

# Factors Affecting Innovations in Tourism in Georgia: Strengthening Sustainable Development Through Competitive and Policy Measures

By Tinatin GOGOLISHVILI

## ABSTRACT:

Innovation plays a crucial role in the Georgian tourism industry, which is striving to compete in the global market. This study, based on in-depth interviews, participant observation, and regression analysis, reveals that while both competition and government support significantly impact the level of innovation, their influence is relatively weak. The paper explores this phenomenon by integrating theoretical insights from Chen's (2017) pre-/post-innovation competition theory and Carvalho's (2011) agglomeration theory to explain how fragmented firms and a lack of centralized R&D systems diminish the overall innovation impact. Findings indicate that a key reason for this weakness is the lack of a formalized innovation decision-making process within tourism companies in Georgia. Innovation is not consistently embedded in the corporate culture, and management systems often fail to foster a strong orientation toward innovation. This leads to inefficient decision-making, weak implementation of innovative ideas, and limits the sector's potential for sustainable development. Thus, while competition and state support are vital external drivers, the internal organizational structure and culture play a more significant and challenging role in driving large-scale innovation.

*Keywords:* Innovation, strength of Competition, state policy, Sustainable development

## 1. Introduction

Innovation is a key tool for any business to gain a competitive advantage, especially in the rapidly growing and changing tourism sector. Product development decisions in the field of production and marketing must take into account the constantly changing demands of tourists and the constant increase in the number of players in the market. Organizations operating in the tourism sector make these decisions under the influence of many factors and are characterized by varying levels of innovation. The innovation profile of each specific company is formed under the influence of the many interactions mentioned above, however, there are several key elements that collectively determine a certain level of innovation. For a firm operating in the highly competitive tourism industry, innovation is vital. It makes decisions about innovation, the success of which in the market is determined by many determinants, both hindering and facilitating. Their action, against the background of a certain degree of realism in the company's assessment of the market situation, ultimately leads to the success or failure of the innovation. Factors that determine a company's innovation profile can operate at three levels. Some are specific to the company's management, such as management style and orientation towards innovations; other factors operate at the micro-level, such as the speed of innovation diffusion in the industry and the characteristics of the workforce; and macro-

factors operate at the supra-sectoral level, such as the degree of innovation of the economic system, the volume of investment in innovations, etc.

Tourism in Georgia is experiencing a period of growth by all criteria - the expansion of the volume and geography of tourist flows, the increase in the number of tourism-related organizations, the increase in investments in the tourism sector, the increase in revenues from tourism, and the increase in the number of employees in the sector. However, all this indicates a specific phase of the life cycle and does not answer the question - does tourism in Georgia have the potential for long-term development based on technological progress? The conditions for the emergence and implementation of innovations in the field of tourism are created within the system of individuals and connections operating in the tourism industry in a given area of a tourist destination, which is the **object of this study**. Competition is the main determinant of innovations. The struggle for survival in the market forces companies to look for new, more effective ways to solve the tasks facing them, which means constantly searching for new solutions in the field of production and marketing. Any industry, including tourism, develops under the influence of this determinant. At the same time, in some industries the role of competition as a factor of innovation may not be so high, depending on the market structure - in the tourism industry, many small firms operating in fiercely competitive segments, despite great motivation, may not have the financial capacity to finance technological progress, and in a segment consisting of large players, despite financial capabilities, companies may be characterized by a lack of motivation for innovation. Government support for innovation is another determinant for the technological progress of industries operating in a given economic system. Promoting technological development has always been one of the orientations of state policy in any society. Accordingly, state policy makers, at various levels and in various forms, make decisions on supporting innovations, which can be expressed in supporting scientific and research activities in the academic sector, various support programs in state agencies (for example, the Ministry of Education, Science and Youth or the Ministry of Environment Protection and Agriculture of Georgia), and the establishment of specialized public agencies focused on innovations (such as the Georgian Agency for Innovation and Technology). The tourism sector is particularly interesting for research related to innovation. Technological progress in the tourism sector can be a complex phenomenon, in which, on the one hand, competition pushes companies to introduce innovations, while in those market segments where competition cannot perform this function, public sector structures and programs that are intended to support technological progress take on this function. In total, in the process of introducing innovations in the tourism sector, private initiative and state support complement each other.

Accordingly, **the subject of the study** is the phenomenon of technological progress in the tourism sector in Georgia, as a result of the action of competition and the process of promoting technological progress by the government. The key hypothesis, the confirmation of which is attempted in this study, implies that a change in the level of rivalry in the tourism sector in Georgia, as well as the degree of support for technological progress by the government, will lead to a corresponding change in the scale of innovations in the country's tourism industry in the same direction.

**The aim of the study** is to assess the level of competition in the tourism sector in Georgia and the degree of impact of the national policy of promoting technological progress on innovations in tourism.

**The objectives of the research are:** 1. Theoretical understanding of the mechanism of the impact of state competition and innovation policies on innovations in tourism; 2. Assessment of the degree of innovation in the tourism sector in Georgia; 3. Assessment of the degree of competition in the tourism sector in Georgia and state policy for promoting innovations in Georgia; 4. Identification of the relationship between the degree of competition in the tourism sector, innovation promotion policies and the innovativeness of the sector.

In-depth interviews were used to qualitatively assess the key hypothesis. Qualitative material on innovation, competitive strategies, and state support was obtained from interviews with senior management representatives of 31 organizations operating in the tourism business in Georgia. **Participant observation** was used to obtain more detailed qualitative material; **regression analysis** was used to demonstrate the formal relationship between competition, government support for innovation, and tourism innovation.

Within the framework of the theoretical model created as a **result of the study**, it is revealed that the consumer, increased competition, and state support for innovation create conditions for the generation and implementation of innovative ideas in the tourism industry. It seems that competition is a more powerful factor in stimulating innovation in the tourism sector, while state support plays a significantly smaller role and influence. The same was confirmed based on the analysis of the material obtained from in-depth interviews, as it seems that business entities operating in the tourism sector in Georgia, in parallel with generating innovative ideas, pay no less attention to searching for information about successful examples of innovations in the global tourism market. The interview also revealed the relatively weak impact of the government's innovation policy on the innovativeness of the tourism sector.

## 2. Literature Review

Luongo, Sepe, and Gaudio emphasize the importance of cooperation and competition between companies to enhance innovation in regional systems, discussing the role of assets, social capital, and relationships in innovation-related decisions across companies, industries, and geographic areas (Luongo, Sepe, & Gaudio, 2023). Teodorescu, Stanciou, Ravari, and Botos present a study of 9 tour operators and travel agencies in the Romanian market, examining the potential for creativity in developing both cultural and spa tourism products in the company's value chain. They argue that the growth rate of cultural tourism is higher than that of balneological tourism. Together with the resources of the destination, as well as through the proper development of marketing and management processes, tourism companies can gain competitive advantage, as well as transform the method of tourism product development from a creative value-added process into powerful innovative clusters with elements of novelty, which will be difficult to copy (TEODORESCU, STĂNCIOIU, RĂVAR, & BOTOȘ, 2015). Zhiqi Chen, based on a literature review, attempts to shed light on the relationship between product market competition and firms' incentives to innovate. He shows that there is no strong

relationship between the two factors, but it is necessary to distinguish between competition in the pre-innovation market and competition in the post-innovation market. Furthermore, Chen argues that the relationship between competition and innovation depends on the source of increased competition (Chen, 2017). The analysis in this study has been expanded to include a more nuanced discussion of why the effects of both competition and state support are relatively weak in the Georgian context. Drawing on Chen's (2017) pre-/post-innovation competition theory, this study explores potential resource gaps, imitation risks, and other market dynamics that might constrain innovation potential, especially considering the prevalence of smaller firms versus larger chains. While a detailed empirical segmentation was beyond this study's scope, qualitative data from interviews support these challenges. This helps explain the observed weakness and positions the findings within a broader theoretical framework. The limited effectiveness of current government programs has also been addressed by expanding this section to include a focused discussion on the general funding structures and eligibility criteria of existing state support mechanisms. By drawing a comparative perspective with successful models, such as Norway's state-backed R&D initiatives (Mei et al., 2010), this study proposes more concrete policy recommendations tailored to the Georgian context. These recommendations include the implementation of tied grants for specific innovation projects, the establishment of innovation incubators to support startups, and the promotion of public-private partnerships to leverage both public and private resources effectively.

Astori, Wibisono, Novianti, and Rafdinal examine the role of technology and innovation in creative tourism from the perspective of 455 local digital technology residents, using the example of Indonesia. The results of the study confirm that, in addition to the quality of experience, both of the factors discussed above are essential for achieving high levels of tourist satisfaction in a tourist destination. In addition, creative tourism managers must constantly innovate to cope with rapid technological change and the changing needs and desires of tourists (Astor, Wibisono, Novianti, & Rafdinal, 2021). Agazade uses the Herfindahl-Hirschman Index (HHI) and information on the number of tourists divided by nationality. The data covers the period from 2008 to 2019. During the study period, the indicator of the structure of the tourism resource market showed a decrease, which somewhat indicates market diversification. In the long run, co-integration is maintained and a 1% decrease in the concentration of the tourism resource market leads to an increase in international tourism revenue by 1.9078%. This result confirms the view that in the case of an increase in market concentration, the potential of tourism firms to use higher prices beyond the cost advantage weakens. In addition, through an increase in diversification, a larger number of tourists enter. This situation may lead to an increase in the brand value of the sector or companies in Turkey, as well as a less elastic increase in demand and the formation of pricing power (Agazade, 2022). Adi, Utama, Budhi, and Purbadharmaja discuss and establish the role of the state in community-based tourism and sustainable tourism development. The results of the study revealed the significant role and positive impact of the state on these processes. It is recommended that the government should promote the preservation of nature-based tourism types in Penglipuran, moreover, all government programs aimed at increasing community involvement should be implemented in cooperation with local institutions (Adi, Utama, Sri Budhi, &

Purbadharma, 2017). Ilieva, Petrova, and Todorova identify various approaches to tourism product innovation and demonstrate the possibilities of using the technological sphere. As a result of the research, directions for the use of innovative technologies in tourism were identified and recommendations for their use were proposed in order to diversify the tourism product and optimize tourism business activities (Ilieva, Petrova, & Todorova, 2023). Kumar and Barua discuss the nuanced approaches and impacts of digital technology use on destination promotion. The study highlights the multifaceted dimensions of digital innovation in enhancing tourism marketing efforts. It offers insights into best practices and emerging trends in digital tourism marketing (Kumar & Barua, 2024). Aladashvili and Vatsadze discuss how important it is to form an innovative approach to gain a competitive advantage in a tourism product. Four types of innovation are distinguished and the experience of Italy is presented. The authors discuss the role of innovative tools introduced in creative ecotourism and evaluate, among other positive results, the degree of effectiveness of stimulating the local economy (Aladashvili & Vatsadze, 2023). Chitaladze and Kinkladze discuss the importance of a willingness to innovate as a means of survival for an enterprise in a competitive environment. The study is based on comparative analysis and examines the expenditures on scientific research and development in leading countries of the world and assesses the dynamics of such expenditures in Georgia, revealing trends at the global level and across the country (Chitaladze & Kinkladze, 2018). An interesting view on Georgia's place in the Global Innovation Index ranking is presented by Mchedlishvili. He discusses the dynamics of the index's significance for Georgia with its strong and weak elements and highlights the main challenges for Georgia's economic development (Mchedlishvili, 2017). Kveladze speaks about the need for a comprehensive approach to research for the development of the field in the aspect of innovation. The paper presents successful examples and analytical studies from some foreign countries, and studies a number of strategies, projects and programs for the development of tourism in the country with the support of the Georgian government (Kveladze, 2021). Kveladze, Khuskivadze, Melashvili and Kistauri discuss in detail the importance of innovative development of modern technologies in tourism services and foreign experience (Melashvili, Kistauri, Khuskivadze, & Kveladze, 2022). Abesadze identifies the main directions of the innovative development strategy of the Georgian economy, taking into account the experience of foreign countries, and assesses the effectiveness of measures implemented in the field of tourism (Abesadze, 2021). Luekveerawattana examines external factors that influence innovations related to cultural heritage in tourism, using the example of the World Heritage Site of Udon Thani, Taiwan. This study provides valuable insights and offers practical implications for stakeholders and policymakers to create innovative and sustainable tourism experiences at World Heritage sites (Luekveerawattana, 2024). In the article, Darmonov and Farmonov discuss innovation as an important factor in gaining a competitive advantage for a firm, and the study defines the concept of innovation in tourism and hospitality and identifies the directions of its influence (Davronov & Farmonov, 2019). Anggraini, Siagian, and Yusran discuss the importance of innovations for the development of rural tourism. The results of the study show that the potential for innovation is one of the important factors in increasing the effectiveness of rural tourism in Indonesia (Anggraini, Siagian, & Yusran, 2023). Zheng and Zhang review case studies from 30 provinces and cities in China. The

article highlights the need for harmony between tourism economic growth and resource environment to achieve green and sustainable development of China's tourism industry. Green innovation in tourism is influenced by factors such as the level of tourism economic and professional development. In conclusion, reasonable countermeasures are proposed to promote the overall improvement of green innovation efficiency and balanced development in China's tourism industry (Zheng & Zhang, 2022). Gkilias examines the various challenges and prospects for implementing digital innovations in the tourism industry. He conducts a review of the current literature on research papers published in 2019-2023, mainly for the hotel industry, and shows that there is a large gap in terms of digital technology adoption between 4\* hotels and family-style hotels (below 3\*). This is mainly explained by the high investment costs, seasonality of the tourism product, lack of qualified personnel, company culture and high taxes. Nevertheless, the author says that companies operating in the tourism sector should reconsider their strategy, as the adoption of digital technologies can significantly improve their competitiveness, as well as their corporate brand, provide new competitive offers and attract new customers (Gkilias, 2024). Srinivasan, Sherkar, Indora, and Mukherjee discuss the different dimensions of innovation in the tourism sector and explain the multifaceted role of technology in shaping this innovation. The authors examine the various forms of innovation observed in the tourism industry. They discuss how innovations contribute to enriching the visitor experience and increasing the competitiveness of destinations. In addition, the paper explores the challenges and opportunities that arise in the process of adopting innovative technologies in tourism. The paper provides policymakers, practitioners, and researchers with ideas on how to effectively use technology in the process of developing innovation strategies (Srinivasan, Sherkar, J, Indora, & Mukherjee, 2024). Based on the analysis of the existing tourism management model and new public management in China, as well as the theory of sustainable development, Bian provides theoretical guidance for the further growth and development of China's tourism industry (Bian, 2020). Liu, Chen, and Han propose a new approach to study the structure of the tourism market. The study examines the spatiotemporal structure of the tourism market. 75,295 tourist reviews were collected from 5 Chinese online travel agencies for Sanya, a popular tropical beach destination in China. Using innovative sentiment and regression analysis techniques, the relationship between geographical and economic distance and the structure of the tourism market in Sanya, as reflected by tourists' online attention and reputation, was examined. The findings show that socio-economic factors of origin had a greater impact on online attention to the destination (Liu, Chen, & Han, 2023). Carvalho examines innovation in tourism within the framework of an integrated innovation model, using principal component analysis (PCA) and factor analysis on a database of 158 Portuguese firms, and identifies the relationship between services, market structures, and innovation strategies, taking into account the geographical agglomeration of firms in a small economy. The study also presents the relationships between the determinants of the competitiveness of tourism firms (Carvalho, 2011). Chutiphongdech and Zhao's analysis of the 2012-2019 international panel data collected from 10 ASEAN member countries shows that the structure of the ASEAN tourism market is concentrated during the study period, but with an average Herfindahl-Hirschman index of 1725.242, it tends to be more competitive in the future. Empirical evidence from the panel regression analysis theoretically confirms the positive relationship

between changes in market concentration and tourism revenue. In particular, an increase in the market share coefficient leads to an increase in tourism revenue by approximately 590.6 million USD (Chutiphongdech & Zhao, 2021). An interesting article on the innovative potential of tourism in Georgia has been presented by K. Kveladze. The study discusses the importance of innovations and assessment methods in the world. An active problem in Georgia is the analysis of various types of innovations and the assessment of their tourism innovation potential. The following steps are presented to solve this problem: conducting scientific research and development work to comprehensively study the potential resources that form the basis for tourism in all regions and create a new base, using non-traditional destinations and non-traditional methods of providing tourist services in the country and increasing the number of ecological tourist centers, which will expand the range of innovative tourist products, as well as improving the distribution of the Internet, finding promising forms of investment in innovative activities, developing an organizational and economic mechanism for investing in innovative activities, and forming criteria and indicators of social effectiveness of innovations in the tourism industry (Kveladze, *Tourism Innovation Potential in Georgia*, 2014). Metreveli discusses innovations and e-commerce, their importance in tourism, and presents examples from around the world, including online ordering of airline tickets and information retrieval using smartphones, offering Internet access to customers during flights by airlines, adding an online guide function to smartphones, an online real estate platform that allows customers to book accommodation online, etc. The study discusses the introduction of the following innovative project in Georgia to eliminate seasonality, in particular, the development of cruise and medical tourism is presented, which will help attract highly solvency tourists, create demand for innovative products and services, and overall, ensure positive socio-economic results (Metreveli, 2019).

Modern research indicates that the relationship between innovation in tourism is considered as a multi-component system in which many actors are interconnected by different interests and motives. A number of researches outline the crucial role of the competition as an incentive of the innovations in tourism, while the others concentrate on the supportive actions of the government as a key factor of tourism field innovative activity. The results of the qualitative and quantitative studies give the base for the idea that the discussion in the framework of one model that includes the competition and government support of the innovations in tourism could give the better picture of the innovation process in the field.

### **3. Competition in Tourism, innovations and public Policy**

The tourism industry, in terms of innovation, is influenced by the global tourism market, the government, the consumer, the education system, and research institutions. The consumer has needs and a certain budget within which he tries to satisfy these needs - accordingly, the business sector tries to produce goods and services that correspond to the consumer's taste and budget, and the markets for production factors provide the resources that are needed to produce these goods and services. By the same logic, it is precisely the observation of the consumer that can bring about an innovative idea, but innovation can arise for many other reasons. Among them, the most important factor is



competition, which forces a business entity to create different, creatively loaded goods or services and thus attract more customers. In conditions of fierce competition, a competitive advantage can be gained by introducing innovation. When there are a large number of companies producing the same goods on the market, the consumer chooses a product that is different in some way, more suitable for his needs and budget. A similar situation exists in the tourism business. A certain part of the innovations is the result of the spread and copying of innovations made in other geographical segments of the global tourism services market. When considering a specific destination, a specific geographic market segment, this can be taken as a factor of innovation, however, for the present study, it is more important to consider the ability of the tourism industry to develop independently, through special, different and diverse national resources, in a specific geographic segment, in this case, across Georgia. Research organizations also contribute to the formation of innovative ideas and products. The degree of their impact on the tourism industry depends on the degree of connection between the education system, research organizations and business. The government promotes technological progress in tourism in various ways, develops tourism infrastructure and creates new routes, issues various types of grants to promote the formation and spread of innovation in tourism, and also finances the activities of research centers.

The market structure also affects the degree of innovation in the industry. On a national scale, the tourism industry can be considered as monopolistic competition, which has the following characteristics: a) A large number of suppliers of travel and tourism services. The large number and diversity of travelers in terms of travel purpose, travel budget, service quality or sustainability orientation, and type of travel, as well as the large number of travel service providers, both in the overall service market and in its individual segments and sub-segments, create a highly competitive environment in the country's tourism industry as a whole; b) High-quality differentiated tourism services. In tourism, business entities try to distinguish their services from those of their competitors in some way. Product differentiation occurs in all segments and sub-segments of the tourism industry. Every five-star hotel operating in the sub-segment of high-class hotels tries to fight for the customer based on its own, original service concept, and facilities operating in other segments of the accommodation market do the same, be it a family hotel, hostel, eco-house, medium-quality accommodation facility, etc. This overall creates a differentiated and diversified accommodation segment across the country. The same situation is created in other segments of the tourism industry, practically every tour operator, transport service or catering company creates its own original offer and thus tries to fight for the customer. They try to differentiate their offered products by various criteria, quality, and marketing tricks; c) Differentiated pricing. It is clear that competition in sub-segments of the tourist services market is carried out through prices, however, the struggle with prices is only one element of the competitive struggle, which is clearly visible in any sector, be it a segment of the accommodation market, segments of the catering market, etc. Objects of the same class located side by side may offer customers a somewhat different range of prices, which is caused by different concepts of their services, with which they achieve a certain difference in service; d) High degree of openness of the tourism market. It is easy to enter and exit the local tourism market. Despite the fact that there are many accommodation facilities, tour operators and service providers in the local tourism market, there are no



restrictions for new business entities interested in entering this market. If they are able to distinguish the services they provide to the tourism market from their competitors, they will also be able to gain their own segment. And vice versa, if after entering the market they cannot offer any “novelty” to the consumer, they can easily leave the market.

The competition in the market, the constant increase in the number of suppliers, the specificity of tourist services, the introduction of new services by competitors, force any type of business entity, even a market leader, to constantly be in the process of searching for and improving innovations. Unlike other areas of business, no matter how different the service a supplier may have in tourism, it is easy to copy it. If in other areas, the technology of product manufacturing, composition, ingredient remains a secret, this is impossible to achieve in tourism. That is why the tourist market does not allow business to relax and constantly demands innovations from it. When considering the innovativeness of tourism at the national level, the behavior of the sector can be described according to the inverted U theory - large companies have sufficient financial resources to invest in research and development, but do not have incentives for development, small companies do not have sufficient financial resources to finance innovations, but have powerful incentives. There is a certain degree of concentration in the market when a sufficient number of financial resources in companies and strong incentives for development combine to ensure the development and introduction of innovations into the market. It can be said that the market structure of monopolistic competition discussed above is one of the types of market that provides such an optimal combination. The involvement of the state in the development of any industry is of great importance. How attractive the local market will be for investment by international companies, the special conditions, benefits, taxes, etc. available there, depend on state policy. The state determines which industry needs support, how economically profitable and priority it will be for the country, plans and organizes measures in the relevant direction. Support measures can have various forms. For example: for the development of agriculture, issuing low-interest, interest-free and long-term loans to local farmers, providing them with the necessary machinery and equipment, assisting in the sale of manufactured products, etc.

Nowadays, all areas of business are faced with a common challenge - innovation. Companies understand well how important it is to introduce innovations in order to gain an advantage in the competitive struggle. However, it is also known that the introduction of innovation is associated with certain costs and not every company, entrepreneur or business entity, especially small ones, can cope with this challenge. In such a situation, it is important for the state to be involved, to take measures to implement a supportive policy, including issuing special, targeted grants, and providing the necessary infrastructure. After the sector that needs state support is determined, organizational issues are resolved, namely, what type of institutions will be tasked with organizing and managing this process. For example, in Georgia, there is a National Tourism Administration which supports the country's tourism industry, the Department of Tourism and Resorts of the Autonomous Republic of Adjara, the Georgian Tourism Association, in agriculture, the state policy is carried out by the Ministry of Agriculture, for the development and advancement of the education system, the Ministry of Education, etc. After determining a specific supporting measure or policy, the relevant institution has a specific task that must be implemented within a predetermined timeframe. That is why it creates an action plan and, after a certain

period of time, submits a report on what results have been achieved, whether changes to the action plan are necessary to achieve the initial goal, whether any unforeseen problems have arisen, etc. As for the tourism industry itself, the national state policy, which aims to promote the development of tourism, is aimed at popularizing lesser-known places, creating the necessary infrastructure for the development of new routes and locations, increasing the quality of service for the local population, organizing appropriate trainings, regulating communication systems, etc. Thus, state policy plays an important role in the development of the tourism industry. An interesting article on the role of the state in the development of the tourism industry has been presented by G. Shanidze. The study discusses the measures implemented by the National Tourism Administration for the development of tourism: support for the private sector and trainings in the direction of adapting operations, communication with the private sector, recommendations and planning of future actions, deepening international cooperation, the project “Work from Georgia”, etc. (Shanidze, 2023).

In conclusion, it can be said that in any country the tourism sector is characterized by high competitiveness, which is an incentive for innovation, in addition, the structure of the sector determines relatively high revenues and provides some market players, along with incentives for innovation, with certain opportunities for financing innovations. At the same time, there are many small firms operating in the market that do not have the opportunity for such development. In this case, the role of the state in stimulating innovation appears. Government involvement gives small companies a chance to implement innovative ideas through research and development and thereby gain a competitive advantage. Accordingly, in Georgia, the innovation profile of the tourism sector is determined by the strength of competition and the government's measures to promote innovation.

#### **4. Innovative profile of a company operating in the tourism industry in Georgia**

The purpose of the interviews conducted in organizations operating in the tourism sector was to reveal the level of innovation orientation, so to speak, to capture the “innovative spirit” in companies that provide various types of services to travelers. The term “innovative profile of a company” includes several elements, which were attempted to be identified during the interviews: the willingness of the company’s top management, as well as ordinary employees, to accept and implement innovations; the presence of innovative personnel; the degree of systematic decision-making on innovations; the structure of incentives for innovation, including the presence of an element of competition; the structure of sources of innovation and sources of innovation financing (including the presence of state funding); experience of successful or unsuccessful innovations. 31 organizations operating in the tourism industry across Georgia were selected, and a visit and interview were conducted with the organization’s management representatives, who were asked to assess the quality of competition in the market and describe the tools they use in the competitive struggle; describe the innovations introduced recently and identify the level of participation of the company’s team in their implementation; describe the innovative employees in the company; describe the process of forming, developing and implementing an innovative idea; describe the state’s

contribution to the innovations implemented by the company (financing, technical assistance, pilot projects, etc.). As a result of processing the received material, primary codes were identified, which are presented in the table below.

**Table 1.** Primary codes

Many companies operate in the market, although they are all focused on certain segments, there is a serious struggle for the user with each other
Focus on constantly updating the company's services, adding new ones and removing those that do not work and do not bring profit;
Lack of funds for introducing innovations
Companies are unable to allocate large amounts of funds for introducing innovations, although they always introduce small innovations
Paying attention to creativity when hiring personnel
Idea generation is often done by tour guides, front-office employees, back-office employees, and technical staff
Ideas are also generated by the company's administrative staff, although mainly based on international experience
Companies do not have any established mechanism for generating ideas or a system of appropriate remuneration for innovations, although employees are usually rewarded for innovations
The company has meetings, formal or informal, within which strategies for improving service or other methods of defeating competitors are discussed
There are cases when tourists directly point out to the staff some event, which leads to the generation of a new idea, and studying their comments also gives many new ideas
As a rule, the system of special observation of tourists or their questionnaires does not operate in companies
There are cases when the introduction of an innovation by a specific company is followed by its rapid adoption by other companies
Companies rarely participate in projects organized/funded by the state that are related to innovations.
The Tax Code provides an opportunity to exclude funds spent on research work from taxation, although financing of such work by companies is rare.
Innovations that increase the diversity of the services provided, increase the traveler's involvement and overall increase his satisfaction are successful.
Innovations that are related to the introduction of digital technologies in company management are successful.

The resulting primary codes were processed into axial codes, which are presented in Table 2.

**Table 2.** Axis codes

<b>Phenomenon:</b> In Georgia, innovation in the tourism industry tends to emerge more by chance than through systematic planning. Companies have yet to embed innovation as an integral part of their management strategies."
<b>Reasons:</b> Lack of a culture of innovation orientation in organizations operating in the tourism industry.
<b>Results:</b> Innovations are introduced fragmentarily. An innovative idea can arise in the process of interacting with customers, within the company, or be borrowed from international experience, however, the lack of systematic management of the process increases the likelihood

of failure, and successful innovations are mainly implemented in the direction of information technologies and service diversification.

**Strategies:** High-level Managers assume the role of innovator or try to recruit creative minds from the start. Company personnel also try to generate new ideas, mainly for carer advancement.

**Context:** Companies are forced to work on innovations in the face of a certain lack of finance, because their competitors force them to do so; At the same time, the government creates certain conditions favorable to the introduction of innovations.

**Different condition:** the rapidity of the spread of innovation and the impossibility of maintaining a monopoly on it somewhat reduce innovation incentives, Ideas that are generated as a result of direct contact with the customer are more likely to become successful innovations.

In general, based on a material obtained as a result of the interviews, one selected code was generated: Innovativeness can't be considered a characteristic of the tourism market in Georgia. Despite the fact that competition creates a motive for the introduction of innovations, and state support and benefits create favorable conditions for the generation of innovations, in companies operating in the field of tourism, innovation is not established as a management subsystem, and the introduction of innovations is mainly based on chance, copying. In order to study the issue more deeply, in parallel with the interviews, participative observation was carried out in one of the tourist destinations of Georgia - In the tour operator located in the city of Batumi during the internship period of one year. The goals of participant interview and above-described interviews were identical; at the same time the result of participant observation was the possibility of obtaining more detailed information about the innovative profile of a company operating in the field of tourism. The main results of the participatory observation are presented in the table below.

**Table 3.** The results of Participatory observation

N	Objectives of Participatory observation	Characterization
1.	Readiness to adopt new things	Several times during the year, the idea of bringing something new came up. There were mainly ideas for improving the content and technical aspect of the excursion, depending on the scale, they represented minor changes.
2.	Innovative staff	All ideas for bringing in new things became the subject of discussion. During the review process, two characteristic details were revealed: a) the innovative idea introduced by the manager deserved less criticism from the employees, however, the financial sustainability of the idea became the object of criticism, mainly from the staff of the finance department. There was a more heated discussion among colleagues took place around each new idea, which was most likely caused by an attempt to diminish the value of a colleague's innovative idea in order to prevent the colleague from being promoted.

		Key to generating innovative ideas from staff in the eyes of the manager, the motive was promotion and increasing one's own "weight" in the company. It is evident, though not clearly, but still, that middle managers do not promote employees in their own department who have brought an innovative idea for the fear of losing their own position.
3.	Mechanism for making decisions about innovations	<p>During the year, only two innovations were introduced, and one innovative idea is in the process of development.</p> <p>There is no single decision-making system, however, as a result of observing the generation and development of innovative ideas that have been implemented and are in the process of being implemented, several stages can be distinguished:</p> <ul style="list-style-type: none"> <li>- Idea generation (by an employee or manager)</li> <li>- Brainstorming (initial, informal discussion among colleagues or with a manager. It represents a barrier that most innovative ideas cannot overcome)</li> <li>- First official discussion</li> <li>- Initial processing (by employees of the sales, technical and financial departments, the process is usually managed by the financial manager)</li> <li>- Second official discussion and decision-making on implementation (mostly the decision is made by the director, based on the information presented to him and personal experience / intuition). The decision is agreed with the company owners.</li> <li>- Detailed processing. The project is processed in detail by the same team that participated in the initial processing.</li> <li>- Testing</li> <li>- Implementation</li> <li>- Evaluation</li> </ul> <p>The power of proof is of great importance - the implemented innovations promised not only financial results for the company, but the defenders of these innovations had to have the resistance, presentability, and argumentative ability to carry out their idea to the end.</p>
4.	Incentives for innovation	During the year, there were two instances of discussing the actions of competitors, once in an informal dialogue, the second time at a formal meeting. It is likely that the company's management and employees do not leave the

		business operations of competing companies without attention. The desire to stand out and advance in the workplace is more clearly seen as a motivator for generating innovative ideas.
5.	Sources of innovation and innovation financing	Most of the innovative ideas recorded during the year came from the company's employees, with only one or two new ideas coming from the company's manager. Most of the new ideas were attempts to adapt innovations already widespread in the international market to the Georgian market. At the same time, two or three original ideas emerged in the company, the source of which was the observation of the user or user behavior and satisfaction with the service. An innovative idea related to digital technologies came from the company's technical staff. During the year, the company's management decided to participate in one of the government programs supporting innovation, but soon abandoned this intention, most likely due to the obligation to participate in a large number of formal procedures.
6.	Successful/unsuccessful innovations	The manager and staff are very proud of the original office software introduced a year ago, which makes it easier to manage operations. Only once during the year was there a mention of an unsuccessful excursion, a tour that was aimed at a specific customer segment but did not sell. It seems that the tour's failure is blamed on the low involvement of the sales department in its preparation process, while the employees of this department blame the tour's failure on the technical details of the tour.

Participatory observation revealed a lack of formalized innovation decision-making mechanisms and a weak corporate culture regarding innovation in the tourism sector. While some companies show an orientation towards innovation, internal competition between ideas often undermines effective innovative decisions. Our qualitative data in Table 3 confirms that internal organizational culture presents significant barriers to innovation, specifically the lack of structured innovation management and a non-innovation-oriented corporate culture. Recognizing the need for deeper investigation, we have added a key recommendation for future research. This includes employing quantitative methods, such as employee surveys, to systematically examine aspects like psychological safety and leadership practices within Georgian tourism companies, following Peters and Pikkemaat's (2003) innovation-climate framework. This will provide

evidence-based solutions to embed creativity and innovation more effectively, thereby strengthening the sector's overall capacity for technological change.

Overall, based on qualitative analysis, based on the synthesis of conclusions obtained by two different methods, it can be said that 1. Competition, as a motivator of innovations, and government support programs, as a creator of an environment favorable to innovations, create opportunities for the Georgian tourism market to introduce innovations; 2. The mechanism for making innovative decisions, innovation management, as one of the subsystems of company management, is not, in principle, established and formalized in companies operating in the tourism sector, and 3. In companies operating in the tourism sector, orientation towards innovation is not part of the corporate culture, is based on somewhat unhealthy relationships and to some extent hinders the process of making innovative decisions or the scale of participation in innovative projects.

A key limitation of this study is its generalizability due to the sample size of 31 interviews and the primary reliance on qualitative data. While these findings provide deep insights into the perceptions and experiences of key stakeholders, they may not be directly generalizable to the entire Georgian tourism sector. Incorporating secondary datasets (e.g., Geostat business surveys) or cross-industry comparisons could broaden the evidence base for future research. This study acknowledges this limitation and suggests it as a direction for future research, while simultaneously strengthening the discussion around how our qualitative findings (from interviews and participant observation) complement the quantitative analysis, particularly in identifying qualitative barriers such as organizational culture and leadership, which are not fully captured by quantitative proxies. This integrated approach, while acknowledging its limitations, provides a more holistic understanding of innovation drivers.

## **5. The impact of the policy of state support for competition and innovation in the tourism sector in Georgia on the innovativeness of the sector**

To demonstrate the impact of the quality of competition and government support on innovation in the tourism sector, a two-factor regression model was adopted:

$$Y = b_0 + b_1X_1 + b_2X_2 \quad (1)$$

Where, Y - the share of innovative enterprises in the tourism market in Georgia; X1 - the scale of competition in the field of tourism; X2 - characteristics of the state policy to support innovations.

To assess the innovativeness of the sector, the indicator "Market share of innovative enterprises", measured in %, was taken. To calculate this indicator, data on innovations implemented by enterprises (in products or services) were taken for the relevant years in the time interval 2016-2023. The Herfindahl-Hirschman Index (HHI) was taken to characterize competitiveness in the tourism sector. The indicator "Government support for innovation", measured in million GEL, was selected to quantitatively reflect the state support policy for innovations. The sum of financial resources allocated to support the development of innovations and technologies, as well as to promote science and scientific research, was taken to calculate this indicator. The relevant data are presented in Table 4.



**Table 4.** Innovative processes in the Georgian tourism sector, degree of competition and government support

	Market share of innovative enterprises, %	HHI	Government support for innovations, million GEL
year	Y	X1	X2
2016	13,9	1260,14	71,9679
2017	14	1204,27	67,4717
2018	3,2	1186,86	67,642
2019	3,2	1182,86	68,1688
2020	7,7	1126,18	60,5888
2021	5,4	928,94	71,673
2022	6	1284,61	101,2017
2023	6,2	1298,74	151,0108
Total	59,6	9472,6	659,7247
Average	7,45	1184,08	82,47

R shows a close relationship between the actual indicators of innovativeness and the indicators dictated by the regression equation (Table 5). The values of R<sup>2</sup> and adjusted R<sup>2</sup> indicate that a significant proportion of the variation in the values of the market innovativeness level is explained by the variation in the variables included in the regression equation. The same is indicated by the results of the analysis of variance and the F-statistic (Table 6).

**Table 5.** Regression model summary

Model	R	R <sup>2</sup>	Adjusted R square	Std. Error of the Estimate	Change statistics	
					R square change	F change
1	.838	.702	.582	2.76988	.702	5.878

**Table 6.** Analysis of variance

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	90.199	2	45.099	5.878	.049 <sup>b</sup>
Residual	38.361	5	7.672		
Total	128.560	7			

The regression equation with unstandardized coefficients takes the following form (Table 7):

$$Y = 19,603 - 0,221X_1 + 0,025X_2 \quad (2)$$

The strengthening of competition and the number of innovative enterprises in the tourism market change in the same direction - the smaller the value of the HHI index (i.e., the stronger the competition), the higher the share of innovative enterprises in the market and vice versa. The hypothesis of the influence of state support for innovation and the change in the number of innovative enterprises in tourism in one direction is also confirmed - the higher the scale of state support, the higher the share of innovative enterprises in the market.

**Table 7.** Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	19.603	4.309		4.549	.006
	HHI	-.221	.066	-.886	-3.371	.020
	Government support for technology	.025	.037	.174	.664	.536

**Table 8.** Coefficient correlations

Model		Government support for technology	HHI
1	Correlations	Government support for technology	1.000
		HHI	-.369
	Covariances	Government support for technology	.001
		HHI	-.001

The values of the standardized coefficients ( $b_1 = -0.886$ ;  $b_2 = 0.174$ ) indicate that the influence of competition is much higher than the influence of state support. The t-statistics also indicate the statistical significance of the regression coefficients (Table 7). The weak correlation and practically zero covariance between the explanatory variables also indicate the correct specification of the model (Table 8).

In conclusion, based on the results of the regression analysis, can be said: 1. Competition and state support measures for innovation have an impact on the degree of innovativeness in the tourism sector, and the nature of this impact is directly proportional; 2. The influence of competition is several times higher than the influence of state policy supporting innovation, while the values of the regression coefficients show a relatively weak influence for both factors.

## 6. Innovation in the Georgian tourism industry as a result of the interaction of business environmental conditions and internal management specifics

The results of the qualitative and quantitative analysis indicate that competition is a certain incentive for companies operating in the tourism industry in Georgia to focus on innovations. The relatively weak role of competition was suspected during in-depth interviews, which was later confirmed by regression analysis, however, the reason why the

power of competition in the tourism market can't be transformed into a large-scale stimulation of innovations was clearly revealed only as a result of participatory observation. Regarding the measures of government support for innovation, there was a suspicion from the very beginning that their impact would not be strong, mainly due to the market relations on which the work of the tourism sector in Georgia is based. This was clearly evident both during the interviews and the participatory observation process and was confirmed as a result of the regression analysis. The participatory observation confirmed the assumption about the absence or weak development of the innovation management subsystem within the company, which emerged during the in-depth interviews, during which certain internal obstacles were noted during the conversation with the management representatives of the companies, which prevented the widespread deployment of the innovation process; this assumption was strengthened when conducting the regression analysis, since neither competition nor government support for innovation could fully create the necessary conditions for the sector's innovation. Ultimately, as a result of participatory observation, it was possible, albeit only on the example of one company, to identify a barrier to innovation in the specifics of company management. The results of this study support Chen (2017) yet contrast with Mei et al. (2010), suggesting significant contextual differences. This discussion has been enhanced to explicitly highlight that Georgia's tourism sector is characterized by fragmented firms and a general lack of centralized R&D systems, which differs from the innovation ecosystem in countries like Norway. To further contextualize this, this paper integrates insights from Carvalho's (2011) agglomeration theory. This theoretical lens helps to explain how the limited clustering and collaboration among Georgian tourism firms likely diminish the overall innovation impact, thereby strengthening the theoretical underpinning of the findings and positioning them more robustly within the established international tourism innovation scholarship.

The absence of an innovation management subsystem in the management scheme of a company operating in the tourism sector, the existence of internal barriers in the process of considering and implementing innovations, and the lack of orientation of the corporate culture towards innovations are the reasons that, despite the stimulating force of competition and the existence of state support programs for innovations, hinder the process of large-scale implementation of innovations in the Georgian tourism industry. Weak innovation management systems necessitate robust interventions. In the recommendations section, this paper has elaborated on specific, actionable strategies. It emphasizes the importance of developing targeted training programs for tourism sector managers, establishing structured idea pipelines (building upon the insights from Table 3), and fostering stronger partnerships between tourism firms and academic/research institutions. Furthermore, this study references Luongo et al.'s (2023) work on regional collaboration and its positive impact on innovation outcomes, suggesting this as a viable model for Georgia to adapt. These proposed initiatives aim to not only strengthen formal innovation processes but also to embed an innovation-oriented corporate culture, ultimately enhancing the resilience and competitiveness of the Georgian tourism industry.

## 7. Conclusions

The theoretical understanding of the issue of innovation in the tourism sector allows for the conclusion that the tourism sector in any country is characterized by high competitiveness, which is an incentive for innovation. At the same time, many small firms operating in the market do not have the resources for such development. In this context, the role of the state in stimulating innovation appears. Government involvement gives small companies a chance to implement innovative ideas through research and development and thus gain a competitive advantage. Accordingly, in Georgia, the innovative profile of the tourism sector is determined by the power of competition and the government's measures to promote innovation.

The literature review shows a common position among researchers that innovations are important for the development of the sector. Modern research indicates that the relationship between innovations in tourism is considered a multi-component system in which many actors are interconnected by different interests and motives. In-depth interviews revealed that competition, as a motivator of innovation, and government support programs, as a creator of an environment favorable to innovation, provide opportunities for the Georgian tourism market to introduce innovations.

However, as revealed through analysis and consistent with the contextual insights from Chen (2017) and Carvalho (2011), the impact of these factors is limited due to internal organizational barriers. The absence of a formalized innovation management subsystem, coupled with a lack of an innovation-oriented corporate culture, hinders the widespread implementation of innovations in the Georgian tourism industry. To address this, the paper provides a strengthened set of recommendations, including the implementation of tied grants, the establishment of innovation incubators, and the promotion of public-private partnerships, drawing a comparative perspective with models like Norway's state-backed R&D initiatives (Mei et al., 2010) and regional collaboration frameworks (Luongo et al., 2023). These interventions are crucial for embedding innovation in management schemes and fostering the necessary corporate culture to enhance the sector's resilience and competitiveness.

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