Nurturing travel and tourism enterprises for economic growth and competitiveness

Dataset · September 2016

1 author:

Mark Camilleri
University of Malta

Tourism and Hospitality Research
0(0) 1–5

DOI: 10.1177/1467358415621947
thr.sagepub.com

Nurturing travel and tourism enterprises for economic growth and competitiveness

Mark Anthony Camilleri
Department of Corporate Communication, Faculty of Media and Knowledge Sciences, University of Malta, Msida, MSD2080, Malta; Business School, University of Edinburgh, Edinburgh, EH89JS, Scotland

Abstract
Small and medium-sized enterprises are often constrained by their size and limited resources. They can find themselves in an equity gap where they may find it difficult to raise capital for their business. Consequently, this contribution involves a content analysis of specific European Union policies and instruments that are aimed at supporting small and medium-sized enterprises in accessing finance. Moreover, it also presents a short case study of a tourism start-up that has raised its capital requirements through crowdfunding. This research sheds light on practitioner-oriented tools that can ultimately foster a climate for job creation, economic growth and competitiveness among small and medium-sized enterprises in the tourism and hospitality sectors.

Keywords
Tourism enterprises, tourism small and medium-sized enterprises, financing of small and medium-sized enterprises, crowdfunding, European Union, European Union policy

Introduction

Small firms are often viewed by financial institutions as relatively risky when compared to their larger counterparts (Roberts and Tribe, 2008). In fact, their access to finance is one of the most critical factors for the small and medium-sized enterprises (SMEs) growth prospects (Carlisle et al., 2013; Cheng et al., 2014). Therefore, this contribution contends that SMEs may easily find themselves in an equity gap where it may prove hard to raise finance to invest in their business (Wehinger, 2012). Consequently, national governments and other regulatory stakeholders are increasingly stepping in with their commitment to support micro and small enterprises (IC, 2011; Murphy, 2013; Ritchie and Crouch, 2003; Tourism Australia, n.d.). In this light, the European Union (EU) has reaffirmed its commitment toward SMEs (EU, 2014a, 2015b). Therefore, this practitioner brief's objective is to reveal specific EU policies and initiatives that nurture the travel and tourism industry in the European context.

Financing of SMEs in Tourism

Most of the tourism businesses are small and medium-sized enterprises (SMEs) that employ less than 5.2% of the total European workforce. This figure translates to approximately 9.7 million jobs, with a significant proportion of them being young people (EU, 2010). The terminology of what constitutes SMEs in tourism may vary across regulatory contexts and in academic literature (EU, 2015a; IC, 2011; Thomas et al., 2011;). The size of the enterprise is usually measured in terms of their staff count, sales turnover and/or profitability. Small firms tend to find themselves in an equity gap, where sometimes it can prove quite hard to acquire finance for further investment (Cheng et al., 2014). Although financial institutions are key

Corresponding author:
Mark Anthony Camilleri, Department of Corporate Communication, Faculty of Media and Knowledge Sciences, University of Malta, MaKS building, Room 603, Msida MSD 2080, Malta.
Email: mark.a.camilleri@um.edu.mt

providers of debt and equity finance; unsecured bank finance is very limited (ITCWTO, 2014). Therefore, at times the SMEs growth prospects into viable investment opportunities may be severely restricted. Cashflow-based lending is relatively rare and businesses infrequently have unused security at their disposal. Travel and tourism SMEs are very reliant on personal savings of their owners or on informal financing to sustain their business (EU, 2014b). Despite the changing debt market, one of the main reasons why small tourism businesses fail to acquire debt finance is due to their inability to provide adequate and sufficient collateral (Cheng et al., 2014). Moreover, certain external forces and potential threats in the business environment seem to impact harder on the small businesses than on the larger corporations (Ritchie and Crouch, 2003; Thomas et al., 2011). Changes in governmental regulations, tax laws, labour legislation and interest rates may also effect a greater percentage of expenses for the smaller businesses than they do for their larger counterparts (Aidis et al., 2012; Roberts and Tribe, 2008).

Methodology

This research has used an explorative mixed-method interpretive design (Darcy et al., 2010). Firstly, the fieldwork consisted of a content analysis of relevant EU policies and incentives. These instruments were aimed at supporting small enterprises including those in the realms of tourism. Content analysis allowed the researcher to systematically analyse data that appeared in written form, that was readily available online. The researcher's intent for using open analysis was to better define the mix of flexible, financial instruments under programmes such as the Competitiveness and Innovation Framework Programme (CIP), Progress Microfinance, the Risk Sharing Instrument (FP7), European Investment Bank (EIB) loans and Structural Funds. Secondly, this research also presents a small case study of a tourism start-up that has raised considerable finance through crowdfunding. In a nutshell, this contribution thoroughly describes financing options to practitioners in the travel and tourism industry.

Results

Throughout the years, the EU has dedicated several funds toward enterprises. Recently, the EU's Enterprise and Industry Division has reiterated the importance of improving access to finance for SMEs. On 2 May 2013, the European Commission/European Investment Bank (EIB) joint report maintained that their support has helped over 220,000 small businesses in Europe. This interesting development has led to numerous funding schemes as well as to the new generation of financial instruments that support SMEs financing needs. In addition to these financial resources that were made available to SMEs, there was a €10 billion injection in the EIB's capital. Moreover, the EU Commission has also launched a new single online portal on all financial instruments (for SMEs) as well as an information guide that has promoted SMEs' stock listings. The EU institutions and agencies have committed themselves to boost their support for SMEs through various financing programmes, as illustrated in Table 1.

The EU allocated a budget of €2.3bn specifically to bolster the 'Competitiveness of Enterprises and Small and Medium sized Enterprises' (COSME) for the period between 2014 and 2020. This initiative has been designed to support European SMEs in four key areas: Developing entrepreneurship; Helping SMEs access finance; Supporting SMEs who wish to internationalise their business; and Reducing the legislative and regulatory burden on SMEs. Almost 220,000 SMEs had already benefited of the Commission's CIP as it helped them through the provision of a collateral for their loans. EU (2013a) envisaged that for every euro that was dedicated to loan guarantees would in turn stimulate 30 euros in bank loans. As a matter of fact, CIP has proved to be a very successful programme over the past few years. CIP has helped to mobilise over €13 billion of loans and €2.3 billion of venture capital for SMEs across Europe (EU, 2014a).

Moreover, the EU Commission launched a consultation programme (between 3 October and 31 December 2013) to explore the costs and benefits of 'crowdfunding' as an alternative form of finance (EU, 2013b). With crowdfunding, an entrepreneur raises external financing from a large audience (the 'crowd'), in which each individual provides a very small amount, instead of soliciting a small group of sophisticated investors. This new form of financing entails the collection of funds through small contributions from many parties in order to raise capital for a particular project or venture. This source of financing has the potential to bridge the equity gap many start-ups face (Belleflamme et al., 2014). It is hoped that this recent initiative stimulates entrepreneurship amid different regulatory, supervisory, fiscal and social structures of the EU. Apparently, the EU is delving through extant national legal frameworks to understand better how businesses can raise their capital through such open forms of financing. While some crowdfunding campaigns are local in nature, there may be others who are already benefiting from easier access to financing.

Table 1. EU Measures that support SMEs.

EU programme for the Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME)	Guarantees for loans up to EUR 150,000 to small and medium-sized enterprises.
Competitiveness and Innovation Framework Programme (CIP)	Supports innovation activities (including eco-innovation).
InnovFin Programme (Horizon 2020)	Loans and guarantees to innovative businesses. Financing of research and development projects. Equity (early and start-up phase).
The SME instrument	Funding and coaching support to innovative SMEs.
Creative Europe	Loans to small and medium-sized enterprises in the cultural and creative sectors.
Programme for Employment and Social Innovation (EaSI)	Microloans up to EUR 25,000 to micro enterprises and to vulnerable persons who wish to set up or develop a micro company. Equity up to EUR 500,000 to social enterprises.
European Structural and Investment Funds (ESI funds)	Loans, guarantees, equity financing or grants to businesses. Support is provided from multi-annual programmes co-financed by the EU.
European Investment Bank (EIB)	Provision of finance to investment projects and businesses.
European Regional Development Fund (ERDF):	Provision of funding for sustainable tourism-related projects
Cohesion Fund	Finances infrastructure on the environment and transport, two key areas for tourism
European Social Fund (ESF)	Allocates funds for the development of tourism as creates jobs and opportunities;
European Agricultural Fund for Rural Development (EAFRD)	This instrument can also finance actions on eco-tourism.
European Fund for Maritime Affairs (EMFF)	Supports conversion programmes in the tourism sector and encourages initiatives in eco-tourism

SME: Small and medium-sized enterprises; EU: European Union.

Alternative sources of finance which are already secured via the internet include: monetary contributions in exchange for rewards, product pre-ordering, lending and/or investment. Arguably, these plans can be successful only if the regulatory costs are kept as low as possible. Otherwise, small enterprises may not be intrigued by such financing propositions. From the outset, it may appear that crowdfunding is still not so popular among tourism SMEs. However, there are start-ups that have taken advantage of such financing programmes. A case in point is Outski Inc., as this innovative start-up that is based in Tucson, Arizona is still raising its capital requirements through public fundraising (Crowdfunder, 2015). At the time of writing this brief contribution, this information communications technology (ICT) enterprise has already raised more than $900,000 of its seed financing requirements through crowdsourcing (Crowdfunder, 2015). This start-up enables its users to plan and save for their future vacations by setting aside a portion of the employees' pay cheques for their future vacations. Therefore, Outski offers B2B solutions that are related to employee incentives and benefit packages with an integrated vacation savings account.

Employees can search and book their flights and hotel accommodation through Outski's easy-to-use site. There is also a social element to this site, where vacation plans can be shared with family and friends. Outski's site (or app) allows people to discuss vacation ideas and share links and reviews. What differentiates Outski from other travel sites is that its users can set up savings accounts and can plan for their future trips. They can also add funds to their account through their own credit and/or savings accounts, or through PayPal. Users can send and request money from each other and have the ability to withdraw funds at any time. Their money is accessible through an Outski Visa or Discover Travel Savings Card, which has a PIN and works like any other debit or credit card. Outski has partnered with 14 different companies and all of those companies are integrated into its website. Most of the partnerships deal with financial elements of the site, but there are also companies like Expedia and Amazon. In 2014, Outski has launched its beta web product with over 1000 users and has also developed an iOS app for iphones. This company is one example of a successful venture that to date has already raised 90% of its financial demand on 'Crowdfunder'. Similarly, other online crowdfunding platforms, including: Kickstarter, Indiegogo, Rockethub and Crowdrise are multiplying on the web. These platforms are increasingly growing on internet because of their flexibility, broad approach and reach. Generally, they could raise finance for businesses, causes, charities as well as for personal financing needs.

Such capital finance could also help to spur the economic growth of SMEs in the tourism and hospitality. However, one of the main causes of concern about crowdfunding is the reporting requirement for small companies to file their annual financial statements (EU, 2013b). At present, small businesses earning revenues (and profits) below a certain threshold are not legally obliged to provide audited financial statements. Yet, the European enterprises who intend acquiring this 'new' source of finance would have to meet certain regulations (EU, 2013b). Notwithstanding, there could be other potential implications for business practitioners. For instance, there is a possibility that crowdfunders would expect fiduciary duties vis-à-vis the company they invested in. They may also demand to have voting rights on strategic decisions. In this case, control rights and voting power could become additional benefits for the participating crowd.

Conclusion

No longer are small businesses considered as reactive and peripheral forces in terms of innovation, employment and productivity. Evidently, SMEs are often constrained by their organisational size and their limited scarce resources. Very often these entities may find themselves in an 'equity gap' as they could not access finance to start or even grow their business. Therefore, this contribution has featured some relevant EU practitioner-oriented policies and instruments that are currently helping European enterprises to raise capital for further investment. It has identified how crowdfunding could unlock significant amounts of capital to start-ups, investments and projects. In addition, it suggested that crowdfunding could be a viable alternative to either investor or creditor-based funding, including banks, business angels, or even venture capital (Belleflameand Schwienbacher et al., 2014).

This practitioner brief has informed its readers on how small and medium-sized enterprises can raise capital through various sources. Future research avenues may connect this promising field of study with the learning processes of crowdfunding dynamics to other choices of finance for tourism SMEs. In conclusion, the wider European political initiatives that bring economic growth, jobs and competitiveness may not be realised without the contribution of all SMEs, including those in the tourism and hospitality sectors (EU, 2010; IC, 2011; ITCWTO, 2014; Travel Australia, n.d).

Acknowledgement

The author thanks the reviewers for their valuable feedback.

Declaration of conflicting interests

The author(s) declared no potential conflicts of interest with respect to the research, authorship, and/or publication of this article.

Funding

The author(s) received no financial support for the research, authorship, and/or publication of this article.

References

Aidis R, Estrin S and Mickiewicz TM (2012) Size matters: Entrepreneurial entry and government. *Small Business Economics* 39(1): 119–139.

Belleflamme P, Lambert T and Schwienbacher A (2014) Crowdfunding: Tapping the right crowd. *Journal of Business Venturing* 29(5): 585–609.

Carlisle S, Kunc M and Jones E (2013) Supporting innovation for tourism development through multi-stakeholder approaches: Experiences from Africa. *Tourism Management* 35: 59–69.

Cheng B, Ioannou I and Serafeim G (2014) Corporate social responsibility and access to finance. *Strategic Management Journal* 35(1): 1–23.

Crowdfunder (2015) 'Travel and Tourism'. Available at: www.crowdfunder.com/crowdfunding/travel-and-tourism (accessed 18 January 2015).

Darcy S, Cameron B and Pegg S (2010) Accessible tourism and sustainability: A discussion and case study. *Journal of Sustainable Tourism* 18(4): 515–537.

EU (2010) 'Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions – Europe, the world's No 1 tourist destination – A new political framework for tourism in Europe'. Available at: http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52010DC0352(accessed 18 December 2014).

EU (2013a) European Commission Enterprise and Industry: Improving access to finance for SMEs: Key to economic recovery – IP/13/387. Available at: http://europa.eu/rapid/press-release_IP-13-387_en.htm (accessed 18 January 2015).

EU (2013b). 'European Commission Enterprise and Industry: Public consultation: Crowdfunding in Europe? Exploring the added value of potential EU action'. Available at: http://ec.europa.eu/internal_market/finances/crowdfunding/ (accessed 18 January 2015).

EU (2014a) Guide on EU funding for the tourism sector (2014–2020). Available at: http://ec.europa.eu/DocsRoom/documents/9501 (accessed 11 April 2015).

EU (2014b) 'CIP success stories (on Youtube EU Competitiveness and Innovation Programme)'. Available at: http://ec.europa.eu/cip/success-stories/index_en.htm (accessed 12 January 2015).

EU (2015a) 'What is an SME?' Available at: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm (accessed 13 February 2015).

EU (2015b) 'Access to Finance'. Available at: http://europa.eu/youreurope/business/funding-grants/access-to-finance/index_en.htm (accessed 12 January 2015).

IC (2011) 'Industry Canada: Small Business Financing Profiles: Small and Medium Sized Enterprises in Tourism Industries, Small Business Branch, Industry Canada'. Available at: www.ic.gc.ca/eic/site/061.nsf/eng/02245.html (accessed 10 January 2015).

ITCWTO (2014) SME competitiveness and aid for trade connecting developing country SMEs to global value chains. International Trade Centre and the World Trade Organization. Available at: www.intracen.org/uploadedFiles/intracenorg/Content/Publications/SME%20Competitiveness%20and%20Aid%20for%20Trade-connecting%20developing%20country%20low-res.pdf (accessed 20 October 2015).

Murphy PE (2013) *Tourism: A Community Approach (RLE Tourism)*. Oxford, UK: Routledge.

Ritchie JB and Crouch GI (2003) *The Competitive Destination: A Sustainable Tourism Perspective*. Oxford, UK and Cambridge, USA: CABI.

Roberts S and Tribe J (2008) Sustainability indicators for small tourism enterprises – An exploratory perspective. *Journal of Sustainable Tourism* 16(5): 575–594.

Thomas R, Shaw G and Page SJ (2011) Understanding small firms in tourism: A perspective on research trends and challenges. *Tourism Management* 32(5): 963–976.

Travel Australia, n.d. Supporting small tourism businesses. Available at: www.tourism.australia.com/documents/Supporting-Small-Tourism-Business.pdf (accessed 20 October 2015).

Wehinger G (2012) Bank deleveraging, the move from bank to market-based financing, and SME financing. *OECD Journal: Financial Market Trends* 2012(1): 65–79.

Author Biography

Mark Anthony Camilleri is a resident academic lecturer in the Department of Corporate Communication within the Faculty of Media and Knowledge Sciences at the University of Malta. He lectures marketing-related subjects in a joint / dual masters programme run by the University of Malta in collaboration with King's College, University of London. Dr Camilleri is a PhD graduate from the University of Edinburgh in Scotland. He taught business subjects at graduate and post-graduate levels in Hong Kong, Malta and the UK. His current research interests include tourism, sustainable tourism corporate social responsibility, stakeholder engagement and creating shared value. Dr Camilleri held executive roles within the travel, tourism and hospitality industries. His duties and responsibilities comprised leadership positions, specifically in business planning, market research, revenue management (yield management) and integrated marketing communications. His experience spans from marketing information systems, crunching big data, analytics and customer relationship management to public relations, marketing communications, branding exercises and reputation management (using both conventional tools and contemporary digital marketing tactics). Dr Camilleri is a frequent speaker and reviewer at the American Marketing Association's (AMA) Marketing and Public Policy annual conference. He has published papers in *Sustainability Accounting, Management and Policy Journal, Corporate Reputation Review, Tourism Planning and Development, Tourism and Hospitality Research and the International Journal of Leadership in Education as well as in the proceedings of AMA Conferences. His short contributions are often featured in popular media outlets such as the Times of Malta, Business2Community, Social Media Today, Triple Pundit, CSRwire and the Shared Value Initiative*.