

INNOVATE EVIDENCE BRIEFING

CHALLENGES AND OPPORTUNITIES TO MINIMISE THE RISKS OF INNOVATION IN TOURISM

May 2018

BRIEF DESCRIPTION

This is a policy note from the project "*The innovation journey of tourism entrepreneurs: evidence from Spain and the UK and policy implications-INNOVATE*". The project 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 briefing is based on more than 70 interviews with tourism innovative entrepreneurs (both successful and unsuccessful) and has been written by Dr Isabel Rodriguez and Prof Allan Williams.

About the research

Innovation is a highly **uncertain** process and high failure rates are common, but the successes can be important for individuals and for local economies. Success or failure will largely depend on the entrepreneurs' capacity to manage their risks. This will also depend on external factors in the product market or the financial market where policy makers can play a key role. Innovation is also a **collective** endeavour that requires engagement with multiple actors and a **cumulative** learning process which requires time and a long term vision.

Research has highlighted multiple types of risks that entrepreneurs could not overcome, and critical events and factors either leading to failure or making the process more difficult. Sometimes these factors are interrelated and reinforce each other's negative effect. They can also occur at different stages of the innovation process. Critical factors in failure are: finances (persistent financial underperformance and impossibility to secure private investment), mismanagement of the process, customer-related factors (lack of credibility and trust, lack of understanding of the value proposal, etc.) and insufficient knowledge of the tourism sector.



Definitions

Innovation

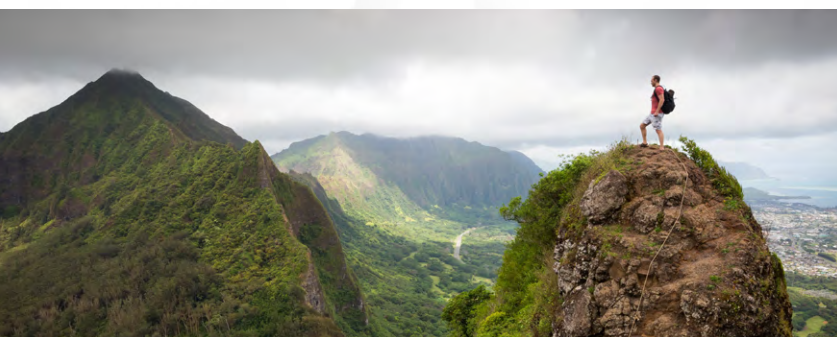
Bringing any new problem-solving idea into use. The generation, acceptance and implementation of new ideas, processes, products or services or markets

Innovative entrepreneurs

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

Innovation process

How innovations are developed and implemented over time



All entrepreneurs, failed and still operational ones, have found the following government-related factors to be critical facilitators for their 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.
- Support at the innovation diffusion stage (networking with customers, help in credibility building, innovation testing in the real market, 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 to the tourism innovation.

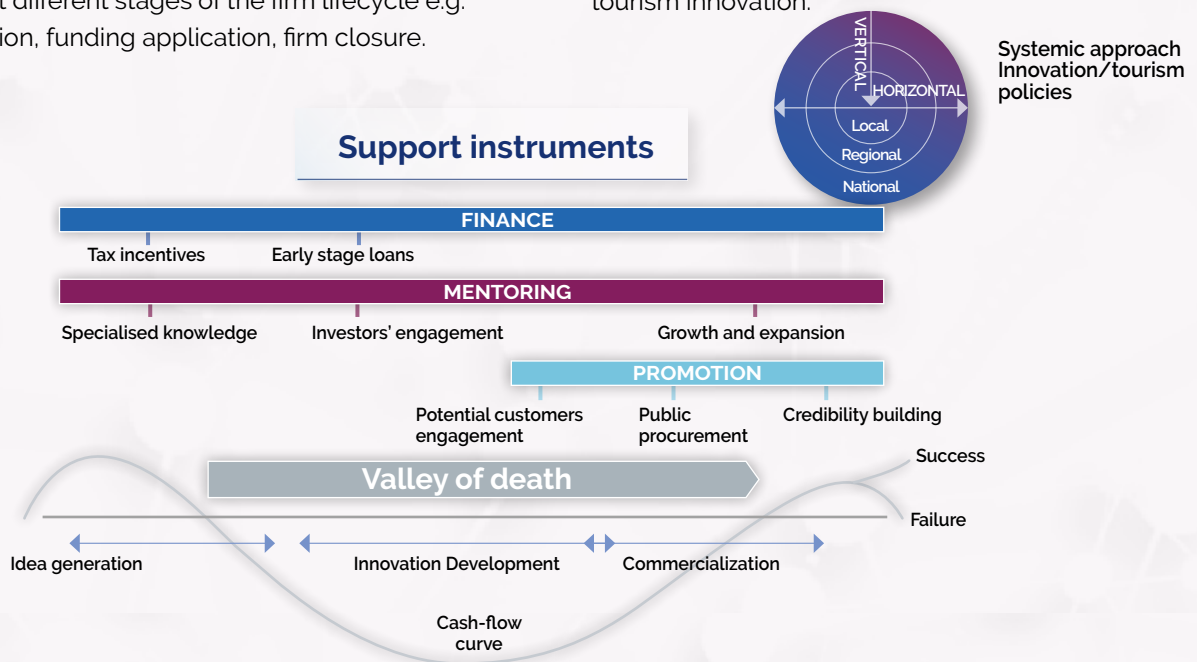
Even though innovation is risky for all the stakeholders involved (entrepreneurs, private investors, governments, etc.) the risk is often worthwhile since innovation is important to economic development by contributing to job creation and growth, and to address tourism challenges. Therefore policies and instruments need to be informed by an understanding of the characteristics of tourism innovation and must balance inevitable failure with success.



How can policy makers help create a more favourable climate to innovation and reduce failure rates?

- Governments should adopt a holistic, systemic approach to innovation strategies ensuring they engage with multiple stakeholders in 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.
- Entrepreneurship and innovation programmes should be focal points in national tourism strategies. Stronger connection between these policy arenas (innovation policies and tourism policies) is essential.
- Governments should provide a wide range of support instruments. If possible, these should cover the needs of the entire innovation process: finance, promotion, mentoring and education, networks, etc.
- Financial instruments should take into account the long-running nature of innovation and be appropriately patient and flexible about securing returns.
- Policymakers can adopt a tax friendliness approach towards innovative activity (considering both entrepreneurs and private investors). This is a highly valued instrument for entrepreneurs, followed by crucial early stage loans.
- Governments can support innovators by providing supportive infrastructure to build relationships with other businesses, investors, potential customers and different levels of government support. They can provide links to established industry players to test the innovations or co-initiate the innovation process.
- Public procurement of tourism innovations and facilitating the sharing and reuse of innovations across the public-sector can open new markets for innovators.

- 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.
- Many innovations in tourism depend on the "in-migration" of individuals and knowledge from other sectors. Therefore, policymakers can help ensure new entrants to tourism 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.
- 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.
- 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. They need to understand the difficulties faced along the process and to follow the trajectory of the innovations beyond the start-up phase.
- 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.
- Governments can engage in information-sharing with other countries and regions, learning from their experiences and good policy practices to enhance 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, DOI: 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>)

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>

