

Prof. Azhar Baisakalova

The Kazakhstan Institute of Management, Economics & Strategic Research (KIMEP)

E-mail: azhbeg@kimep.kz

Tel.: (7-3272) 704 276

Fax: (7-3272) 704 344

Economy Diversification: Tourism Cluster Competitiveness and Sustainability

Abstract

Global financial crisis once again proved a need for economy diversification in Kazakhstan in order to avoid natural resource curse. Kazakhstan has abundant natural and cultural resources, which offer opportunities to develop different segments of tourism, such as ecotourism, space tourism, educational and cultural tourism, business tourism and adventure tourism.

This study aims to explore the competitiveness and sustainability of tourism cluster and its potential impact on economic growth of Kazakhstan. An analysis is based on Michael Porter's economic cluster theory. Both quantitative and qualitative methods of analysis are employed to examine macroeconomic, political, legal, and social context for assessment of Kazakhstan's competitiveness. Empirical data on the competitiveness and sustainability of companies were collected by distributing questionnaires among tourist and travel organizations. The roles of the public and private sectors in cluster development are discussed. The paper concludes with policy recommendations to improve public and private institutions and business environment in Kazakhstan in order to provide efficiency and effectiveness of cluster initiatives.

1 Introduction

The contribution of small and medium-size enterprises (SMEs) to achieving and sustaining growth and performance in national economies is increasingly recognized. SMEs play a critical role in the development of employment, innovation and social and economic growth. "In order to create a viable and resilient economy, we consistently implemented difficult structural reforms, built up our export potential and began to diversify by creating significant incentives for the development of the non-commodity sector of the economy, and small and medium business."¹

The rapid deterioration of the world economy and the influenza A(H1N1) outbreak this spring resulted in the negative trend in international tourism . Based on preliminary results from about 140 destination countries, international tourist arrivals worldwide are estimated to have declined by 7% in the period January to July 2009, compared to the same period last year. In absolute terms, the number of international tourist arrivals worldwide reached 500 million in the first seven months of 2009, down from 540 million in the same period of 2008. ²

In Kazakhstan economic indicators of the tourism industry show a positive trend: today there are about 1200 small and medium size business enterprises in the tourist sector in Kazakhstan. In 2008 total revenue from tourism grew by 17 percent and made up 74 billion tenge. Each year more than 4.5 million foreigners visit our country (Tourism in Kazakhstan,

¹ Address to the Nation by President Nursultan Nazarbayev of Kazakhstan March 6, 2009

²UNWTO: Increasing Confidence in 2010 Recovery for the Tourism Sector . ASTANA, KAZAKHSTAN. Viewed October 26,2009, http://www.unwto.org/media/news/en/press_det.php?id=4862&idioma=E.

2008). According to Kazakhstani Tourist Association, by the year 2020 domestic tourism will grow by 400% and international tourism – by 2000%.

Francesco Frangialli, Secretary General of the UN World Tourism Organization (UNWTO) noted that Kazakhstan had made significant progress in promoting its image as an attractive, tourism-friendly and dynamic Eurasian destination. He also emphasized Kazakhstan's enormous potential for cultural and nature-based tourism due to its geographic attributes, its amazing history and its location on the Silk Road (KITF Catalogue, 2008). This October Kazakhstan hosted the 18th UNWTO General Assembly that showed the active involvement and contribution of Kazakhstan to the international tourism community.

The events like the Kazakhstan International Tourism and Travel Fairs contribute to the implementation of the National Program on the Tourism Development in the Republic of Kazakhstan in the period of 2007-2011 and demonstrate the great potential of our country in educational, cultural, cognitive, business, space, adventure, health and ecological tourism. This Program includes the development of a pilot tourism cluster in Almaty and Almaty oblast (National Program, 2006). The city of Almaty - the former capital of the Republic of Kazakhstan - is the biggest city in our country and has a relatively good infrastructure and attractions meeting different tastes and purposes of tourists.

There is little research on small business in Kazakhstan. Existent studies are basically of descriptive nature. Entrepreneurs in our country are risk-avoiders; most of them do not invest in innovations and R & D; they are not adding value in the products: investments in technology and innovations are miserable. Entrepreneurship is rather new concept for our country. Most of small firms are in trade. So far the efforts to create clusters to diversify our economy were not successful. Therefore, it is important to understand what the perspectives on cluster economy in

Kazakhstan are. An objective comprehensive evaluation of the tourist sector is important to provide sound managerial decision-making and will have a positive impact on the economy of the country.

The present paper is an exploratory study of the prospects of tourism cluster development in Kazakhstan based on the analysis of the questionnaires and interviews with representatives of travel and tourist organizations located in the city of Almaty. Knowledge and understanding of the tourist industry status is of importance to stakeholders in private and public sectors with an interest in economic growth and development of the country.

In subsequent sections a brief literature review and data analysis using some quantitative and qualitative methods is presented. The problems related to the establishment of favorable environment for the development and growth of the small business sector in Kazakhstan are explored. The analysis concludes with recommendations for both public and private sector stakeholders to improve Kazakhstan's tourism sector competitiveness and sustainability.

2 Theoretical Overview

2.1 Basic Concepts

Tourism takes on an important role as a strategy for local development by generating jobs, increasing the income of workers and stimulating capital investments through new business opportunities, which result in the establishment of new organizations, including SMEs, among other advantages (Cuncha & Cuncha, 2005). The development of tourism can also bring negative impacts to the economic, social and environmental sustainability of the local community, such as

noise, water and visual pollution, invasion of protected areas, etc. The central hypothesis in Cuncha & Cuncha (2005) is that tourism activity should be one of the main sources of sustainable regional development, with positive effects on the creation of jobs, the generation of income and improvements in the quality of local life.

Sustainable tourism is understood as the kind that satisfies the present needs of tourists as well as preserving the destination regions while incrementing future opportunities. It has to be conceived in a way to guide management of all available resources in order to meet economic, social and aesthetic demands, maintaining cultural integrity of essential ecological processes, biological diversity and life supporting systems. (WTO, 1995). Sustainable development is defined as requiring actions as a means of reducing destructive pressures on the environment, cultural integrity and the quality of life of the local population (Cuncha & Cuncha, 2005).

Clusters are groups of organizations that work in a defined economic sector and a geographically limited environment. This permits the generation of a series of operative synergies that constitute sources from which to extract competitive advantages. Clusters are geographically-centered groups of related firms and industries operating in an environment characterized by a high degree of specialization, intense competition and a critical mass of highly educated employees.³

Porter's (1990) definition of competitiveness is "the ability of entrepreneurs (of a country) to design, produce and market goods and services, the price and non-price characteristics of which form a more attractive package than that of competitors". Competitiveness is determined by the productivity with which a nation, region, or cluster uses its human, capital, and natural resources. The productivity of "local" industries is of fundamental

³ <http://www.weforum.org/ttcr08browse/index.html> , viewed March 9, 2009.

importance to competitiveness, not just that of traded industries. Nations or regions compete in offering the most productive environment for business. (Porter, 2005)

To improve a location's competitiveness, all elements affecting the context for productivity and innovation in individual firms and clusters have to be looked at: regions need to activate their clusters, address crosscutting weaknesses in their general business environments, create an institutional structure to focus on competitiveness beyond the life cycle of specific administrations, and define an overall understanding of the unique value they intend to provide relative to other locations (Porter, 1998; Ketels, 2003)

Tourism stimulates other economic activities: entertainment, trade, transport, lodgings, travel agencies, crafts, supporting services and amenities and the development of infrastructure: roads, airports, sanitation, energy, etc. Cuncha & Cuncha (2005) developed the concept that a tourism cluster is a group of companies and institutions bound up to a tourism product or group of products. Such companies and institutions are spatially concentrated and have vertical (within the tourism productive chain) and horizontal relationships (involving factor, jurisdiction and information exchange between similar agents dealing with a tourism product offer). They show an intern configuration that generally includes:

- a) a set of tourist attractions that draw non-resident attention;
- b) the concentration of tourism service companies: restaurants, accommodation, transport services, crafts, travel agencies etc.;
- c) sectors providing support to tourism services;
- d) suitable and low-cost infrastructure (roads, energy, sanitation, health services, etc.);
- e) companies and institutions that provide specialized qualification, information and financial capital;

- f) intern agents organized into class associations; and
- g) government agencies and other regulating bodies that impact tourism agglomerations.

Interactions within tourism cluster can bring the following benefits (Cuncha & Cuncha, 2005):

- entrepreneurial cooperation, work productive specialization, collective infrastructure, service specialization, etc;
- the increased ability to negotiate collectively with suppliers of inputs and components;
- the development of new models, production processes and organization;
- the exchange of technical and market information; and
- consortiums for buying and selling goods and services, as well as joint marketing campaigns.

Interaction and synergy arising from joint actions lead to competitive advantages over the isolated actions of companies (Nordin, 2003).

2.2 Porter's Cluster Theory

Porter (1990) introduced “diamond” as an analytical tool to assess the general quality of the business environment at the national, regional, or local level. The diamond includes the four elements: factor conditions (e.g., physical infrastructure, skills, etc.), demand conditions (e.g., sophistication of local customers, product and consumer regulation), the context for strategy and rivalry (e.g. taxation structure, competition laws, and the strategies of competing local companies), and the presence of related and supporting industries (e.g., the breadth and depth of the cluster). In 2005 Porter visited Almaty and presented assessment of the Kazakhstan business environment using his diamond (Porter, 2005).

Since that time some changes have taken place in our country. Porter emphasized good basic workforce skills, low electricity costs (*today they are significantly higher*), modern airport infrastructure, large pool of investment capital (*today it is not that large*). As to negative aspects of input - weaknesses in the physical infrastructure, shortage of managerial skills and entrepreneurship, lack of advanced technical skills, significant barriers for smaller companies to obtain credit - there is little progress there. However, positive results can be observed in the communication infrastructure and in the higher education system where new majors required for tourism cluster activating are opened.

Among demand conditions for the tourism cluster development improved regulation on IT and environmental quality as well as better standards-setting and certification organization should be mentioned.

The context for firm strategy and rivalry has not changed significantly and the problem of the establishment of favorable business environment is still on the public agenda.

Related and supporting industries in tourism cluster are developing due to numerous international events being held in Almaty.

2.3 Public -Private Partnership

Porter (2005) argues that the public and private sectors should play different but interrelated roles in creating a productive economy. Government policy has an impact on all elements of the cluster-specific diamond. It often has responsibilities for large parts of the infrastructure, it sets key rules and regulations affecting competition and demand, and it affects the cluster presence through, for example, recruiting companies from other locations to make

investments (Porter, 1998). Government is an important factor in shaping the business environment as well as companies, universities, and many other institutions. Government's role in cluster initiatives is as facilitator and participant. The most successful cluster initiatives are public-private partnerships. Effective cluster-based development needs to be based on an assessment of the most critical barriers that hold back productivity improvements and innovation. (Porter, 2005).

In Kazakhstan there is political will to become a center of tourism in the Central Asian region and turn the tourist industry into a high-yielding sector of national economy. Almaty is going to host the 2011 Winter Asian Games, and adequately represent the Republic of Kazakhstan to the international community. The tourism cluster can help the private and the public sector to collaborate and undertake joint efforts towards attaining mutually beneficial goals and objectives.

3 Methodology and Data Characteristics

3.1 Research Methodology

Research methods used include both the features of exploratory research and conclusive research. The methodology uses the following primary and secondary data sources: questionnaires and interviewing, National Statistical Agency reports, mass media, and expert assessments.

It should be noted that there is a lack of systematic information at different levels, and, as a consequence, there are no reliable databases. Meeting the requirements of the scientific

sampling is an extremely challenging task: managers and employees in surveyed organizations are not all used to working with people from academia. Most of them are suspicious and unwillingly respond to questions showing lack of interest in providing data and receiving feedback. Even when there are responses, they do not precisely cover all the questions put in the questionnaire.

The target population for this study is firms working in tourist industry in the city of Almaty. Almaty is the biggest city in Kazakhstan and it accumulates all characteristics inherent to similar firms in other locations of the country. Under conditions of time constraints, full time job and non-availability of funds the data are collected using “semi-random” sampling method. Questionnaires were sent to working places of small firms’ owners, managers, and employees and collected after their completion.

Cross-checking the data from a number of published sources and national statistic registers has been used in order to do “triangulation”. Potential validity threats to the research conclusions are related basically to difficulties in collecting the data and getting an access to high quality information, especially when it is not paid for.

3.2 Hypotheses

Based on the review of the literature on the research topic the following hypotheses are formulated and tested:

1. There is relationship between the firm size and the firm age.
2. Innovative activity at the firm level and the number of companies the firm cooperate with are positively correlated.

3. The likelihood of firm survival correlates among other variables with the propensity of the firm to innovate and the number of cluster actors in its network.

3.3 Exploratory Study

The purpose of this exploratory study is to understand the problems confronting the research, to identify key variables and their basic relationships and test various research procedures and samples drawn from the population to be used in the major study. This stage is very important in order to clarify all aspects of data collection method, select relevant analytical tools and, probably, to reformulate research questions and hypotheses to be tested in the major study.

There are 23 questions in the questionnaire. The collected data contain information on the respondents' status, age and gender, firm employment size and age, firm competitors, cooperation with support and related industries, firm development prospects, educational level of employees by gender, professional needs of the firm, perception of firm prospects, annual revenue, annual output, propensity to innovate, number of inbound and domestic tourists by tourism purpose, information on tour operators, barriers to business growth and development and relationship with public inspection bodies. Sample size is 54. However, sample sizes differ for different research questions depending on the missing data.

4 Analysis and Main Findings

4.1 Results of the Exploratory Study: Descriptive Statistics

The mean age of the surveyed tourist firms is 5.4 years. Medians for the number of female and male employees in the firm are 5 and 2, respectively. About two-thirds of all employees in tourist firms are females, 90% of them have higher education, in particular, 45% - in tourism. For male workers these indicators are 30%, 85% and 32%, appropriately. The proportions of women with English and Kazakh language knowledge are respectively 47% and 54%, while proportions of men knowing English and Kazakh are respectively 40% and 42%.

The respondents show increase in profit and delivery of tourist products from 2006 through 2008. In 2009 these indicators as well as the total number of tourists fall down. It is interesting to note that the total number of tourists decrease is explained by decreasing number of outbound tourists. However, since 2006 the numbers of inbound and domestic tourists steadily go up about 1.5 and 6 times, appropriately. In 2009 the number of tourists fall down three times in cultural and cognitive tourism, in business tourism – two times, in ecotourism – by 20 % and in health tourism it remained at about the same level as in 2008.

The data on respondents' status presented in Table 4.1.1 confirms the fact that the firm owners and managers are reluctant to complete questionnaires as compared with rank-and-file employees.

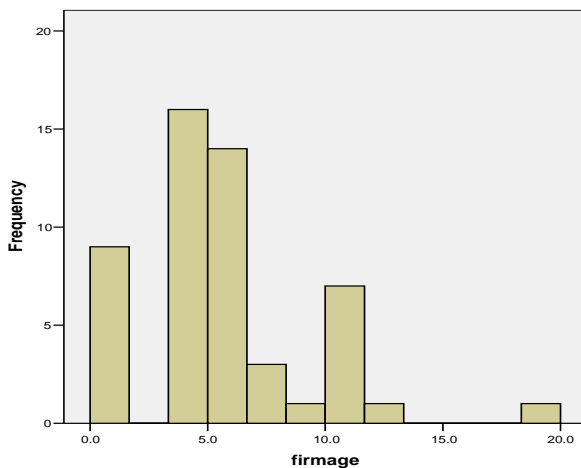
Table 4.1.1 Respondents' Status (%)

Owner	7.7
Director	7.7

Manager	75
Other	9.6

The age structure of the sampled firms is shown in Figure 4.1.2. Eighteen percent of firms are from one to two years; sixty percent - from three to seven years, and twenty percent are older than ten years.

Figure 4.1.2 Age distribution of tourist firms



The study of the needs in our labor market revealed that though the former Soviet Union population was famous of its good educational level, today knowledge in marketing, tourism, public relations, human resource management, IT, marketing, business management, advertising, psychology, restaurants and hospitality, foreign languages are of high demand to adapt to market economy environment. 46 percent of firms need staff training, 16 percent – qualification improvement, 34 percent – retraining, and 12percent need consulting services basically in the listed fields.

Most of respondents are optimistic about the future prospects of their firms: 80 percent expect firm growth, 18 percent expect no change, and 2 percent are going to close or to merge with another enterprise.

Among external barriers competitors and inspection by numerous state inspection agencies are examined. Only about 7% percent of firms mentioned large tourist enterprises as the most serious competitors, 47% - medium size firms, and 46% - small firms. It should be noted that most of the tourist firms are small with the number of employees less than ten.

In the period of 2006-2009 the median of the total number of inspections by different inspection agencies made up 2.5. The number of inspections steadily decreases due to the efforts on the part of the central authorities and local governments introducing moratorium on inspections in recent years.

4.2 Results of the Pilot Study: Hypothesis Testing

Hypothesis 1: There is relationship between the firm size and the firm age.

The data do not indicate any relationship between the firm size and the firm age. This confirms the importance of productivity and innovativeness for increasing the probability of the firm survival in the tourist industry as well (Porter, 1998).

Hypothesis 2. Innovative activity at the firm level and the number of companies the firm cooperate with are positively correlated.

There is a significant positive correlation between innovative activity at the firm level and the number of companies the firm cooperate with. Innovativeness of tourist firms is basically related with introduction and use of modern information technology in their work. Multiple interactions within the tourism cluster actors result in competitive advantages of the firms.

Hypothesis 3. The likelihood of the firm survival correlates with the propensity of the firm to innovate and the number of cluster actors in its network.

Factor analysis is used for to reduce a large number of correlated variables to a more manageable number of independent factors. The eigenvalue-greater-than-one criterion is used in identifying four factors. Principal component solution using varimax extraction method results in rotated component matrix indicating high correlation between factor 4, the firm age, innovativeness and the number of actors in the firm's network. This confirms Porter's (1998) theory that in this case "1 + 1 ≠ 2", meaning that interaction and synergy arising from joint actions lead to competitive advantages over the isolated actions of companies (Nordin, 2003).

4.3 Overview of Findings

The exploration study shows that most of the tourist firms are female-led small firms with good workforce. In spite of the high educational level of the labor force small enterprises are in great need in training, retraining and consulting services in marketing, tourism, public relations, human resource management, IT, marketing, business management, advertising, psychology, restaurants and hospitality, and foreign languages. Today among the main determinants of new firm survival relevant expert consultancy, easy access to information, managerial competence, and sufficient marketing knowledge should be provided.

In 2009 financial indicators of the firms worsen due to decreased number of outbound tourists. Meanwhile financial crises significantly activated domestic tourism. The number of inbound tourism slightly increased over the last four years. One of the reasons is that Almaty is a host for many international events. Most of the surveyed firms are optimistic about their future as Government takes efforts to improve business environment, physical structure and further develop the tourism cluster.

The sample data shows that the higher extent of innovativeness is inherent to firms which interact with many other companies in the related and supporting industries. The higher the propensity of the firm to innovate, the more the number of actors they cooperate with and the higher is the likelihood of its survival and growth.

Most of the respondents are optimistic about the future prospects of their firms expecting a firm's growth. This reflects the fact that external environment in the country is improving. The problems are caused by lack of credits for small and medium enterprises, lack of investments in reconstruction and building of public infrastructure and complicated visa issue procedures.

5 Conclusions and Recommendations

Kazakhstan needs to significantly improve its competitiveness by diversifying its economy, in particular, by the developing the tourism cluster, and increasing innovative activities of the firms. The tourism development is a win-win strategy as it leads to creating jobs, developing infrastructure, and improving sustainability of the country. Improving the business environment, eliminating barriers such as visa obtaining procedures, providing incentives for innovations and knowledge development can result in growth of the inbound and domestic tourism.

The development of domestic and inbound tourism is prioritized in Kazakhstan. It requires a good marketing strategy, public-private partnership and effective implementation of already approved programs and policies. Building capacity in the overall tourism sector and strengthening of cooperation among companies is one key component for the vitality and sustainability of the industry (Porter, 2005).

In addition to improving business environment in Kazakhstan, the following measures can be recommended in order to develop the tourism industry:

- promote the image of the country at the regional and international level;
- improve tourism infrastructure by building more relatively inexpensive 3-, 4-star hotels;
- improve quality of specialized education by creating new syllabi with an emphasis on the needs of tourism industry;
- improve tourism statistics quality and quantity to provide required information for tourism development projects;
- create professionally designed brochures, catalogs, maps and other tourism materials for domestic and international tourists;
- encourage collaboration among tourism cluster participants in order to reduce costs of marketing, preparing and publishing advertising materials;
- create informative three-lingual tourism organizations' websites with efficient "highways" via links that allow the users to obtain all the information they need.

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