

# Institutional Foundations of Capitalism and Tourism Management Problems of Countries at the Transition Stage (Case of Georgia)

Maia Margvelashvili, Kakhaber Cheishvili, Ineza Vatsadze

**Abstract**—In Capitalism all economic activity rests upon a set of core institutional foundations, main from which are privately owned capital assets and profit. How these core institutional foundations are working in former soviet countries, in particular in Travel and Tourism Industry of Georgia?

The role of Travel and Tourism as a key pillar of economic growth is being increasingly recognized by governments in all regions of the world. For the last few years Georgia succeeded in the World Bank and IFC “Doing Business” rankings. Despite of that, during decades totally different statistical data of the tourism sector were provided by the different State bodies; economic parameters were published few, or not published at all.

The frequency and extent of property rights violation in Georgia has repeatedly been the subject of concern for the last decade. Total value of abrogated by the former Georgian Government private property is estimated approximately in US\$4-5 billion.

Thus, if economic profitability is unknown and property rights are not protected – that means that the main institutional foundations of capitalism in Georgia, are not working properly yet, that cause management problems at all levels of the national Travel and Tourism industry of Georgia.

**Keywords**—Institutional foundations of capitalism, Tourism management, Transition stage.

## I. INTRODUCTION

CAPITALISM is an economic system in which capital assets are privately owned and goods and services are produced for profit in a market economy. Through multiple crises and recoveries, capitalism has proven to be a dynamic, durable and adaptive economic system. Market - allocation of goods and services has spread globally, encompassing developed and emerging economies alike, and subjecting the life - chances of billions of people to the logic of capitalism, including people of the former socialist countries. All this economic activity rests upon a set of core institutional foundations, main from which are privately owned capital assets and profit.

How these core institutional foundations are working in former soviet countries? In this case was conducted research of one of the economic sectors of Georgia, particularly – Travel and Tourism Industry.

Prof. Dr. Maia Margvelashvili is with the Javakishvili Tbilisi State University, Institute of Tourism Development, Tbilisi 0177, Georgia (phone/Fax: (995 32) 230-4480; e-mail: maya.margvelashvili@tsu.ge).

Dr. Kakhaber Cheishvili and Ineza Vatsadze are with the Javakishvili Tbilisi State University, Institute of Tourism Development, Tbilisi 0177, Georgia (e-mail: kakhaber.cheishvili@tsu.ge, ina.vatsadze@tsu.ge).

Over the past two decades, Travel and Tourism (T&T) has become one of the world’s leading exported commodities with airlines, hotels, restaurants, and other tourism-related businesses driving a multibillion-dollar global industry. During the economic downturn of 2008–09, when after four years of growth averaging 3.6% pa, T&T Economy GDP growth slowed to just 1.0%, it came as no surprise that this sector could not escape the impact of the most significant economic collapse since the Great Depression. The number of international tourist arrivals dropped by 4.2 percent from 2008 to 2009 — the sharpest decline in history.

The World Travel and Tourism Council (WTTC) research confirmed the recovery in Travel and Tourism in 2010, with the industry’s direct contribution to global GDP increasing by 3.3% [1].

Furthermore, International tourist arrivals (overnight visitors) grew by 5% in 2013, reaching a record 1087 million arrivals worldwide, up from 1035 million in 2012, when the 1 billion mark was exceeded for the first time ever. Despite a global economy in ‘low gear’, demand for international tourism exceeded expectations, with an additional 52 million international tourists travelling internationally in 2013 [2].

WTTC’s latest annual research, in conjunction with its partner Oxford Economics, shows Travel and Tourism’s contribution to world GDP grew for the fourth consecutive year in 2013, rising to a total of 9.5% of world GDP (US\$7 trillion). Around 4.7 million new jobs were created worldwide as a result of Travel and Tourism activity last year, meaning that the sector now supports nearly 266 million people in employment – that’s 1 in 11 jobs on the planet. 2014 looks equally positive. Travel & Tourism GDP is set to grow by 4.3%. Much of this growth is being driven by high consumer spending as the recovery from the global recession gains momentum. It is also expected some 6.5 million new jobs to be generated by the sector [3].

Travel and Tourism forecasts over the next ten years also look extremely favorable with predicted growth rates of 4% annually. This rate is not only outpacing the wider economy but continues to be higher than growth in other industry sectors such as financial services and manufacturing.

While economic growth going forward faces many challenges - the Travel and Tourism industry is still expected to be one of the world’s fastest growing sectors. Emerging economies, in particular, are expected to be increasingly important engines of such growth, boosting both international travel and also generating increasingly vibrant domestic

tourism sectors.

## II. METHODS

The role of Travel and Tourism as a key pillar of economic growth is being increasingly recognized by governments in all regions of the world. WTTC latest research clearly demonstrates the potential of Travel and Tourism to drive global economic recovery and generate employment, helping to ensure sustainable development and the alleviation of poverty by spreading the benefits more equitably across populations. That's why we decided to conduct research of the present situation in this Industry in Georgia in case of privately owned capital assets protection and profitability. Conducted research included Georgian Travel and Tourism Industry image analysis at the international arena, as well as analysis of its economic indicators and state of property rights in the country.

## III. RESULTS

During past decade Travel and Tourism has been announced as priority for the Georgian Government.

For the last few years Georgia succeeded in the World Bank and IFC "Doing Business" rankings (overall 9th place in 2013, 12<sup>th</sup> in 2012, 11<sup>th</sup> place in *Ease of Doing Business* in 2010, 15<sup>th</sup> place in 2009 and place between 10 *Best Reformer Countries* in 2008, etc.). Unfortunately, despite of this success, there is a different situation in the Travel and Tourism Industry.

During decades a totally different statistical data of the tourism sector were provided by the different State bodies – such as Georgian National Tourism Administration, National Statistics Office of Georgia, and the National Bank of Georgia. Economic parameters were calculated and published few, or not published at all. The same vague situation is with determination of tourism Share in Service Exports, an Export-Import Balance of International Tourism, and Employment in tourism sector, etc. Although, by The World Economic Forum's *Travel & Tourism Competitiveness Reports* 2009-2011, Georgia was ranked 73rd between 139 countries and 66th in 2013 between 140 countries [4]. Its Travel and Tourism indicators (Travel & Tourism Economy GDP, Travel & Tourism Direct Industry GDP, its growth, Capital Investment, etc) during the decades were unknown and not applicable. Only in 2013 national Travel and Tourism economic impact was calculated by the experts of Oxford Economics. But, in case of lack of reliable sources much of research data for their reporting was modeled. So, even these indicators are not exactly correct. Thus, industry's exact profitability is unknown and this situation will remain the same as Tourism Satellite Account not yet implemented in Georgia.

The basic aims of the Tourism Satellite Account (TSA) recommended by UN World Tourism Organization (UNWTO) and approved by the UN Statistical Commission (UNSC) in March 2000, are to delineate the scope and contents of tourism economic activity, to quantify the magnitude of tourism in the

national and international economy, and to describe how it interacts with other economic activities. Since the adoption of the Tourism Satellite Account: Recommended Methodological Framework (TSA: RMF) by the UNSC and its endorsement by other major international organizations active in the production or use of tourism statistics, the UNWTO Department of Statistics and Economic Measurement of Tourism has been working intensively in providing countries with information about the system, and with instruments in order to put its recommendations into practice.

For the purposes of TSA development, the nature of the principal actors in the national arena varies considerably insofar as they have different purposes and requirements. Basically, they can be grouped into three categories: (a) bodies that produce statistics and supply basic tourism information such as National Statistical Offices (NSO), National Tourism Administrations (NTA), Central Banks (CB) and associations of national tourism enterprises; (b) information-providing units such as tourism enterprises and establishments, and other public departments (such as those linked with the regulation of the different forms of transport, immigration, customs and excise, etc); (c) potential users of the tourism information that is generated, such as tourism industries, the NTA itself, the units responsible for preparing the national accounts and the balance of payments, and others.

In general, TSA's are designed to measure the economic impact of travel and tourism on a national, state, or regional economy. Compared with traditional economic-impact methods, this system provides a more comprehensive and accurate view of the tourism industry. TSA studies provide a complete picture of the contribution that tourism makes to an economy and includes measures of tourism size and growth that are comparable with other destinations and industries [5].

Unfortunately, TSA is not yet implemented in Georgia and researchers, as well as decision makers and Industry have no possibility at all to obtain an accurate and credible data for evaluating the national tourism in full and its various aspects. And it looks like despite of multiple attempts of experts – TSA is not planned to be implemented soon, as its importance not yet acknowledged by the country authorities.

All above mentioned indicates that despite of impressive positive changes in developing civil and tourism infrastructure for the recent years, Georgian national Travel and Tourism Industry does not have any economic profitability basis. Announced priority of tourism development, without knowing its exact economic impact, instead of economic growth, may cause contrary effect. Development of tourism infrastructure (hotels, CVBs, roads, bridges, communications, electricity and water supply, etc.) is just one of the supporting factors for tourism development – important, but not decisive one. The decisive one is Industry's profitability. And we do not have reliable information regarding its exact economic impact.

Despite of success in World Bank's Doing Business reports, Georgia is ranked only 66<sup>th</sup> in the Travel and Tourism Competitiveness Report for the 2013. Furthermore, with protection of Property Rights in pillar of Policy Rules and Regulations Georgia ranked 120<sup>th</sup> in 2011 and 128<sup>th</sup> in 2013

between 140 countries.

One of the most fundamental requirements of a capitalist economic system—and one of the most misunderstood concepts—is a strong system of property rights. Three basic elements of private property are: (a) exclusivity of rights to choose the use of a resource, (b) exclusivity of rights to the services of a resource, and (c) rights to exchange the resource at mutually agreeable terms [6].

The frequency and extent of property rights violation in Georgia has repeatedly been the subject of concern for the last decade. Study conducted in 2011-2012 by the Georgian Young Lawyers' Association in partnership with Transparency International - Georgia, Georgia Regional Media Association and The Green Alternative within the framework of the project *Protection of Property Rights in New Touristic Zones of Georgia*, has revealed 271 cases property rights violation in resort Gonio, 20 cases in resort Sairme, 79 cases in resort Bakhmaro, etc [7].

*The State recognizes and protects universally recognized human rights and freedoms as eternal and supreme human values. While exercising authority, the people and the state shall be bound by these rights and freedoms as directly acting law* [8]. This Article of the Georgian Constitution represents the primary legal guarantee for the protection of the right to property. The specific guarantee for the protection of the right to property is given in Article 21 of the Constitution, according to which, the right to property and inheritance is recognized and guaranteed, it is impermissible to abrogate the universal right to acquire, alienate and inherit property. The right to property is also recognized by Article 1, Protocol One of the European Convention on Human Rights, which foresees the peaceful enjoyment of possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law. The protection of the right to property envisages both the positive and negative obligation of the state according to this article. According to the 2013 World Economic Forum *Global Competitiveness Report*, Georgia has the lowest index related to the right to property among 140 states. Despite the obligatory nature of the above-sited regulations, during the 2012 reporting period Public Defender of Georgia received appeals by the citizens who considered that their right to property was violated. The analysis of the cases revealed three types of problems: recognition of the right to property, registration of the right to property and proportionality of restriction in criminal proceedings. In addition, it has to be mentioned that after the change of government Public Defender's Office received the complaints concerning the voluntary transfer of private property for the benefit of state. The citizens declared that they signed the grant agreements under coercion of the law enforcement and government officials. This matter is currently under review of the Chief Prosecutor's Office of Georgia. According to the information of the prosecutor's office, they received approximately 9000 appeals concerning the same problem. One additional issue relates to the legal effects of the expropriation of property from individual persons for state

benefit. Several large-scale projects were carried out over the years. Number of expropriations of private property took place through these projects [9].

By some sources total value of abrogated by Georgian former Government private property (including real estates, factories, businesses, TV's, etc.) is estimated approximately in US\$4-5 billion.

Mr. Thomas Hammarberg in his capacity as EU Special Adviser on Constitutional and Legal Reform and Human Rights in Georgia in his report from 2013 Georgia in Transition stated that:

Among the complaints filed with the Prosecutors Office against the previous authorities, those concerning property rights figure prominently. That large scale violation of property and land rights did take place was also reported previously by the Public Defender and domestic NGOs. Land in which touristic infrastructure was developed appears to have been particularly affected, as well as areas of economic interest in and around the capital city. NGOs reported about property rights infringements throughout the country, in form of transfers to the State, abandonment of property or re-registration by the State of property that already belonged to someone. Reports indicated that property was generally being donated or abandoned after the owners had been summoned to the Prosecutor's Office. Also, in certain mountainous regions of Georgia, where land was traditionally being passed on from generation to generation without formal registration, owners attempting to register their land started facing insurmountable obstacles in doing so when their interests happen to collide with those of the State. In other cases, certificates nullifying ownership were simply issued to the owners. To date, the Prosecutor's Office has received 1289 complaints related to alleged violations of property rights. Clearly, if court proceedings confirm that mass violations of property rights have occurred, it will be very difficult, probably impossible, for the State to fully compensate the victims. Nevertheless, the Georgian authorities, in close cooperation with civil society, have to develop a mechanism to deal with these cases. The vulnerability of the victims, who in certain instances have reportedly lost everything they had, will be a factor that must be taken into account. Where restitution is feasible, it should be done without delay. In general, violations linked to property rights have to be part of Georgia's strategy to deal with its recent past. It may also be necessary to review the existing legislation on this matter [10].

UN Human Rights Committee (HRC) recently has issued the fourth periodic report on Georgia, stating concern about the slow pace of investigation of human rights violation, including violation of property rights. The Committee assesses state of human rights in Georgia. *The Committee, while acknowledging the challenges faced by the State party in providing victims with remedies, is concerned about the tens of thousands of complaints lodged with the Prosecutor's Office in relation to violations committed before the 2012 elections, including unfair trial, torture and ill-treatment and illegal expropriation,*" reads the report [11].

The new Government of Georgia has started investigation,

but this process required to be accelerated.

In addition, our inquiries of Georgian Travel and Tourism business owners (50 were questioned in 2011 about protection of their property rights, including financial assets) showed that 86% of respondents were not sure about such protection from the State. This indicator dropped to 32% in 2014, but amount of skeptics who do not believe in attaining any compensation by the victims remains high (82%).

How this uncertainty reflects on Travel and Tourism management objectives?

The field of management is an extremely broad discipline that draws upon concepts and ideas from the physical and social sciences, particularly mathematics, philosophy, sociology, and psychology. Within business, the field of management includes terms and ideas also common to marketing, economics, finance, insurance, transportation, accounting, computer technologies, information systems, engineering, and business law.

Management has applications in a wide variety of settings and is not limited to business domains. Management tools, as well as the art and science of management, find applications wherever any effort must be planned, organized, or controlled on a significant scale. This includes applications in government, the cultural arts, sports, the military, medicine, education, scientific research, religion, not-for-profit agencies, and in the wide variety of for-profit pursuits of service and manufacturing [12].

The vast array of business interests that are interlinked together in the production and delivery of tourism products largely operate for profit. For them to achieve this profit objective, they need management to get things done. In other words, management occurs in a formal sense in organizations, and in most cases, management is about harnessing the organization's resources to create services, outcomes or products in line with what the tourist requires as a consumer.

The goals of management within tourism organizations are usually seen as profit-driven, but are often more diverse including: (a) profitability, which can be achieved through higher output, better service, attracting new customers and cost minimization; (b) in the public sector, other goals (e.g. coordination, liaison, raising public awareness and undertaking activities for the wider public good) that dominate the agenda in organizations; (c) efficiency, to reduce expenditure and inputs to a minimum to achieve more cost effective outputs; (d) effectiveness, (achieving the desired outcome); this is not necessarily a profit driven motive [13].

In practical terms tourism management involves harnessing the power over resources (i.e. people, finance, technology and the organization) to bring some degree of order to the tasks that must be undertaken for the organization to function and achieve its objectives. Despite the wide range of tasks managers undertake, there are three principal management functions which tourism businesses need to be involved in when dealing with people as customers: marketing, operational issues and human resource management. But the main goal of tourism business is profitability and at macro-economic level - economic growth.

Within the context of renewed interest in economic growth comes increasing interest in the role that tourism plays in promoting growth. Empirical evidence clearly demonstrated that a range of countries that were highly dependent on tourism had achieved considerable increases in income and growth without the prior development of significant manufacturing activities. The question posed was, therefore, whether tourism had played a causal role in increasing growth.

In recent years, several empirical studies have explored the relationship between tourism and economic growth. Hazari and Sgro [14] developed a dynamic growth model in which a favorable impact of a buoyant world demand for tourism would have a positive effect on the long-run growth of a small, open economy. The results of other authors - Balaguer and Cantavella-Jordá [15], Dritsakis [16], Soukiazis and Proença [17], Eugenio-Martín and others [18], etc. indicate that economic growth has been influenced by the persistent expansion of international tourism that has confirmed the tourism-led economic growth hypothesis.

Thus, it is clear that tourism can play a valuable role in stimulating higher growth, reducing regional asymmetries, creating employment and bringing about positive externalities that affect (directly or indirectly) other economic activities.

Effective management involves creative problem solving, motivating employees and making sure the organization accomplishes objectives and goals. There are five functions of management: planning, organizing, staffing, coordinating and controlling that separate the management process from other business functions such as marketing, accounting and finance.

Markets are efficient at producing private goods, largely because producers and consumers have the right of ownership of the resources exchanged in an economic transaction involving a private good. However, markets are less efficient when property rights do not exist. The absence of property rights can lead to a number of consequences, including – limited development. According to Peruvian economist, Hernando De Soto, lack of property rights is also associated with urban squalor and is a significant constraint on economic development [19].

Thus, when property rights are violated and managers are facing uncertain future (that was common situation in Georgia for the recent years), principal management functions are impossible to be executed properly and in full. Especially this situation was reflecting on the national level as added lack of exact economic indicators causes problems to precise decision-making, timely corrections of policy and economic development of Travel and Tourism sector.

#### IV. CONCLUSION

Taking in account existing in Georgia situation, if economic profitability is unknown and property rights are not protected – that means: the main institutional foundations of capitalism in Georgia, as well as in most transition countries, are not working properly, that causes management problems at all levels of the national Travel and Tourism Industry, with appropriate consequences to overall economic development and particularly to the Travel and Tourism Industry

development of the country.

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