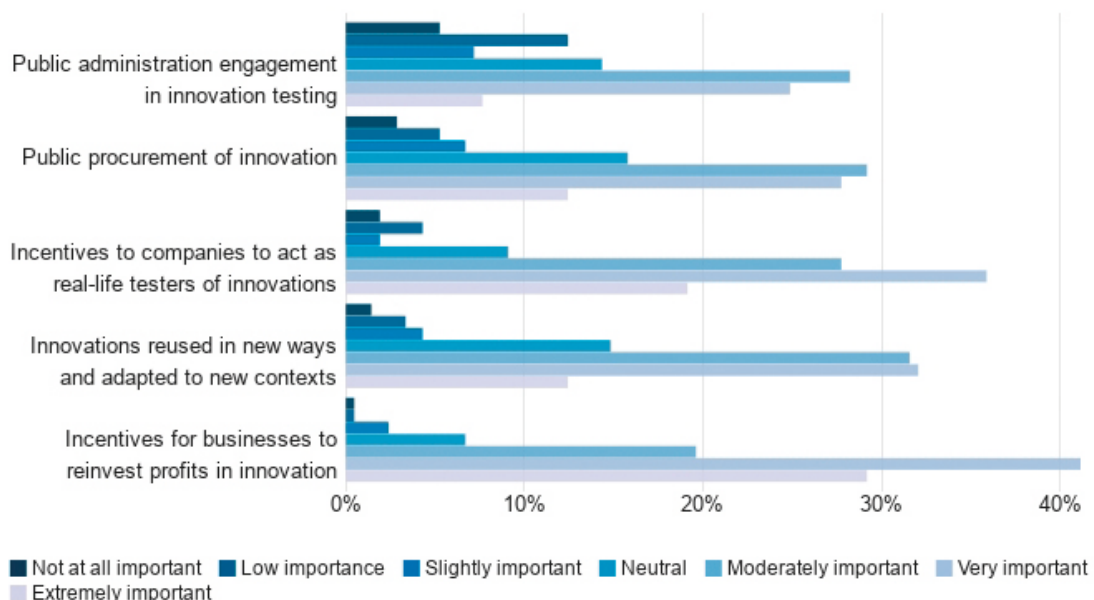


## 2) Government support to access the market

This section of the survey addresses the issues associated with demand uncertainty or the perceived risk that some entrepreneurs report of not having enough demand for their innovations. First, the interviewees emphasised the need for actions to drive demand for their innovations such as public procurement. The entrepreneurs interviewed hoped for public institutions with more innovative ethos or desire to deploy innovative solutions to their challenges, and they also suggested the administrations could act as lead customers of innovations. Second, the interviewees suggested the possibility that the government could favour the reuse of innovations in new ways and the possibility to adapt them to new contexts. A third important issue for the entrepreneurs interviewed was the possibility to engage with already established lead companies to test and validate their innovations and be able to demonstrate to other companies the effectiveness of their new products/services. The interviewees highlighted the

importance of identifying the most responsive market segments to test innovations and by doing so, learning and checking the scale effects. It was also suggested that the testing and evaluation task should be performed by the government through the creation of administration "testing departments" to validate the innovations, build credibility and facilitate the road to commercialisation. Finally, in order to stimulate the demand for innovations, the interviewed suggested the possibility of putting into practice innovation tax incentives allowing companies to reduce their tax burden according to their expenditure on innovation. The survey results reveal that there is higher agreement on the importance of making the purchase of innovation more attractive through tax incentives and the possibility of testing innovations in real-life companies (Figure 13). There is also agreement on the low importance of measures such as public administration validation and testing of innovations. There is a higher dispersion of opinions regarding the importance of public procurement measures to support innovation.

Figure 13. Measures to stimulate the demand of innovations



### SECTION C: Provision of knowledge to the innovation process

This section addresses the reported need of the innovators to access knowledge and advice provided by other experts including other entrepreneurs. Innovators must accomplish many difficult tasks which require a different set of skills that sometimes are acquired on the job or by trial and error. The most critical needs are business advice and financial education: business planning and management, how to approach private investors, etc. The interviewees suggested that online mentoring programmes would be helpful if run by real-life well-respected expert entrepreneurs that had gone through the process themselves. There was a great emphasis on the importance

of the mentors' experience as a key indicator of the mentoring quality. They also suggested the creation of a mentoring network formed by volunteer and face-to-face mentors willing to "put something back" into the system for the next generation of businesses. A final suggestion was the formula of a mentoring structure to pair early-stage entrepreneurs with those with more experience. The results of the survey show that the three actions which were considered the most important were the creation of a mentoring programme pairing entrepreneurs at different stages of their life cycle (Figure 14). In fact, when asked to rank these measures by order of importance, pairing entrepreneurs at different stages of their life cycle was considered the most important or interesting (Figure 15).

Figure 14. Measures to provide expert knowledge

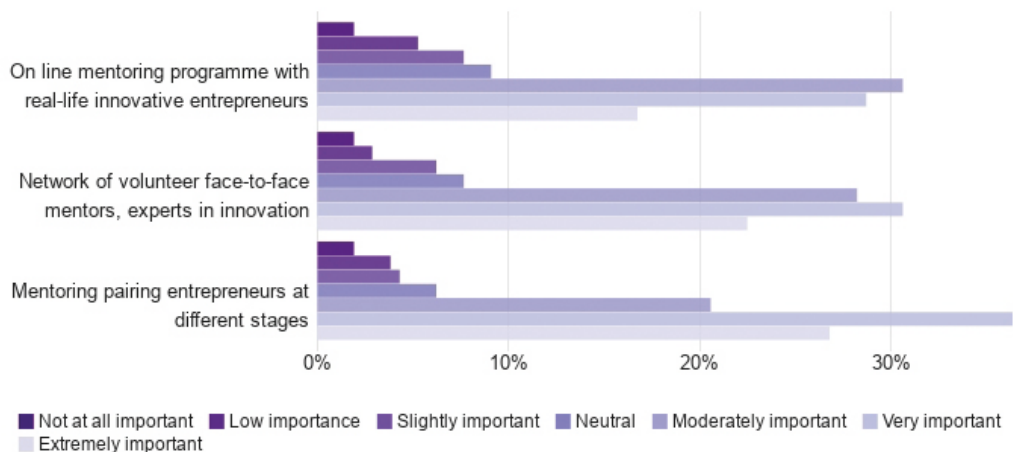
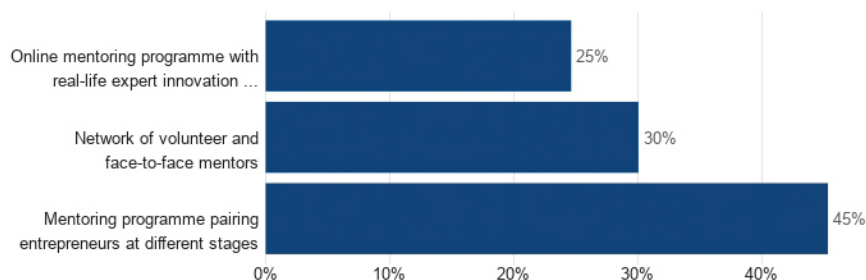


Figure 15. Selection of the most important or priority measure from the above mentioned

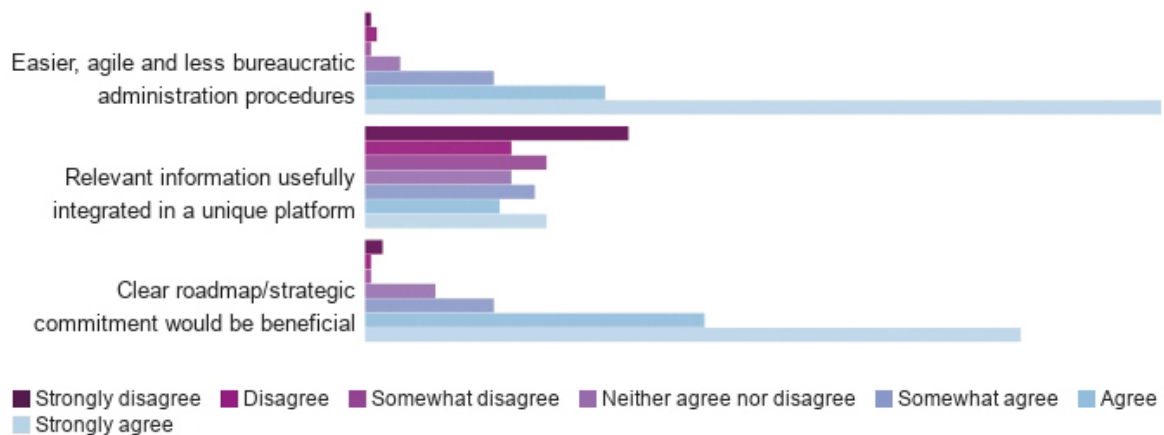


## SECTION D: Administrative/Strategic issues

This section addresses diverse issues related to the provision of services by the public administration and more strategic policy issues such as the need for higher governmental commitment towards innovative entrepreneurship. Most entrepreneurs reported that administrative burdens very often represent an inhibiting factor and that there is a need for more agile and less bureaucratic administration procedures. Also information tends to be fragmented and having a centralised source of relevant information (taxes, legislation, all available measures and funding, etc.) was a popular suggested measure. Finally, the

entrepreneurs wanted a more clear roadmap and strategic commitment in the form of a National pact for entrepreneurship and innovation in tourism. The survey results, as was expected, show clear consensus on the fact that administration procedures should be more agile and simplified (65% of respondents strongly agree). The issue of relevant information being usefully integrated in a unique platform received more diverse opinions even though values are higher on the scales of disagreement which indicates that there is scope for improvement. 54% of the respondents also strongly agree on the need for greater policymakers' commitment towards innovative entrepreneurship in the field of tourism.

Figure 16. Agreement-disagreement on different Administration issues

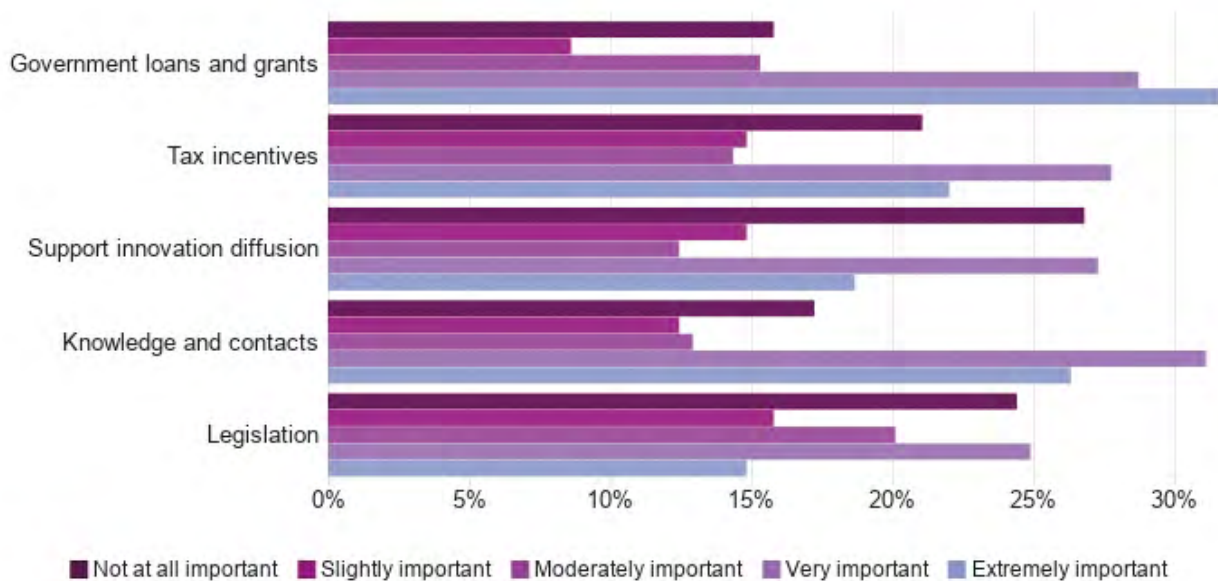


### SECTION E: CONCLUSION

The survey concluded by asking the respondents to state the degree of importance in the development of their innovations of all the policy instruments presented in the survey: governmental loans and grants, tax incentives, support in the diffusion stage, provision of knowledge and contacts and an appropriate regulatory framework.

For the vast majority of respondents, governmental funding has been the most important measure for their innovation process followed by the provision of knowledge and contacts. Issues such as support in innovation diffusion show very diverse opinions with 27% of respondents considering that it had been not important at all and 27% considering that it had been very important (Figure 17).

Figure 17. Policy tools and measures more important in the development of your innovation



# 4

# Policy recommendations

The key issues identified through the research project have been used to develop a set of policy recommendations for addressing the challenge of tourism innovation. The recommendations are framed around the aspects highlighted by the participating entrepreneurs, Segittur's feedback and in-depth analysis of other policy documents and literature review. Core policy recommendations are grouped into 9 topics headings and are listed below.

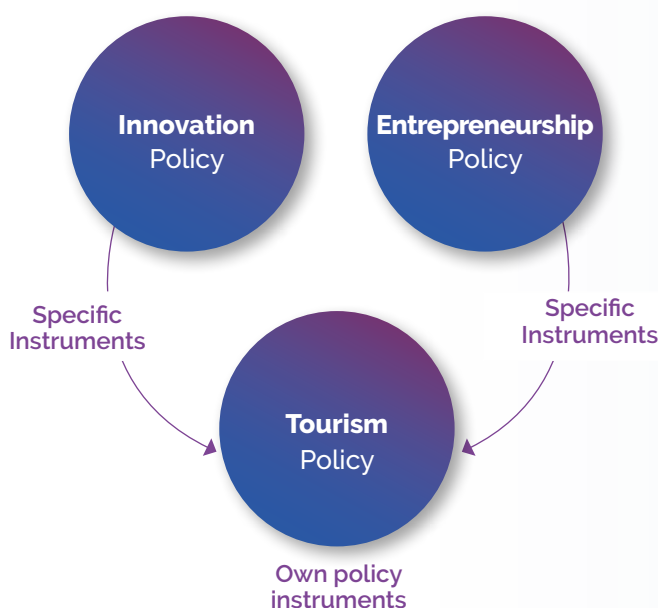
## Identifying the right approach

- Governments should adopt a holistic, systemic approach to innovation strategies ensuring they engage with the multiple stakeholders of the national innovation system. They need horizontal policies to work systematically with other national public agencies and vertical policies to integrate regional/local stakeholders. A national task force should be formed to promote joint approaches among all stakeholders (public and private) and guarantee the

complementary and synergistic efforts of the different institutions towards a common goal. Innovation and entrepreneurship should be considered "policy priorities" and innovation policies should support tourism as a specific economic policy goal especially in those countries in which tourism is a key economic activity sector.

*A systemic approach can help to identify what components of the system are not working properly and therefore should be fixed*

- Tourism benefits from existing policy instruments in other policy domains (e.g. innovation, entrepreneurship) but can and sometimes should create its own instruments when needed. Innovation policies and entrepreneurship policies are still not well integrated (the concept of "innovative entrepreneurship policy" has not yet fully emerged) but should be focal points in national tourism strategies. Stronger connection between the three policy arenas of innovation, entrepreneurship and tourism is essential.



**Policy:** government action, inaction, decisions, and non-decisions as it implies a deliberate choice between alternatives.

**Innovation policy:** comprises all combined actions that are undertaken by public organisations that influence innovation processes.

**Entrepreneurship policy:** a broader range of policy issues geared to creating a favourable environment for the emergence of entrepreneurial individuals and the start-up and growth of new firms.

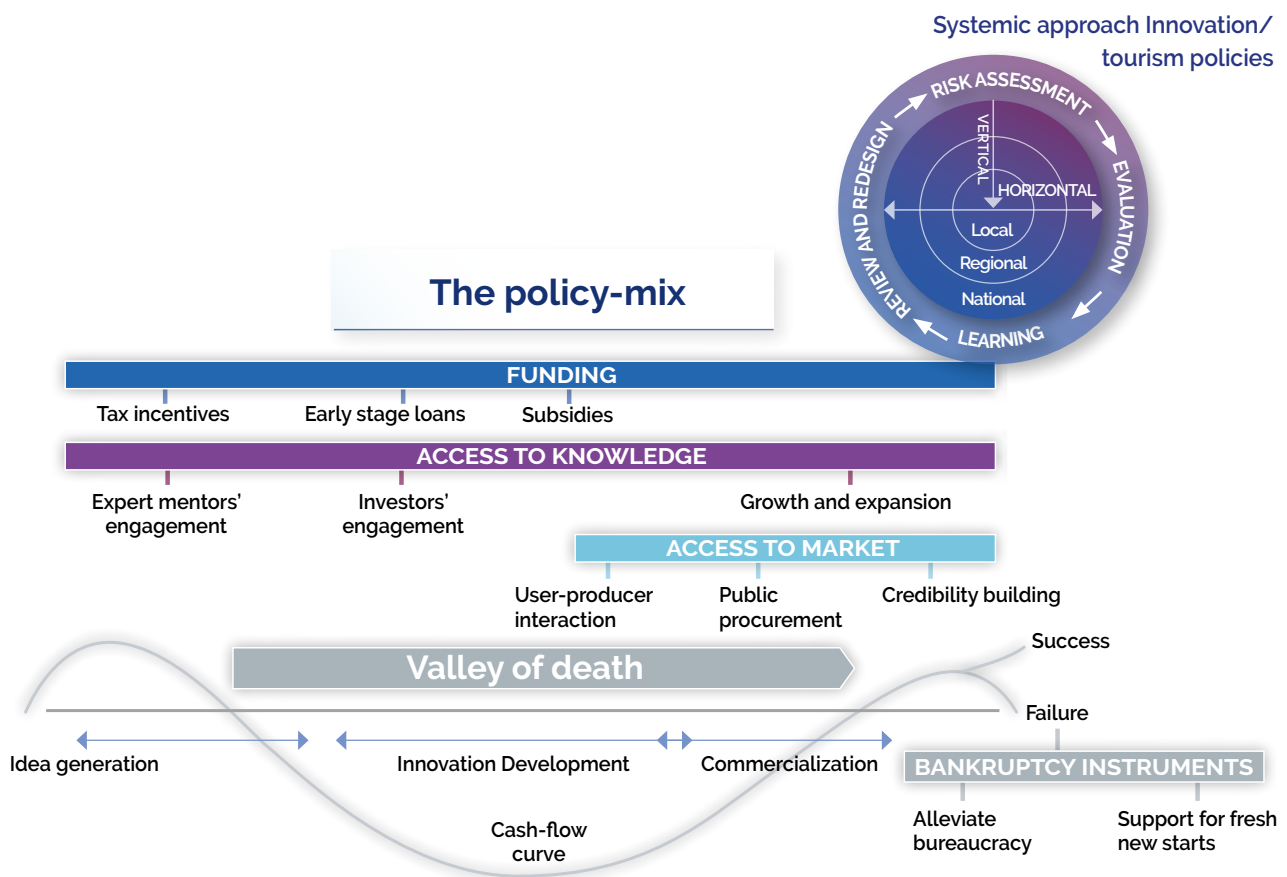
**Tourism policy:** a set of regulations, rules, guidelines, directives, and development objectives and strategies to guide tourism development actions.

## The challenge of the right policy-mix

- Governments should provide a complementary portfolio or policy mix of support instruments both direct and indirect. It is important to identify the potential complementarity of already existing instruments in order to maximise that complementarity but also to search for strategic complementarity at the design stage: coherent and harmonised policy programmes towards a common goal. If possible, this portfolio of instruments should cover the needs of the entire innovation process: strengthen the supply of finance,

facilitate access to the market and to specialised knowledge, etc. This would entail the possibility of designing strategically co-ordinated and complementary measures which combine various demand-side and supply-side instruments adapted to the specific needs of each stage of development (e.g. concept feasibility, early stage, and late stage). It is important to allocate resources to instruments with different risk profiles to spread risk across the portfolio of instruments.

*Effective policies must understand the innovation process. A cross-government policy-mix based on a unifying strategic vision is necessary*



## 4 Policy recommendations

### Deciding what type of finance

- The financial policy, part of the national macro-economic policy must go hand in hand with the innovation policy.
- The selection of financial instruments should take into account the long-running nature of innovation and be appropriately patient and flexible about securing returns. Even though tourism has been shown to produce innovations in a very dynamic and agile way (in contraposition to other sectors with more extensive R&D processes), nevertheless innovations require time to develop but also time to convince the market of the value proposal.
- Policymakers can adopt a tax friendly approach towards innovative activity (considering both entrepreneurs and private investors). Tax holidays or reliefs at early stages are a highly valued measure. Tax relief schemes to companies granted a patent could also be interesting to consider even though tourism is not a patent intensive sector.
- Following the principle of additionality, government can opt for public and private aggregate innovation instruments or co-funding models. This can imply the creation of schemes giving private investors an incentive to provide additional funding to increase the overall investment of high-risk, more R&D intensive projects.

### Other forms of support: access to knowledge

- The risks associated with lack of skills can be addressed through provision of specialist advice, information and education to the entre-preneur through mentoring schemes and business/finance educational programmes. Financial education is an important policy area since entrepreneurs with higher levels of financial knowledge have stronger propensity to have appropriate financial behaviour (careful forecasting of the cash flow position to prevent being overdrawn, forward planning, etc.). Sometimes entrepreneurs need to step back and reflect and obtaining an independent external, critical and objective person to provide them with a reality check could be highly beneficial. The effectiveness of mentoring seems to be associated with entrepreneurial similarity or the preference for real-life expert mentors having gone through the process themselves who possess good knowledge of the tourism industry and a track record in building successful businesses. Matching of mentor/mentee pairs at different business stages is another important factor in the success of effective mentoring. Policymakers can also influence the qualification of the mentoring and financial education providers in order to guarantee the quality of the training. Entrepreneurial skills can be supported through entrepreneurial education and reinforcing entrepreneurial competences in the educational system at all levels.



## The choice of demand-side instruments

- Governments can provide indirect support for demand by providing instruments to improve the user-producer communication and interaction. They can provide links to established industry players to test the innovations or co-initiate the innovation process so that customers are aware of the innovation possibilities and are placed in a position to use them. Innovative instruments should be considered such as the *Innovation voucher schemes*, direct subsidies or instruments already being implemented in many EU countries that could be beneficial to connect traditional companies to address their technological/managerial problems with innovative companies willing to offer knowledge or technology. In this respect, connections need to be made at the earliest stages possible so that the innovations solve real and well defined customers' problems. Governments should also consider that innovation failures often are due to a misperception by the innovators of what the market is ready and willing to accept, and a lack of sound marketing before and after innovations are generated. This could be addressed by programmes which support innovation projects that are based on user needs and inputs, and are composed of groups of users and producers (e.g. co-produced innovation projects funding).
- Policies could reduce the information asymmetries and poor communication and interaction between user and producers through information campaigns, creative awareness measures (e.g. public spaces

as innovation demonstrators, certificates of trust). This can reduce the risk assumed by early users, support a process of demand articulation and user-producer discourse.

- Public procurement of tourism innovations can create new markets or support access to markets for innovators. The potential of public procurement of innovation still remains widely unknown even though its importance is underlined in the Europe 2020 flagship initiative Innovation Union. Public bodies at national, regional and local contexts should reflect upon the nature of the innovations required by the tourism public administrations to address different types of service delivery more efficiently. So far there are limited examples available of demand side innovation policies applied to tourism case studies. Tourism-specific innovation platforms could be the starting point to increase interest and practice in the topic and could also provide the infrastructure to create networks of procurers, establish a dialogue between government departments and suppliers and learning from others good practices. These platforms can be created around thematic areas of interest such as for example smart tourism destinations. In a climate of constrained budgets, facilitating the sharing and reuse of innovations across the public-sector could be the next essential and logical step.

### Public procurement

acquisition of goods and services by government or public sector organisations. The demand can be of existing innovations or might involve the development of new innovations.

## 4 Policy recommendations

### Deciding whom to support - risk/ rationale of each policy intervention

- Policymakers' instruments must be based on strategic decisions about the types of innovations to support: level of newness, product characteristics and potential impact on the tourism industry, and customers' performance. It is sensible to support innovative projects with high social returns that would not happen without governmental intervention. However governments must be aware of the risk of subsidizing underperforming firms struggling with poor cash-flows that could not find funding elsewhere and would have otherwise exited the market earlier. Selection processes must be rigorous, with greater control of how the firms are performing and clear instructions on how to proceed when firm defaults must be put in place.
- There is a need for more inclusive policies for people from disadvantaged or under-represented groups in entrepreneurship: young, disable, women and seniors and migrant populations. The risks for these entrepreneurs can be higher, especially those related to funding. For these specific target groups new emerging financing instruments can complement the role of traditional policies, including loan guarantees, targeted microcredit programmes, business angel investment, crowdfunding and peer-to-peer lending.
- Many innovations in tourism depend on the "in-migration" of individuals and knowledge from other sectors. Therefore, policymakers should encourage new entrants to tourism to have a good knowledge of the sector, backed up by sound market research. They can also encourage teams to include the

appropriate mix of skills and competence (especially tourism and finance) via providing information, advice and mentoring.

### Creating a more favourable environment

- Innovators need to be agile and so do policy instruments. Public administrations can generate a more positive business environment for start-ups by simplifying administrative procedures and regulations: speeding up the execution of funding and alleviating bureaucracy at different stages of the firm lifecycle (e.g. legal constitution, funding application, firm closure).
- The wide variety of policy instruments (including both horizontal and vertical levels) require access to different sources of information often structured in agency silos. Governments adopting a *one-stop shop* approach can help innovative entrepreneurs in tourism to maximize their opportunities by providing a single access point to updated and integrated information and service regarding financing programmes, mentoring schemes, and all sorts of initiatives and tools available. This would imply cross-agency collaboration and bi-lateral agreements so the entrepreneurs as citizens can see a single organisation and a more connected government.

### Sharing best practice and policy monitoring

- Policymakers need to undertake more rigorous evaluation/impact studies of their innovation and entrepreneurial policy programmes in tourism. This could involve

more longitudinal data collection to assess the longer term effectiveness of different policy tools and their additional effect. They also need to understand the difficulties faced along the process and to follow the trajectory of the innovations beyond the start-up phase.

- Governments can engage in information-sharing with other countries and regions, learning from their experiences and good policy practices to enhance tourism innovation. This implies maximising the benefits of EU policies and initiatives already in practice. Public administrations could also take advantage of collaboration in the exchange of relevant innovations that could be re-adapted and re-used in new contexts.

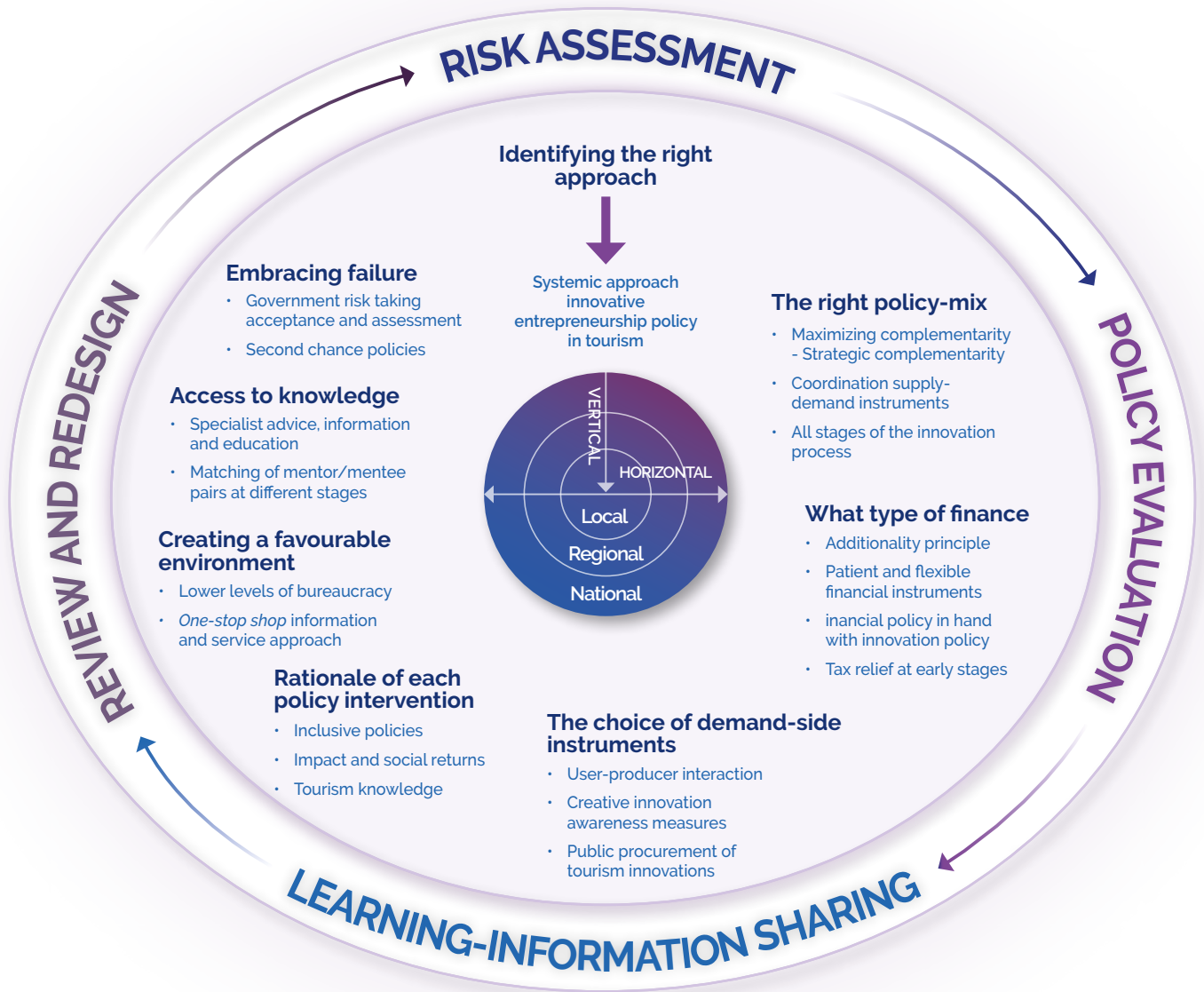
### Understanding and embracing failure

- A more tolerant approach to innovation failure is needed by governments, private actors and society in general. Innovation requires exploring new and unknown paths so failure can be part of the process. Also governments must accept the role of risk-takers and accept the failure of their own investments when the companies they have provided guaranteed loans to go bankrupt (a strong subsidy component of these financial programmes is to be expected). Every policy intervention faces a risk and there is always a gap between the rationale with which policy instruments are designed and reality. It is important to weight both

benefits and risks to avoid impractical and even counter productive policy interventions but, as with innovation itself, policymaking implies not only risk taking instead of overly conservative policies but also learning and agile re-designing of more efficient policy instruments. This must be consistent with long-term horizon policies and a stable positive policy environment which are not excessively influenced by politic factors such as the election cycles.

- Governments must ensure the minimisation of their own risks by gathering sufficient information, setting an accurate set of operational parameters of eligibility and introducing the right expertise into risk assessment when judging the viability of the business proposals. More sophisticated analytical and financial models for risk assessment and monitoring of the loans and other financial instruments could be beneficial. Monitoring loan recipients on a continuous basis can help to provide early warning signs of potential insolvency but there is also a need to study cases individually to adopt more flexible approaches.
- There needs to be greater policy emphasis on minimising the costs of failure for the entrepreneurs and for society in general by encouraging entrepreneurial re-emergence and new innovation beginnings e.g. second chance policies to simplify bankruptcy procedures and support for fresh new starts to honest failed entrepreneurs.

*There is no simple answer to what instrument is more effective. Due to the contextual and structural nature of policies each government must design its own more effective policy mix of instruments to address the complex and uncertain nature of innovation*



## 5

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# OPPORTUNITIES TO MINIMISE THE RISKS OF INNOVATION IN TOURISM

## POLICY RECOMMENDATIONS

for decision makers  
at national, regional, local level

May 2018

Full report

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