

# Conceptual Model of a Tourism Cluster in Armenia

**Maria Sahakyan, Arzik Suvaryan**

Russian-Armenian University, Armenia

Armenian State University of Economics, Armenia

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## Abstract

*Nowadays, the cluster approach is also applicable in the sphere of services, especially in tourism. Clustering allows the increase of competitiveness of a national or regional tourism product, productivity and profitability of the industry. In addition, clusters stimulate innovativeness and cooperation between the main stakeholders of the industry. The article analyzes the theoretical basis and practical approaches in this area. Additionally, it describes different models of clustering in tourism and tries to propose a conceptual model for clustering in tourism in Armenia taking into account its peculiarities.*

**Keywords:** clustering models, tourism cluster, competitiveness and development

**JEL:** Z3

## Introduction

Tourism can definitely be considered one of the most profitable and dynamically developing areas of the world economy. Over the past few decades, tourism has shown a gradual and diversified growth. As a result, today this sector is one of the world economy leaders in terms of growth rates. According to World Tourism Organization (UNWTO), tourism is a sphere of activity that leads to local development, as it increases the incomes of employees, creates new jobs, and stimulates investments, which leads to the establishment of new organizations, including small and medium-sized businesses (da Cunha and da Cunha 2005, 48). The sphere of tourism consists not only of travel agents and tour operators, but also of hotel business, transportation, souvenirs and other products for tourists. Thus, it is very difficult to define tourism as a separate sphere because of its heterogeneous character. In order to capture all these areas, we use the term “tourism and related services,” the traditional definition of tourism services and other related areas that can influence tourism directly or indirectly.

At the same time, developed and developing countries are increasingly using the cluster approach for prospective and prioritized areas of the economy. Currently, the theory of clusters also extends to the service sector and, in particular, to tourism and related services. In the sphere of tourism guest satisfaction depends on the activities of the main tourist sites, comfort and service in hotels, restaurants, accessibility and quality of various services, souvenirs, airports, transport infrastructure, roads, etc. Unsatisfactory performance of one of these links in tourism hinders the success of the others. In addition, the mentioned problems become even more serious for a country with limited resources or for a small economy like Armenia. Thus, the purpose of this article is to study theoretical and practical approaches to the formation of a tourist cluster, and their implementation in transition economy countries like Armenia.

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## E-mail addresses of the authors

Maria Sahakyan: sahakyan\_maria@yahoo.com

Arzik Suvaryan: arziksuvaryan@rambler.ru

## 1 Materials and Methods

In order to fulfill the main objective of the research, empirical-analytical methodology is used. Specifically, the authors reviewed the related literature, and studied statistical data during the research. In addition, they organized sector observation, on-line and off-line interviews with state representatives of the tourism sphere governance to fill the information gap in official statistics in Armenia. The authors also analyzed the best international practices and found out how it could be implemented in Armenia. As a result, the collected information was used to create proposed tourism cluster models.

## 2 Theory

### 2.1 Trends in tourism development

The number of international tourist arrivals in the world has increased significantly reaching 1,235 billion in 2016.<sup>1</sup> For comparison, in 1950 this figure was 25 million, in 1980—278 million, in 1995—528 million, and in 2000—674 million.<sup>2</sup> According to WTO forecasts, the average volume of international tourism will grow by 3,3% per year reaching 1,8 billion in 2030, while the growth in emerging economies (the average annual growth rate will be approximately 4,4%) will be approximately twice the growth of the developed countries (the average annual growth rate will be approximately 2,2%). The share of developing countries in the international tourism market in 2015 was 45% (while in 1980 it was exactly 30%), and it is expected to increase in 2030 up to 57%, which corresponds to more than 1 billion international tourists.<sup>3</sup>

In 2016, the share of tourism was 10,2% of world GDP, or USD 7 613,3 billion (including the broader effects of investment, supply chain and induced impacts), and the total contribution of T&T to employment including jobs indirectly supported by industry is 9,6% of total employment or 292,2 million jobs. Revenues from international tourism in 2016 increased by 12,5%, reaching USD 1,4 trillion. In the world economy, tourism accounts for 6,1% of world exports.<sup>4</sup> Currently, for many countries and regions tourism has become a major and important source of income, employment and GDP growth.

### 2.2 Clusters in the field of tourism

Developed and developing countries are increasingly using the cluster approach for the promising and priority areas of the economy. If the cluster approach was initially more popular in industry in the sphere of material production, its features and advantages quickly expanded the scope of use. As a result, the theory of clusters has spread to the service sector, and particularly to tourism and related services.

The process of clustering is primarily a natural and unplanned phenomenon. A cluster is a group of companies forming links and alliances, but at the same time, these companies selectively compete in a certain respect and still cooperate in other spheres (Nordin 2003). Meanwhile, clustering leads to significant positive results and provides better performance. Before moving to economic clusters, we consider the need to note that the term “cluster” refers to the unification of a number of similar elements that can form a kind of aggregate together. In economics, the use of the concept of “cluster” is attributed to Alfred Marshall (Marshall and Guillebaud 1961), although Michael Porter made this concept more popular and applicable. According to Porter (1998a), a cluster is a geographically

1. See: UNWTO World Tourism Barometer Volume 15, [@:] <http://www.travelbizmonitor.com/Data-Analysis/unwto-world-tourism-barometer-volume-15-32959>.

[In the journal European practice of number notation is followed—for example, 36 333,33 (European style) = 36 333.33 (Canadian style) = 36,333.33 (US and British style).—Ed.]

2. See: Tourism Highlights. 2016 Edition. World Tourism Organization UNWTO, [@:] <https://www.e-unwto.org/doi/pdf/10.18111/9789284418145>.

3. See: Tourism Highlights. 2016..., op. cit.

4. See: Travel & Tourism. Economic Impact 2016. World. World Travel & Tourism Council, [@:] <https://www.wttc.org/-/media/files/reports/economic-impact-research/regions-2016/world2016.pdf>.

concentrated group of interrelated companies, specialized suppliers, service providers, companies in relevant industries, as well as organizations associated with their activities (i.e., universities, standardization agencies, trade associations) in certain areas which compete, but also cooperate. Recently, the growth of the services sector, and in particular the potential of the tourism industry, has stimulated scientists to pay more serious attention to the possibilities of clustering in the sphere of tourism and related services.

Unique features of tourism formulated below make clustering in this area very effective:

- A complex industry structure that includes various areas, such as hotels, vehicles, restaurants, travel agencies, souvenir shops, public transportation, attractions, etc. That is why we tend to use the term tourism and related services, which allows us to take into account all types of activities that are directly or indirectly related to tourism activities.
- As in some other types of services, in tourism, the process of production and consumption of services coincides, and producers are not able to collect and store the results of their activities.
- The quality of services depends on the sufficient number of personnel who participate in this process and serve the guest, so that the management of services becomes more complex.
- In addition, the final result of tourist services depends not only on the people who serve, but also on the psychological state of tourists, the climate, the environment, the situation, time, place and a number of other conditions.
- Due to the unique nature of tourism, it is very difficult to formulate standards and norms for a tourist product or related services.

At the same time, clusters stimulate competition and cooperation between cluster members and, most importantly, innovation activity. Clusters promote export growth and attract foreign investment. In addition, clusters can include and unite various organizations and structures, from private and public organizations to state institutions, local governments, which, in their turn, favor public and private cooperation. Clusters allow the use of synergy and economies of scale. This is important in the precession of the promotion of a certain tourist product in the international market.

Having studied a significant amount of scientific literature and approaches of various authors, we come to the conclusion that most of them emphasize the geographic factor, which determines the economic cluster. Taking into account the opportunities of modern science and technology, as well as the size of our state, we believe that the geographical component of the economic cluster is becoming a secondary condition. Instead, the relations and interrelationships among the main participants of the cluster are of particular importance, and tourist organizations, accommodation facilities, cultural and historical objects, higher and secondary specialized educational institutions, human resources, governing bodies, public organizations and other interested bodies are the key for the tourist complex.

### **2.3 Models of Clusters in the field of tourism and related services**

The cluster unites not only interrelated organizations, but also offers a comprehensive approach that covers the whole infrastructure of the tourism sector, including higher and secondary specialized educational institutions, information organizations, suppliers, transport organizations, marketing companies, recycling and other areas. Kim and Wicks (2010) proposed their model of a tourist cluster, which is their interpretation of the Porter diamond model. Kim and Wicks identified 4 components of the tourism cluster, which contribute to the support of tourism competitiveness. These are the four factors: (1) key resources and attractions, (2) management of the tourist destination, (3) additional conditions, and (4) demand conditions.

National and transnational companies (TNCs) cooperate with universities, state and other organizations in order to increase efficiency and innovation. Destination management organizations (DMOs) may include private and public organizations, universities and non-governmental organizations. OAU contribute to the competitiveness of tourism through the collection, analysis and dissemination of information in the market, the creation and development of brands, the development of strategic objectives, etc.

Da Cunha and da Cunha (2005) developed another model of the tourist cluster. The main emphasis of the Cunha model is on competitiveness and sustainability. The authors represent the following levels of competitiveness of the tourism cluster: meta level, macro level, meso level and

micro level. In addition, this model is aimed at creating sustainable development based on cultural, institutional, social and environmental sustainability.

Ferreira and Estevão (2009) proposed another model of the tourist cluster, the main components of which are: (1) tour product, (2) tourist destinations, and (3) tourist cluster. The competitiveness of a tourist cluster is determined by the following factors: (1) presence of related and supporting industries, (2) conditions of factor resources, (3) conditions of demand, (4) business strategy, structure and rivalry, and (5) combination of all factors forming the cluster. According to Ferreira and Estevao, the tourist product consists of resources and attractions, such as cultural, historical, natural resources, events, holidays, entertainment, etc. In this model, the effectiveness of the tourist destination depends on the level of destination management, promotional marketing, the availability of tourist information, hospitality and friendly staff. At the same time, the government and universities contribute to the creation of the tourism cluster infrastructure, financing and support of investment projects, support for the preservation of natural, historical and cultural resources, the development of innovation, education and training of human resources (Ferreira and Estevão 2009, 12–15).

The peculiarity of the Danish model of the tourist cluster is the availability, in a sense, of a cluster broker. Local governments, chambers of commerce, regional development agencies that have the experience of managing, developing and implementing strategies, coordinating resources, searching for investors, grants, promotion and marketing, play the role of a so-called cluster broker. This model is also used in Poland, where regional and local tourism organizations coordinate local cluster, providing consulting, audit and promotion of tourist products (Fundeanu 2015, 748).

This experience was also used in the South-Western region of Oltenia in Romania, where a tourist cluster called “Oltenia Tourism Competitiveness Pole-Innovation and Tradition in Tourism” was created. This is a very good example of cooperation between the public and private sectors. The cluster includes 26 travel companies, 2 schools, 3 museums, 12 relevant associations, two chambers of commerce and the Regional Development Agency (Fundeanu 2015, 747). Thus, the following participants enter the tourist cluster of the South-Western region of Oltenia: (1) SMEs operating in tourism or related fields, (2) universities, (3) research institutes, and (4) cluster broker.

The main characteristic of the cluster “Oltenia Tourism Competitiveness Pole-Innovation and Tradition in Tourism” is that this model is based on SMEs, since most of the tourist organizations operating in this region are representatives of small and medium-sized businesses. From this point of view, this model can serve as an example for Armenia, since the tourism industry in Armenia mainly consists of representatives of SMEs. Tourist organizations in Armenia have limited financial and other resources. These organizations operate freely and competitively especially with travel agencies and tour operators. Consequently, due to the considerable similarity, this model represents a positive experience for study and application in Armenia.

## 3 Results and Discussion

### 3.1 Perspectives of tourist clusters in Armenia

After reviewing and analyzing various materials and scientific works on clusters in the field of tourism, we come to the conclusion that it is necessary to develop and offer specific mechanisms and guidelines for the development of tourist clusters in Armenia, taking into account geographical, political, economic and historical conditions. As for the formation of the tourist cluster in Armenia, steps were taken in 2007. In particular, the Competitive Armenian Private Sector (CAPS) program funded by the US Agency for International Development (USAID) developed the Armenian Tourism Cluster Strategic Action Plan. Later in 2011 the National Competitiveness Foundation of Armenia presented the “Strategic Project of the Southern Corridor of Tourism of Armenia” to the Government of the Republic of Armenia, which also proposed a cluster approach to the development of tourism. Within the framework of the above-mentioned document it was planned to create clusters around cities and tourist destinations—Yeghegnadzor, Jermuk, Goris, Sisian and “Tatev cluster” around the monastery complex Tatev. It is important to note that for various reasons including

the global economic crisis, only a very small part of all planned activities have been implemented, and the creation of tourist clusters has not yet been implemented.

Since Armenia has a small economy and territory, only one international airport, and the majority of higher and secondary specialized educational institutions, travel agencies and operators are concentrated in the capital city, we believe that the creation and development of numerous micro-clusters may be ineffective, and therefore offer a different approach to this issue. The following statements are the initial conditions for the creation of a tourist cluster in Armenia:

- The availability of educational institutions, airports, travel agents, tour operators and some other participants in each separate cluster is not necessary, but the important relationships and cooperation are concentrated to develop the tourism sector in the Republic of Armenia and increase the competitiveness of the national tourist product on an international level.
- Special attention should be paid to the governing body of the Armenian tourist cluster.

In the process of forming a tourist cluster in Armenia, two alternative options can be considered. The first includes the development of one large tourist cluster in the country or jointly with neighboring countries (Georgia, Nagorno-Karabakh Republic, Islamic Republic of Iran, Turkey), the second is based on the formation of several clusters in the country, taking into account promising types of tourism (such as recreation, historical, cultural tourism, agro tourism, ecotourism, extreme tourism, etc.).

Cooperation between Armenia and Georgia in the sphere of tourism will expand financial, marketing, investment, human resource (HR) opportunities. At the same time, Armenia and Georgia will be able to create a more attractive tourist product combining the seaside attractions of Georgia and the cultural and historical rich heritage of Armenia. Since Armenia has no access to the sea, and the average tourist prefers beach rest, joint tourist packages with Georgia will significantly increase the demand for the Armenian tourist product. Simultaneously, a huge Armenian diaspora can become a new market for Georgia. Therefore, this cooperation can be considered as mutually beneficial. Moreover, today Georgia already acts as a connecting link between Armenia and Turkey, as well as Armenia and Azerbaijan. Therefore, despite a number of political differences between some countries of the South Caucasus, the creation of a tourist cluster in this region can become quite real with the participation of a neutral state, Georgia. It can also be argued that the development of an interstate cluster and mutually beneficial cooperation between the countries of the region can contribute to the establishment of peace.

It should be noted that the cancellation of the majority of sanctions applicable to the Islamic Republic of Iran will enhance the opportunities and effectiveness of cooperation between our countries in the tourism sector and in other areas. Today, Iran is the second supplier of tourists to Armenia, after the Russian Federation. According to various unofficial estimates, approximately 200 000 Iranians have visited Armenia every year over the past two to three years, and the annual growth rate of incoming tourists from Iran is more than 20%. Thus, the growing interest in the Armenian tourism product on the part of the Iranian population can be an impetus for further cooperation.

The second alternative is to create one or more clusters in the territory of Armenia. As already noted, the largest number of tourism organizations in Armenia are small or medium-sized businesses. This fact limits their ability to enter the international market, develop an innovative tourism product, in order to improve the quality of services, which leads to low competitiveness of the national tourist product on the international market. Thus, the consolidation of tourist organizations in clusters will reduce marketing and promotion costs, will improve the quality and will adequately represent the national tourism product on the international market. Also, the cluster will apply more large-scale marketing activities, attract scientists and students to practical work, and will help to identify the main problems and shortcomings of taxation and the legal system through more intensive cooperation with relevant state authorities.

In the classical model of tourist cluster management, the leading role is played by the representative of the private sector. However, as already mentioned, the size and capabilities of domestic tourism companies are very limited, which will not allow them to effectively manage the tourist cluster. Therefore, we note the leading role of the commanding body of governance, which includes both the representatives of public administration, the private sector, non-profit organizations,

foundations, and the representatives of educational institutions, scientists and theorists. The National Competitiveness Foundation, as well as the Tourism Committee of Armenia are responsible for implementing the state policy in the field of tourism in Armenia. However, we believe that the management of the tourist cluster will be more effective if it is implemented by a coordinating body, which includes representatives of all stakeholders. The proposed model of a tourism cluster for Armenia can have the following form, shown in Picture 1. The main feature of this model is the special properties of the coordinating body, that is, cooperation and joint decision-making by representatives of the National Competitiveness Fund, the Committee for Tourism of the Republic of Armenia, the private sector and universities.

The main goal of this cluster is the creation and promotion of a competitive tourist product. In this context, the Coordinating Body cooperates with all stakeholders, and is responsible for the development and implementation of the tourism strategy. To further develop the cluster approach in the field of tourism, there is a need for legislative and regulatory frameworks, as well as awareness and involvement in the process of other areas, which will lead to the formation of a competitive tourist product. Thus, clusters play an important role in the development and effective growth of Armenian tourism organizations, which can be achieved through a productive cooperation between business, government, higher educational institutions, as well as other interested organizations and the media.

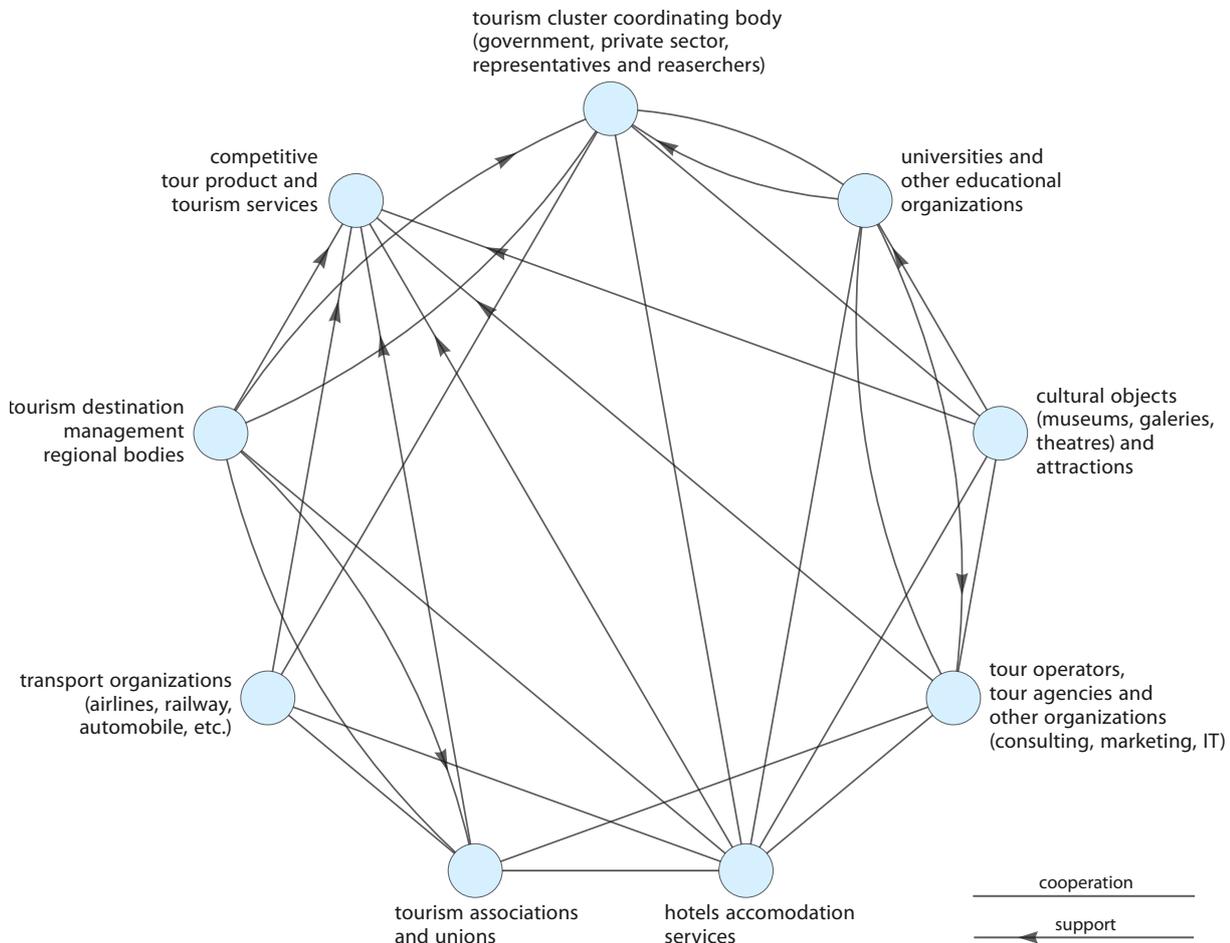


Fig. 1. Tourist cluster: the proposed model for Armenia

## Conclusions

Analysis of various models of the tourist cluster showed that a unique model must be developed for each region or country. In this article, the authors proposed a model of a tourist cluster for Armenia, and the composition of a specific coordinating body for cluster management. In addition, they

justified the insignificance of the geographical factor as one of the main prerequisites for determining and forming a cluster, taking into account the achievements of modern science and technology.

As a result of the research, two alternative options for creating a tourist cluster were proposed. The first alternative is a joint tourist cluster with neighboring countries, which will increase the competitiveness of the Armenian tourist industry and lead to mutually beneficial cooperation between the countries of the South Caucasus. The second alternative is based on the formation of several clusters in the country not on the basis of territorial proximity, but on the basis of promising types of tourism (e.g., recreation and recreational tourism, historical and cultural tourism, agro tourism, etc.). Thus, tourist clusters in Armenia can promote the development of tourism throughout the South Caucasus. At the same time, the clusters development will lead to an increase in the competitiveness of the national tourist products on the international market.

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