

LEPL BATUMI SHOTA RUSTAVELI STATE UNIVERSITY



FACULTY OF ECONOMICS AND BUSINESS  
DEPARTMENT OF BUSINESS ADMINISTRATION, MENEJMENT  
AND MARKETING

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Prospects for Developing Innovaative Management in Georgia

This dissertation  
(annotation)

The work is submitted in order to get the academic degree of doctor  
of Business Administration  
Specialty: Business Administration

Batumi 2019

The work is done in Batumi Shota Rustaveli State University, Faculty of Economics and business, at the Department of Business Administration, Management and Marketing.

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At the Dissertation Commission, created by the Dissertation Board of the Faculty of Economics and Business of Batumi Shota Rustaveli State University.

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## Introduction

**Topicality of the research.** Current scientific-technological progress in the world and organizations that act in different fields have been directly focused on innovations, that is connected with the competitiveness of the Georgian products and services both on the domestic and international markets. In order to meet current challenges of the modern economy for Georgian products - to increase the efficiency of management, it is necessary to implement a complex study of modern innovative regularities and continuous research into countries with innovative economies and successful companies, based on which for above mentioned field specific recommendations with practical values should be worked out.

The formation of innovative policies and its successful management is an important task for any organization's management. The uniqueness of innovative management lies in the fact that its competitiveness area is very large and is not limited to any particular field. That is, the manager, who successfully develops innovative processes in its organization, can become in the centre of global attention, because in the period of many important challenges facing mankind, people are expecting implementation of every innovative idea with hope. It is noteworthy that the creation of innovation in the global scale is preceded by the tireless work of the people and the carefully executed management process of the respective leadership. That's the circumstance that makes innovative management the theme that is interesting not only for economists but also for people who work in other areas. It is becoming increasingly popular in the world. Innovation is everywhere where creative activities are going on. Many people write about innovations in scientific and technical literature, especially in the field of social sciences. It should be said that the civilized world had, has and will always have interest in the novelties and Georgia is and will always be part of modern civilization. Even in 1862, Ilia Chavchavadze wrote in the article "Sakartvelos Moambezed" (Georgian Bulletin) (1862): "Every man, who

has ability to see that life is not the same as it was yesterday, that it is changing, can go forward and bring renewal for everything".

Different types of research on innovations are carried out by highly reputable international organizations, according to which Georgia is far behind among modern countries and one of the reasons for the above mentioned result is the lack of scientific research activities implemented in this direction throughout the country. According to the Global Competitiveness Report of the World Economic Forum 2017-2018, Georgia is ranked 99th out of 137 countries with the ability to create innovations, 70th with the technological preparedness and 122th place with factorous subindex of funding innovative studies. As a result of research conducted by Cornell University and World Business School, Global Positioning Index (GII) ranked Georgia 59th in 2018 with 128 participants from around the world. Georgia did not get into the country with the 50 most innovative economies identified by Bloomberg Research. In rating of Innovation Cities™ Index 2018, our country's capital is 418th in terms of innovation between 500 cities of the world.

Many foreign scientists dedicated their researches to the issues and problems related to the efficiency of innovative management, in particular, above mentioned issue has been examining and is still examined by H. Barnett, I. Schumpeter, P. Drucker, B. Sakhto, D. Johnson, B. Godein, H. Novotni, K. Daniels, J. Tiddi, J. Besant J. Baumgartner and many others. In recent years, Georgian scientists have been distinguished with increasing attention to innovations, in particular: O. Shatberashvili, V. Papava, I. Kokiauri E. Baratashvili, R. Abesadze, A. Abralava, T. Verulava, B. Gechbaia, N. Makharadze and others. Also, as noted above, some information can be found in separate reports of different organizations and research centres.

Despite the abundance of scientific works, the economic literature is lacking the scientific surveys, which are intended to implement complex discussion of innovative management and development in terms of the current state of reality in Georgia, which is a result of a 70-year ruling of the Soviet Union, when it was almost incredible to make a decision

independently connected with innovations in managerial work and announce it, and then, the 90s - a difficult socio-economic situation facing the scientific community. Accordingly, in the beginning of the current century emerges only fundamental researches on the interrelation between innovations and management.

Having considered all of the above, we have tried to make some contribution to the study of the issue in order to improve the current situation; we have studied the current situation in Georgia regarding the development of innovative management, found out the specific problems in this direction and the possible solutions.

**Aims and objectives of the research.** The main goal of the research is to define stimulating effect of the innovative processes in the development of Georgian economy and improvement of the quality of management of local organizations, to analyze the challenges of implementing basic principles of innovative management and to determine ways of overcoming them. The prospects for the formation of innovative management in the country should be displayed and for their development the practical-methodological recommendations should be worked out based on the above mentioned facts.

The following main objectives were identified in the work of the research:

- Determining the scientific and practical significance for essential growth of innovative activities in the development of the country's economy;
- Review of modern innovative management types and their basic peculiarities;
- In the conditions of Georgia, the scientific analysis of innovative processes and its fundamental basis. Evaluation of innovative management as a source of economic growth and efficient production;
- The expediency of the integration of state and private organizations into the united innovative system that will facilitate the innovative development of the main fields of the national economy;

- To review the impact of innovations on international business and to justify the innovative processes in business as a necessary factor for determining the competitive advantage;
- Identification of innovative management trends in both the world and the Georgian market. Identify the importance of innovation as the main instrument of development of the organization;
- Discuss mechanisms and activities to support innovative management in Georgia;
  - To review innovative management as a vital factor for sustainable development and to justify the need for close interrelation between them;
  - Research of dependence on innovative products or services by Georgian consumers and managers and revealing the characteristics of their behavior;
  - Identification of innovative management trends in Georgia based on the conducted research;
  - In the context of the formation and functioning of modern economy, the study of innovative aspects of the development of organizational and economic relations in the field of management and the improvement of management in the field of general socio-economic and political situation in Georgia and development of relevant recommendations for Georgian organizations.

**The object of research.** Innovative management as a modern management system with unique characteristics that contributes to the growth of the organization's efficiency.

**The subject of research.** Organizational and economic relations emerged in the process of innovative management in the organizations existing in Georgia and the main peculiarities of its optimization.

**Scientific novelty.** The scientific novelty of the work lies in:

- The role of innovations in the modern management is revealed, the importance of innovative processes in the development of the organization is presented.

- Theoretical aspects of innovative management are assessed and based on the analysis of various research and statistical data existing trends in the mentioned field are presented;
- The necessity of using innovative approaches in the management activities of the organizations operating in Georgia;
- The importance of the innovative policy strategy for individual organization as well as for the country;
- The mechanisms and activities that support innovative activities in Georgia that directly or indirectly supports the development of innovative processes;
- Close interrelation between innovative management and sustainable development has been established;
- On the basis of the conducted research the peculiarities of the use and interest of innovative products and services by Georgian consumers are revealed;
- Cases of using and being interested in innovative approaches by managers of operating organizations in Georgia are revealed;
- Based on theoretical materials and practical studies, the main recommendations are worked out for the development of innovative management in Georgia;

**Theoretical and practical importance.** Proposals and recommendations encourage innovative management development and stimulation in Georgia. All this will increase the quality of the local organizations' performance, and help them achieve competitive advantage and gain long-term success. The results of the research can be used by the heads of local commercial and non-profit organizations, as well as economists, business and management professionals and researchers working in the field of science.

**Theoretical and methodological basis of the research.** The theoretical basis of the research are the works of Georgian and foreign researchers, magazines, my own studies, reports of researches

implemented by local and international organizations and Internet resources.

Methodological basis of the research is the general scientific as well as economical research methods, in particular: methods of functional analysis and synthesis, systemic and logical approaches, grouping, comparison, evaluation and statistical analysis. Quantitative research methods are also used in the research, within which citizens of Georgia were interviewed as well as the heads of organizations operating in different spheres.

**Approbation of the dissertation.** The main provisions of the dissertation work are reflected in the scientific articles published by the author. The issues related to the dissertation were presented in the articles of international scientific conferences, through international referees and review magazines.

**The structure and language of the dissertation.** The dissertation work includes 175 printed pages. It consists of the introduction, three chapters and nine subheadings. The conclusion is and the reference list are attached to the work.

Based on the aims and objectives of the research, the following structure of the work is presented:

# **Structure**

## **Introduction**

### **Chapter I. Theoretical and methodological basis of innovative management and modern challenges:**

- 1.1 Theoretical and methodological basis of the innovative management;
- 1.2 Innovations as an important factor for developing the country's economy;
- 1.3 Modern trends and challenges of the innovative management.

### **Chapter II. Innovative policy of the organization and modern approaches to its management:**

- 2.1.The basic aspects of organization's innovative policy;
- 2.2. Financing innovative activity, risks and peculiarities;
- 2.3 Key features and competitive advantages of modern high-tech (innovative) companies.

### **Chapter III. Main Features and Perspectives of Innovative Management Development in Georgia**

- 3.1 Main mechanisms for promoting innovative activities in Georgia;
- 3.2 Common Concepts of Sustainable Development and Innovative Management;
- 3.3 Innovative management development prospects in Georgia.

## **Conclusions and recommendations**

## **Reference list**

## **Appendices**

## Main content of the work

The aims and objectives of the work are presented, research actuality, subject and object are proven, theoretical-methodological basis and information sources are given, and theoretical and practical significance of the thesis is formulated in the introduction part.

The first part - **the theoretical and methodological basis of innovative management and modern challenges**, discusses the major aspects of current trends ongoing in existing theoretical knowledge and practical-scientific field of innovation and innovative management, which shows that initial theoretical basis of innovative management forming and development were prepared and implemented by European and American authors and innovation dependency analysis are presented by different scientists based on which modern sense of innovation and innovative management have been identified.

Analysis of different definitions of innovation leads to conclusion that its specific is mainly the changes, but the different ideas existing concerning innovation management in economic literature mean necessity for further researches. It is noteworthy that the pragmatic attitudes of the modern society towards the world contrasting from last centuries, have resulted in the transformation of perception for the concept of innovations, which eventually led to the fact that the concept of innovations historically and etymologically includes a wide range of innovations, and in recent years innovations in most consumers are associated with technological innovations. Based on various opinions, innovation can be identified as a new idea, device or method (**Merriam-webster...**). Innovation in economics is often explained and discussed as the novelty aimed at satisfying the customers with new needs or improving the existing ones (**Maryville, 1992: 27-31**). We do not think that innovation and invention are the same, but in most cases they are very close. The main thing that differs innovation from novation (novelty) is that the received news is the result of some research and is realized on the market. So, if the invention or discovery is still not realized in practice, it is only a novelty

and not an innovation (**Bhasin, 2012**). An innovative process is called the development of novelty and its transformation into innovation. That is the main task of innovative management to lead the innovation process effectively.

The types of innovations, their peculiarities and basic aspects are discussed in the same section of the dissertation work. Organizations are may be oriented on developing / implementing different innovations. Some managers focus on the improvement of existing products and services, and there are organizations whose management is oriented towards creating a completely new product / service. The type of innovation largely depends on the object and the sector in which it applies. Also, on scale and intensity. Analysis of scientific literature shows that most authors present a united view of the concept of "innovative process" as it ends with the introduction of new products, services, Technologies. But in any case, labor things and labor means, especially new items, must have a consumer value. Therefore, the innovative process is worth considering in two ways:

- Innovative process is the process of transforming novelties into new technologies;
- Innovative process, this is the process of introduction of new technologies in any fields of activities or substantial improvement of existing technologies for the purpose of implementing the organization's progressive changes.

Based on the discussion of theoretical knowledge, our vision is given in relation with innovative management and is defined that the ultimate goal of innovative management is solving the people's problems and satisfying their demands. The modern world, the globalization itself is dedicated to this purpose and the citizens of Georgia must take some responsibility in this regard, ask the correct questions and actively support innovations, innovative management that is directly related to state research-scientific progress, sustainable economic development and with its successful functioning. The introduction and development of innovative management in Georgia for the economic and intellectual

growth of the country which ultimately creates material wealth is vitally important. In this process, it is necessary to actively promote innovative management, like all government agencies, non-governmental and civil sectors, and this process should be based on enthusiasm and optimism. All the managers should motivate their personnel to maximize their interests in the innovations. In addition, teachers and teacher-profs should encourage young people towards innovations, educate them and make the concept of innovations clear for them. It should be noted that in the years 1940-50, Dean of the University of Stanford University, Frederick Terman, continually motivated his students to establish their business after completing the course. Most of the students took into account Dean's advice and, as a result, a large number of startups started around Stanford University campus, including high-tech companies such as Hewlett-Packard and Varian Associates. This is the origin of the Silicon Valley, and Frederick Terminus is often referred to as the "Father of Silicon Valley" for the greatest contribution to the development of this technological-economic centre. Nowadays, placing on Silicon Valley has been a strategic goal for companies based on high technologies. Among which are companies like Facebook, Google, Cisco, Yahoo, Oracle, Apple, Adobe Systems, eBay, Intel, Twitter, etc (**Centre...**). Consequently, authorized people of the country (teachers, public figures, politicians, scientists, etc.) should often call on innovative businesses to always keep in mind that one of our ideas can be the basis for the establishment of a new Georgian company, which produces in Georgia and its services or products will be sold in different parts of the world.

The same part of the work considers the importance of innovative processes for the country's economy. The fact is that any successful innovative project will positively affect the economy of the country where it has been created. Consequently, the world has a tendency to see that countries are trying to found their own economies on knowledge, and various measures are taken in various fields in this respect: at local, regional and state levels. In this section, the main priorities of the socio-economic development strategy of Georgia are aimed at promoting

innovations, in order to increase private sector development and competitiveness, the government will promote research and development, which, in turn, facilitates the implementation of applied research. Increase the efficiency of the state financing, as well as the development of other instruments.

The same section of the research makes an emphasis on innovations and exports as the basis of the fundamental basis of the strong economy of the country. It is noted that there is a significant role in promoting export of the state which is one of the main goals of the innovative policy of any country. Developed countries practice analysis shows that creative thinking, innovative activity as a result of technology, technological transfers and other countries brought into the business impact of the country's exports, which means that the innovative and creative activity can be sustained by the cost-effective way to increase exports.

The main challenges of innovative management are also reviewed. The emphasis made on the fact that the importance of innovation in the modern business is increasing. Innovation allows the company to gain competitive advantages, breaking the market entry barriers and swiftly an advance positions. Due to important innovations, the company may even gain monopoly power. This is the reason why modern advanced companies do not spare time and finances for strengthening research and development components. However, innovations are important not only for companies to increase their profits but also for the countries and the public.

In the last twelve years, the level of innovations in the country has been measured by the Global Innovation Index (GII). What is the Global Innovation Index? The Global Innovation Index consists of seven main components. These are:

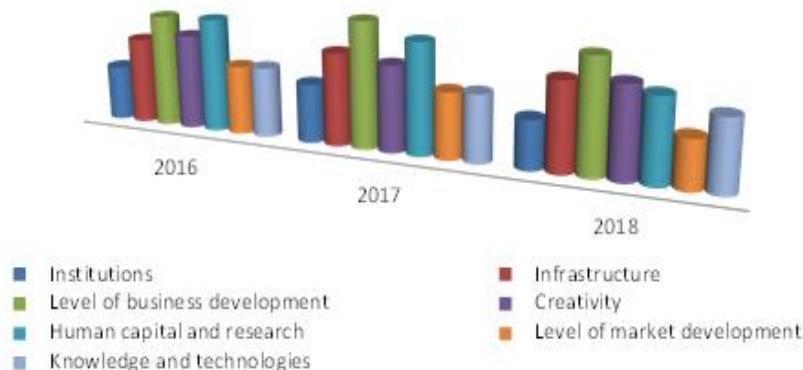
- Institutions (political environment, regulatory environment, business environment);
- Human capital and research (general education, higher education, research and development);

- Infrastructure (information and communication technologies, general infrastructure, ecological sustainability);
- Market development level (credits, investments, trade, competition and market scale);
- Business development level (level of knowledge of employees, having connections for innovation, and ability to acquire knowledge);
- Knowledge and Technologies (building knowledge, influence of knowledge in the process of innovation, distribution of knowledge);
- Creativity (intangible assets, creative products and services, electronic creativity).

As of 2018, Switzerland is ranks top by the Global Innovation Index list and is followed by Netherlands, Sweden, the UK, the United States and Singapore. As for Georgia, according to the data of 2018, the country was ranked 59th among 128 countries The Global Innovation Index. It should be noted that in comparison to 2016, the rating of Georgia has improved by 5 positions (ranked 64th in 2016). Georgia has the following strengths among the abovementioned components: business environment and market development level; whereas the weaknesses are: education research and development, investment, and level of knowledge of employees.

If we look at the Global Innovation Index components over the years, we will see that since 2016 Georgia's rating is characterized by the growing dynamics in human capital and research. However, despite the positive trend, Georgia has low result in this component. The country has high result in the components of the institution, and the market development component is mostly fluctuating. As of 2018, we have the biggest success in the market development component compared to the previous year (See Graph 1).

**Graph 1. Global Innovation Index of Georgia in 2016-2018**



**Source:** designed by the author

The first part of the study also reviews the main trends and challenges of innovative management. It should be noted that any problem that affects the management of the organization, and if unprecedented, is unlikely to be able to address its existing approach, new problems require new approaches, i.e. innovative management.

To improve the efficiency of management in the experienced and successful companies, the following principles will be developed:

- Most efficient distribution of authority and functions;
- System organization;
- Rational distribution of management;
- Building a competitive environment;
- Flexible and long-term system;
- Cooperative and unbiased system.

The modern management practice is mainly based on the complex combination of components whose origin counts for centuries: for instance, specialization, standardization, planning, control, and hierarchy. These principles, still actively used in management, require periodic

update to increase the efficiency of the organization. One of the greatest geniuses of the world, Albert Einstein's quote goes "If you continue to do everything as you did before, then you will get what you have got before." In the same way, in the life of any human being, the time comes when some changes are needed to improve our life achievements, as well as the organizations and in most cases the existing states. That is actually the innovative management of the future for the country's economy.

Thus, innovative management is one of the most crucial and vital factors for the organization's success in the conditions of modern economy. The main task of the organization's innovative management is to provide better services/products with existing resources and to maximize customer wishes with minimum expenses. Like organizations, state agencies, the task of which is better for the citizens of the socio-economic conditions and the services on offer, and the country can be achieved with the limited resources and human, natural and other potential cost-effective and use it to further his material benefit, which use the country in different directions. The existing resources of Georgia can achieve greater economic success and improve positions in the global competition. This aim is not really possible without innovative processes in various fields and state governance activities that are challenging to modern management challenges.

The second part of the dissertation '**The innovative policy of the organization and the modern approaches to its management**' discusses the main aspects of the organization's innovative policies. Economists emphasize two main directions of organizational innovation policy. First of all, it is changing the existing innovative policy, and the second is developing new policies and ignoring old ones (if it exists). Our survey revealed that about 95 percent of the organizations in Georgia do not have an innovative policy at all. Therefore, it is necessary to create them, which should focus on the so-called "In the previous stage of innovation. It is considered that the precondition of any innovative process is the "suspicious" advance stage (FEI), which actually involves all the phases before the creation of an innovative product (innovative strategy,

corporate vision, origin, seeks, evaluation, concept development and development). This stage is extremely important for the innovative process because at this time all major issues are cleared and processed. The heads of organizations point out that in the previous stage it is possible to identify the weakest of innovative processes. This stage can often be chaotic, non-structural and unpredictable. This is the period when a number of important decisions should be taken. The organization, which aims at implementing innovative strategies, is required to set up the relevant policy, which envisages these circumstances and increases the possibility of success

In the same part of the work, the issue of efficiency of the innovative project and the modern methods of its assessment are discussed. Any innovative project is characterized by certain peculiarities, such as: long-term outcomes, uncertainty of project parameters (specific timeframe, exact costs, and expected revenues), etc. Special stage of the project should be carefully developed by highly qualified and creative specialists using unique resources, ensuring low probability of adverse side effects. The organization may be able to implement various innovative projects whose economic effect is likely to be in mutual agreement. Therefore, in the initial stage of the organization's innovative strategy (policy), the sequence of the innovative project should be worked out correctly. The method of economic, commercial and budget assessment is allocated during evaluation of the project efficiency (see Table 1).

**Table 1. Methods and criteria for evaluating innovative projects and programs**

Method	Socio-economic effectiveness	Commercial effectiveness	Budget effectiveness
Absolute	Total profit, annual average profit	Total discounted income	Budgetary discounted income
Relative	Investment profits	Internal norm of income	Internal Budgetary Income Index
Temporary	Pay-Back period	Index of income	Budget revocation period of project

**Source: The table is adapted by the author (Studfiles...)**

The N1 Table shows the criteria of the above-mentioned methods that are widely used in the practice of modern investment and are associated with innovative management.

- The socio-economic efficiency of the project reflects the impact of the innovative project on the organization, society and general economy.
- Commercial efficiency determines the expected financial results of the project and focuses primarily on cash balance acceptable from the innovative project.
- The purpose of calculating budget efficiency is to determine the project's budget, source of financing and conformity to specific assignments and benefits from the project. This method is mainly used when the project is financed by two or more state and / or private organizations.

An evaluation of innovative project should be based on comparative analysis of investments and future cash flows. Comparable indicators depend mostly on different calculation periods, so this analysis represents a difficult process as well as determining economic efficiency of the project. The investment process is always associated with risk, since the time increases the uncertainty and the longer the cost of reimbursement of the expenses is the risky project. When making a decision the financial manager should take into consideration the time factor, assess expenditures, revenues, profits and economic profitability by changing time. This operation is called discount and is usually used for alternative options. During the disconcerting process, the following factors should be taken into consideration: inflation, unwanted dynamism of investment environment, demand level, tax changes and more. As we have already said, in the process of innovative project analysis, there is an important risk assessment and indefinite assessment, which gives us an opportunity to calculate the average weighted price of investment capital and discount rate for calculation of innovation efficiency. Risk assessment is necessary to take into account the qualitative and quantitative data. It is noteworthy that all methods of analyzing the innovative project efficiency allow us to review only certain characteristics of the reporting period. Therefore, it is desirable to use the different methods of complexity to evaluate the project. One of the main purposes of innovative management is the analysis of the efficiency of the project. At this time the manager needs to know the above theoretical methods, first of all, the ability to predict, entrepreneurial intuition, high level logical and analytical thinking. Depending on these qualities, the manager will most likely define the expected outcomes of the project at the stage of his formation.

In the same part of the work, the issue of financing the innovative project and the risks associated with innovations are considered, as any innovative project requires financing which is hard to find if the project is high-tech and high-tech. Many programs in Georgia are financed from the state budget, in which the dozens of innovative projects have been implemented in recent years. Except for state programs/projects there is

access to international programs, with its scale being distinguished by the European Union "Horizon 2020".

Finances play an important role in innovations. Because finances give organizations the opportunity to conduct research, introduce technologies, implement measures that are needed for new findings and to develop and implement innovations commercialization. Access to external sources of funding for innovation is the main task of the organization. There are various instruments of funding of innovative activities, including investors, special funds, etc. It is especially difficult to find sources of financing at the initial stage of the company when the firm does not have the appropriate experience, which creates risks for the particular project. Access to financing as well as financing is closely linked to the development of the firm and innovative projects. At the initial stage of the project, when studies are underway and still unknown, what kind of innovation will be created, this situation makes it more difficult to get financing. At the next stage, when the development of prototypes is underway, the interest of specialized investors is more likely than those of venture capitalists, etc. "Business-Angels". At the final stage when the risks are reduced and some precise forecasts about the project are available, at this time the traditional source of financing is available - preferential bank credit or state co-financing. Large companies can more easily finance their innovative activities through resources available within scientific-research and experimental works, through the funds received through credit, with the funds received from the sale of securities issued or with the stock exchange. Managers are constantly trying to implement measures that minimize the innovative risk. That is, at this time it is possible to get the wrong decision, which can further lead to the failure of the innovative project. For effective management of innovative risks, the manager must develop a principle that will help in timely, correct and improved decision making.

In the same section of the dissertation the main features of modern high-tech (innovative) companies are presented and practical sides of innovations-oriented company management are discussed. Two main

directions dominate innovation in contemporary companies, the first approach is to innovations in production, it can be the use of new products, technologies for the purpose of improving specific products / services, the second approach emphasizes the importance of the innovative process affecting the creativity of employees, technology based thinking, which in turn reflects the organization and the relevant community (**Tidd... 2005**), (**Kotler 1994**). In the same part of the work, the characteristics of the traditional and innovative company are considered, the innovative policy of modern company "space X" and management innovative approaches. Based on the foregoing, the following conclusions are presented in the opinion that development of innovative economy in the country is directly proportionate to the proper and purposeful implementation of management in each organization. In turn, the strategy of innovative development depends on the long-term viability of the organization in changing conditions. The last goal of the strategy is to create a product or service that will facilitate the needs of modern society, increase efficiency and profitability of the organization.

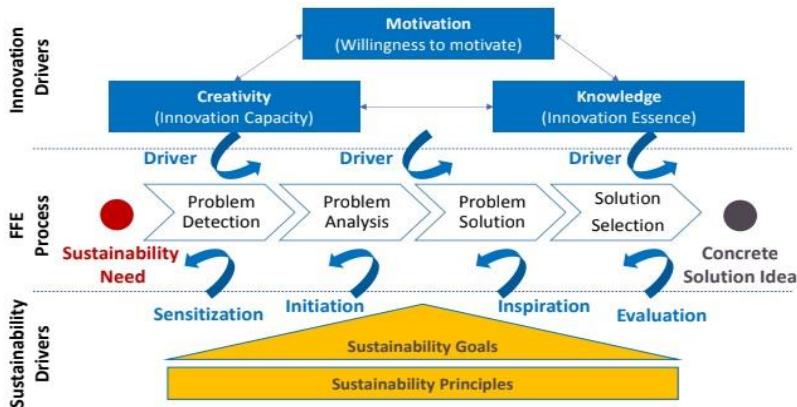
As a rule, the state agencies play the most important and decisive role in terms of innovative development of the country's economy, and this role is increasing every day. Consequently, in the third part of the work - **the main peculiarities and perspectives of innovative management development in Georgia**, reviewed a number of state support mechanisms in order to encourage innovative activities in the world's successful countries. For a more visible presentation of the practical results of this support, we reviewed four unique examples from the United States by the modern researcher Greg Station in "Forbes" magazine. How the state supported innovations and what are the consequences. Nowadays the government of Georgia is actively trying to support formation of innovative ecosystem in the country, utilizing technologies in all fields, the growth of innovations and high-tech products transfer and others. Consequently, innovations are one of the priorities in the socio-economic (action) plans of local, regional or central government bodies. In terms of social and economic development of the

country, important measures are carried out by various donor and international organizations, including the EU, UN and others. It should be noted that these organizations are not only financial resources for Georgia, but also the greatest experience, that is not less important for development of this sector. That's why in work are presented short description and analysis of the some projects, implemented with the support of international and donor organizations that are directly related to the development of innovative management in the country.

This chapter of the dissertation discussed the relationship between sustainable development principles and innovative management. It is known that the importance of natural resources in the modern times is growing every day, while any resource in nature is not renewable. Consequently, to ensure the sustainable world and to stay loyal to the next generations, the existing resources and opportunities have to be used reasonably. In other words, we have to support the sustainable development of the world.

Due to the sustainable development goals, the modern state should try to eliminate a number of problems in this direction, including in relation to management. In addition to the challenges related to ecology and natural resources, we may identify different types of discriminatory attitudes among citizens in the country. They should be eliminated in order to ensure that everyone, despite of their ethnic, religious or racial identity, is given equal opportunity to implement the ideas and create innovative projects. Therefore, the innovative project should have two things, first of all should not be discriminatory and must be in harmony with the principles of sustainable development.

**Diagram N1. Relationship between sustainable development and innovative management**



**Source:** The table is adapted by the author  
(Stocka... 2017: 219)

If we want to have the pool of organizations and managers in the country who are oriented towards sustainable development, it is necessary to distribute relevant knowledge from different sources. First of all, the relevant information on the relationship between innovations and sustainable development in educational institutions should be provided to pupils and students to ensure that their practical or theoretical knowledge is to be carried out correctly and effectively. Since the innovative project created by the principles of sustainable development will be very likely to be successful and will also be important for maintaining the competitiveness of the organization. For example, the German automotive Volkswagen will no longer publish gasoline cars and will fully switch to electric mobiles in 2026. Volkswagen plans to allocate 44 billion euros for electric mobiles by 2023. This decision was taken by Volkswagen management to retain its reputation and position on the relevant market. Therefore, it is noteworthy that in the nearest future organizations

operating in different spheres may be forced to follow the principles of sustainable development, which in turn will develop innovative processes that require management. The above scheme gives a clear understanding of the relationship between innovative processes and sustainable development goals.

The dissertation also reviews the quality management systems found in ISO 9001, since they are general requirements and should be used in the organization of innovative processes, despite of the category of products in all sectors of the economy. Products stipulated in the ISO standards satisfied the requirements of quality, safety, environmental protection and efficiency. These are international standards that describe the requirements of the organization and enterprise quality management system. The ISO regulations are based on consensus and its aim is to satisfy entrepreneurs and the public. The ISO standards are accepted worldwide and are considered synonymous to quality. We think that more organizations in Georgia should use these standards to promote sustainable development and innovative processes in the country.

The same part of the work discusses the prospects of development of innovative management in Georgia. It is noted that the area of innovative management development is expanding in every country around the world, on the one hand; and on the other hand, it is caused by the scientific and technological achievements, by variety of resource in a particular area and challenges of the modern world. Even in the poorest countries of the African continent, such as Liberia, Zimbabwe and others, where thousands of people die due to food, water or other resources, innovative management gives some opportunity to reduce hunger and poverty. The ultimate goal of innovative management is not only to obtain material outcomes and / or introduce scientific innovations, all of which must be accompanied by some social impact affecting the relevant community and brings it to prosperity. For example, production/sale of smartphones, which are very high demand now, does not only generate profit for the company, but it has also somewhat changed and developed the whole world. Applications and modern means of communication

made it easier for the public to make everyday life and work. One technological innovation has contributed to the development of different fields: art, business, journalism, show business, etc. Also, a good example is the establishment of metal-plastic doors and windows and water pipes. As a result, mankind has simultaneously simplified practical activities and secondly has saved millions of cubic meters of wood. Also, have been saved millions tons of metals, which is one of the most demanding and at the same time exhausting resource.

The same section in the chapter briefly reviewed the way Georgia has been restored since independence in the context of innovative management. As soon as the post-Communist transformation began in Georgia, new challenges occurred that needed timely adaptation of the population, since it is the citizens of the country that create wealth, which partly depends on the economic strength of the state. The main thing that contributes to creation of innovations is the specialization in the relevant field. If we look back at the innovative map of the world, we can see that the most innovative product/service is created in countries which have high level of professionalism. These are the developed countries with lots of good specialists who create the healthy competitive environment, which might become an incentive for generating ingenious ideas. The difficult situation in this regard was created in Georgia in the early 1990s, when managers operating in the system of the Soviet system (not only managers) were in complete uncertainty. Then civil war and the consequences of the war in Abkhazia, ultimately hardened the social and economic situation of the country. This was the most recessive process in modern history of Georgia. Citizens who fell into crisis have strayed away from their main profession and have followed other activities to save themselves or entirely leave the country. At that time, the country lost many prospective specialists in physics, chemistry or other progressive fields. At the end of the 90s and the first decade of the current century, the situation in the country has been more or less stabilized. A number of strategic projects such as the Baku-Tbilisi-Ceyhan pipeline, Baku-Supsa pipeline, etc. were implemented. In

addition, tourism and agriculture industries have switched to modern railways, institutional reforms have been implemented, and the country's fiscal and monetary policy has improved. As a result, we have received a pro-western, developing country, which had previously been familiar with the geo-political location, different perspective directions were discovered. In 2005-2007, the level of corruption and crime was significantly reduced in the country. The inflow of investments began and a high economic growth has been achieved, but in 2008 the war between Russia and Georgia has repeatedly undermined the country's economy.

In the current decade, the country has recovered its image again, it has become more attractive for investors and tourists, opened new enterprises, increased gross domestic product, improved export count, introduced tax reforms. This is the time when it is necessary to use innovative approaches in state or private governance to ensure that all these processes are directed towards the development of the country's economy, as the state achieves success only in the conditions of a strong economy. In recent years, Georgia has implemented significant reforms. The economic reforms, the main purpose of which was to create a business-friendly environment for doing business and direct foreign investment; liberalization of economy, reduction of administrative barriers and tax cargo, improved public services, anti-corruption measures, etc. As a result of these reforms, Georgia has achieved normal economic growth. Additionally, direct foreign investments flow into the country. The Georgian economic policy has been positively assessed by various authoritative international agencies and financial institutions. The relevant results were reflected in the indexes and ratings that evaluated the economies of the countries. Stable economic development, liberal economic policies and low tax rates, small amount of licenses and permits, simplified administrative procedures, preferential trade regimes with many countries, favorable geographical location and others represents a solid foundation for making successful business in Georgia.

In accordance with the World Bank and International Finance Corporation (IFC) research "Doing Business 2019", Georgia has moved

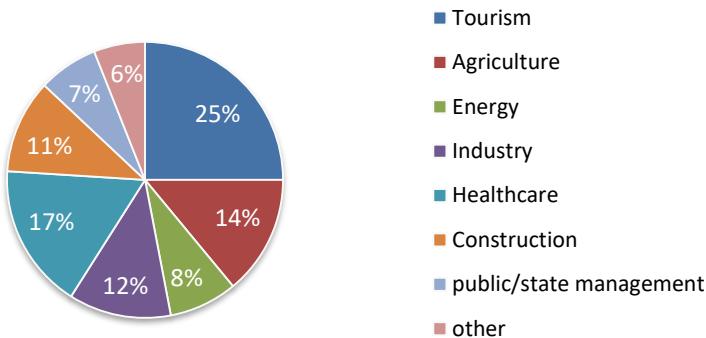
from the 4th to the 2nd place in comparison to the last year, according to the ease of starting business among 190 countries.

The goal of the research is to understand the public opinion about innovations and to understand the attitude of managers working in various spheres to the perspectives of innovative management development in Georgia. We have conducted two studies that are discussed in third section of the dissertation. Based on these studies, the research offers certain conclusions and recommendations. 315 respondents were interviewed in the scope of the first survey, the aim of which was to understand the position of innovations in the Georgian reality and the perspectives of further development of innovative processes.

The survey covered the entire Georgia. The survey was implemented between 15 April and 27 April 2018. It was interesting to understand the opinion of the respondents, surveyed in the frame of the research, towards the concept of innovation; innovation is only novelty or includes other components too. As a result, 52 percent of respondents think that innovation is novelty. This picture clearly showed that most citizens of our country do not understand the essence of innovations fundamentally and for them innovations are associated only with the novelty.

During the study, it was also important for us to highlight prospective trends in the development of innovative processes in the country (see Graph 2), tourism in the first place, followed by healthcare, construction, etc.

**Graph N 2. Prospective trends in the development of innovative processes in Georgia**



**Source: Diagram is drawn by the author, based on the results of the survey**

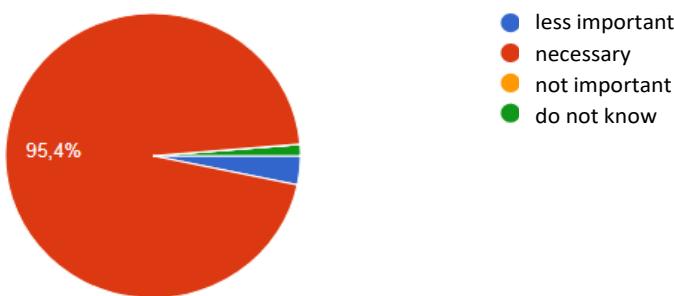
The work deals with modern trends of different directions of tourism. The most important thereof is cruise and medical tourism. They aimed to attract rich tourists, and this also affects in different sectors. The comprehensive approach to cruise and medical tourism directions is considered. Both of them primarily serve the same kind of social networking, as the British Cruisers survey conducted by Portal “CruiseCompare” revealed that the overwhelming majority of cruise tourism users are over 50 years old and their focus is on their own health. Accordingly, to cruise passengers, who will stay few day in Georgia, we must offer high-quality medical services. After the doctor's recommendation, the passenger will depart for several days at the appropriate medical resort of Georgia (such as Abastumani, Tskaltubo, Borjomi or other), where tourists will be under the supervision of a specialist in hotel-sanatorium equipped with modern standards. After the recreational course the cruiser returns to its cruise and continues traveling. The implementation of this innovative project will be a significant step in the country's economy. First of all, the number of high-cost tourists will be increased, which is an important stimulus for both state institutions and citizens, the number of investors will increase, the demand for innovative

products and services will be developed, the medical sphere will be developed, the social-economic situation of the residents will be improved, appears new job places and others. The above-mentioned example of innovative management aims to make the area of innovative management capable according to the potential resources which are available in Georgia. It should be assumed that it is hard to imagine planning or implementing similar projects without innovative management.

Another goal of the research was to identify the cities / municipalities with the citizens of Georgia who have the greatest potential in the development of innovative processes. As a result, almost all of Georgia was named by the respondents, but several cities / municipalities were identified: Batumi, Kobuleti, Khelvachauri, Tbilisi, Mestia, Anaklia, Mtskheta, Chiatura, Gurjaani, Tskaltubo, Abastumani, Borjomi, Zestaponi and Bakuriani. It has to be noted that big projects are being implemented in these regions in recent years, thus increasing the prospects for innovative management development in the municipalities involved.

As it has already been mentioned, innovations are the major factor encouraging the economic growth and people's well-being. This assumption is supported by the research findings (see Graph No.3).

**Graph 3. Need for innovative approaches in sustaining the economic growth in Georgia**



Source: the graph is designed by the author on the basis of the research findings

The findings reflected in Graph 3 highlights the urgency of innovations and the increased need for introducing its practical expertise in the organisations in Georgia. This requires, first of all, the applying appropriate management model in the respective organisations.

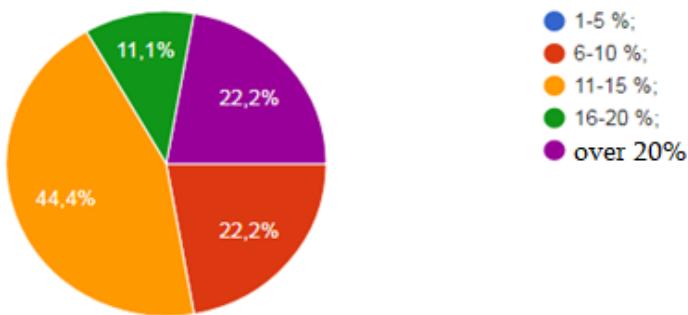
Reinforcement of the innovative approach in the existing organisations requires high awareness of the populations of the innovations importance in that they will feel the need for innovative product and service and innovative processes in general. It was crucial to understand the respondents' attitude towards innovative projects. The attempt was made to determine the financing and actual implementation problems of innovative ideas in Georgia on the basis of their attitudes. The respondents were asked to answer the specific questions. The first question '*Do you think you can design an innovative project?*' was answered positively by 83.1% of the respondents; whereas the following question was about funding and the question '*Are there sources of funding innovative projects in Georgia (state or private projects, programmes, organisations, etc.)?*' and 79.7% think there is no problem with funding. This was followed by the question we designed in relation to the previous questions: '*What do you think prevents the Georgian citizens from implementing innovative ideas?*'. The respondents named various examples that can be classified into three groups. Approximately 20% claim that raising funds hinders development of innovative projects. 37% believes that the primary problem is the low demand for innovative product or service, thus, the risk is high that an innovative product will not work in Georgia. The remaining 43% mainly focused on the intelligence and world vision of the citizens. The latter's general knowledge was believed to be inadequate of the contemporary world challenges, which is a deterrent of the innovative ideas in demand. The analysis of the circumstances listed above, it can be assumed that the country has the sources for funding innovative ideas. The absolute majority of the respondents think that innovations are essential for the economic growth in the country. Nearly 80% stated that they are capable of elaborating an innovative idea; due to the citizens' nihilistic

attitude to innovations though, valuable innovative projects are not planned/implemented.

After the general idea of the population concerning innovations had been identified, the second survey was conducted. In this case, it was all about the opinions of the managers themselves. The research covered thirty managers from different organisations working in various fields. The research had been executed between 1 May and 1 June 2018.

Approximately 90% of the managers surveyed in the frame of the research consider innovations to be one of the most important factors of their organisation's success. Although only 1/3 of these organisations have Research and Development Department (a structural unit working on innovations or introduction of the already innovations into practice) or a similar structural unit; however, the R&D Departments in their classical understanding are less common in the Georgian organisations. The existing circumstances can be explained by the allocation of minimal funds for research and development at present. Therefore, one of the aims of the research was to define what amount should the organisations allocate within their income in today's Georgia to develop/introduce innovations.

**Graph N 4. The amount the modern Georgian organisations should allocate in their income to develop/introduce innovations**



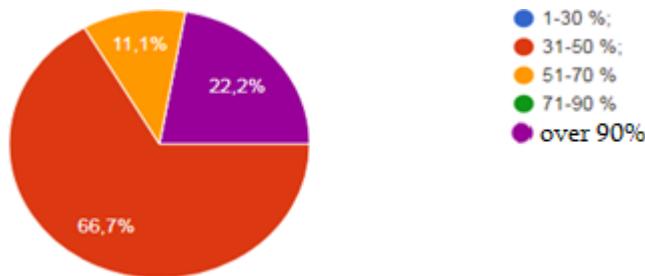
**Source: the graph is designed by the author on the basis of the research findings**

We have received quite promising answers (see Graph 4). However, we have dramatically different reality and when we addressed the managers with the request to name the research they had financed or an innovative product or service of their company, they found it extremely hard to name an actual innovation. The aforementioned circumstance is another proof that the Georgian organisations are ready to work in this direction. We hope that soon actual steps will be taken in innovative researches. Consequently, it can be said that innovative management in Georgia truly has the prospects for development.

The assumption that the innovative management has to be implemented and developed in the public as well as private sectors was positively evaluated by the 100% of managers surveyed. As for the interview with the managers, they highlighted that innovations have to be integrated into the state management first that will serve as a kind of example for the private sectors.

One of the objectives of the research was to identify the managers' awareness of the consumers' attitude towards innovative products and services. The managers expressed their view on this issue as follows (see Graph 5).

**Graph 5. In your opinion, what number of clients is attracted by innovative product or service?**



**Source: the graph is designed by the author on the basis of the research findings.**

It was attempted to identify the main obstacles hindering the innovative activity in Georgia together with the managers in the frame of the research. The research revealed that the managers mostly distinguish the following challenges:

- Financial weakness of organisations;
- Shortage of scientific research centres;
- Shortage of expert staff;
- Lack of ideas.

Since the financial weakness was ranked as No.1 obstacle to innovations by the managers, it was interesting for us to learn what outside resources of innovative project funding is known to the managers. The latter named the mechanisms below:

- State projects and programmes;
- Local and international grants;
- Credits.

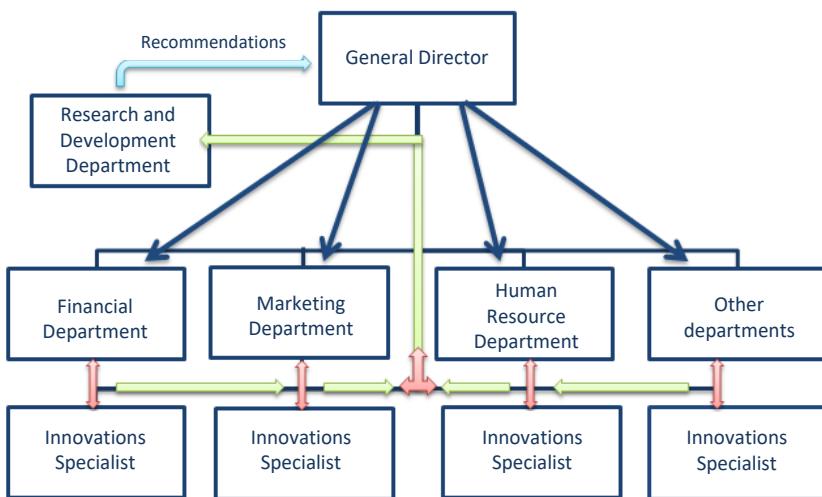
It is worth mentioning that besides the aforementioned three mechanisms there are much more other funding opportunities for attracting investments to implement certain innovative projects. Although, it is assumed that if the idea is valuable, these days information can spread worldwide really fast. The research makes insights into this issue as well and discusses the external sources of funding and their main aspects. Our research aimed to learn the managers' opinion whether the funding sources above are sufficient for implementing specific innovative projects, and the survey showed the following results: 22% of the managers believe it is sufficient; 44% thinks it is partly sufficient; and the remaining 34% consider it insufficient. This creates the following picture: the organisations in Georgia need to be informed that no valuable idea will be left unattended, thus encouraging them to work on innovations and abandon the idea that the required financial resources will never be accessible unless they live in a developed country.

The research outcomes revealed that the managers in the Georgian organisations look rather positively at innovations. They have expectations of structural and financial support. They also believe that

there are some external sources for funding innovations. The specific steps have not been taken though, and thus, no actual results are achieved in innovations.

The concluding part of the research suggest the designed somewhat universal models for innovative management that are directly linked to the innovative management development prospects in Georgia and can be applied respectively in any type of organization interested in innovations (see Diagram 2).

## Diagram 2. Universal models of innovative management



**Source:** the diagram is designed by the author

This Graph on management shows the innovation-oriented management model which includes the Research and Development Department as a separate unit in the organization model. The members of the department is scattered in all key departments of the organisations, where they study and are involved in the department activity. They ease the workload of the hosting department staff and report directly to the

head of their original department about the innovative method opportunities. The R&D Department accumulates such reports on various fields of the company activity, which is further studied by the respective working group. This is followed by the study of the successful practices in various fields, and elaboration of the measures adapted to the Georgian reality. This becomes the basis for making specific recommendations whose main objective is to increase efficiency as a result of innovative approach.

Overall, the research studies the theoretical foundation of innovations, and the importance and characteristics of the innovative management as a component of the economic and sustainable development in the country, as well as factors supporting and deterring introduction of the innovative management. This included practical researches and study of the latest tendencies in the field. Since it was not possible to cover all fields with the prospect of innovative management development in Georgia, the focus was made on several priority fields, and particularly detailed research was made in conceptual and fundamental issues of the innovative management in Georgia. The concluding part of the study offers the universal model of innovative management for the organisations existing in Georgia. This model should be introduced to numerous organisations and integrated into the financial and human resources in the organisation to be beneficial, financially feasible, and maintain the organisations payability, financial sustainability, and business activity. The part of the research stipulating the conclusions and suggestions reviews the main problems in developing innovative management in Georgia and provides the theoretical and practical recommendations designed by the author.

## **Conclusion and recommendations:**

The theoretical and practical material studied in the frame of the dissertation led us to the following specific conclusions and recommendations. In particular:

1. The intensity of planning/implementing innovative activity in any type of the organization is directly linked to the innovative potential of the respective organization. Consequently, the organizations interested in innovations shall study their own innovative potential. The situation in Georgia significantly reduces the prospects for innovative management development in this respect, since only small number of the organisations has conducted the qualified researches for the aforementioned purposes.

Our study has revealed that most organisations express their interest in innovation. Respectively, the state and private organisations shall implement the quality research to discover their innovative potential.

2. The common practice shows that efficiency of innovative management is greatly affected by the innovative policy of an organization. To ensure the prospects for innovative management in Georgia, the organisations should have the innovative policy in the form of strategy documents and action plans specifying priority fields in which the innovative processes can be implemented. The documents should detail the required funds and expected risks.

After having studied their innovative potential, state and private organisations shall develop the strategy document determining the innovative management prospects and the means of their implementation and considering all those elements accompanying such document.

3. Innovation-oriented companies often face financial problems at the initial stage. For long-term sustainable development goals for the Georgian economy, 'startups' should enjoy tax incentives which is one of the most crucial factors for developing and encouraging innovative activity in the country. The recent years have been marked by certain developments in this respect. The tax reform that is being implemented in Georgia will decrease the tax burden on small businesses which play a

significant role in the Georgian economy. As the result of the reform, the small business sector will show the signs of need for the innovative management in as the reduction by five and increase of the total income by five (as well as other incentives) will reinforce a small business financially and push it towards expansion. Tax reform gives the businesses a real chance for development which is the most effective in the context of the innovative management. Respectively, small businesses should employ innovative methods and approaches to improve their product/service or create the new one.

4. The “Doing Business 2019” report by the World Bank ranks Georgia as No.6 and the region leader. This study shows that Georgia has implemented the largest number of reforms (50 reforms in total between 2006 and 2019) to facilitate the ease of doing business and secured one of the leading positions among 190 countries. The higher ranking countries on the list are Hong Kong Special Administrative Region of the People's Republic of China, South Korea, Denmark, Singapore, and New Zealand (the leader). The aforementioned fact will have a positive impact on the innovative management development prospects. Potential and working businesses with innovative ideas should follow the reforms above with their projects and should be aware of the economic trends within and outside their country for maximum synchronization of their activities with them.

5. It can be said that the developed countries do not have an optimistic vision of a Georgian product since developing countries are less expected to produce modern innovative products and services. One of the ways of improving the situations is to refine continuously the intellectual property legislation. The legislative authority shall determine the respective regulations in the legislation protecting the intellectual property and copyrights, and will prevent flows in the country's image caused by low quality imitations and patents.

6. R&D or Research and Development costs mainly determines the success of a country in terms of innovative management. It has to be noted that the countries with developed economies 1/3 of the entire yearly

R&D budget in a country is spent by public institutions, and 2/3 is shared by businesses, universities, non-commercial institutions, etc. This ratio is a kind of recommendation based on the status quo in research and technological advancement. The smaller the share of public sector though, the better. The data published by the UNESCO Statistical Institute on their portal <http://uis.unesco.org> clearly shows R&D costs statistics per country and cost category. In Georgia, these costs are funded only by the state and different universities. Unfortunately, the business sector does not have this item in its expenses, whereas it is the business sector provides nearly 70% of these funds in developed countries like Switzerland, for example. In the frame of the research dozens of managers were surveyed, and when asked what percentage should the organisation spent on its R&D activities: approximately 70% of the respondents named at least 10%, thereof 22 per cent thinks that the optimal amount to spend would be between 20% and 30%.

The first thing that needs to be done balance the disadvantaged R&D costs in Georgia is to establish the so called R&D Departments or a structural unit staffed with the qualified, talented personnel that will work on developing innovations or introducing the ones employed in successful organisations. Small, medium, and large businesses shall invest part of their revenue in researches and innovative development of their organisation. They shall plan their budget/expenditure in that these expenses not produce the negative impact on their activities.

7. As mentioned above, innovative researches in Georgia are mostly funded by the state and the higher education institutions. The final purpose of this funding is to introduce the developed innovative technology into a certain field. Optimization of the scientific researches requires close cooperation between the educational field and business sector, which will ensure commercializing of innovative products and projects. This will increase the quality and frequency of researches. The cooperation of these two sectors will facilitate technological training of the workforce, focused professional training of young employees, etc.

8. Development of the innovative management requires elevating the quality of education, which is impossible without respective investing in the field. The existing circumstances are extremely unfavourable: declining birth rate, rapidly growing number of migration of qualified specialists to the wealthy countries, etc. These circumstances will definitely have negative impact on the innovative prospects and competitiveness of the existing organisations in Georgia.

The government shall ensure investments in education to increase the awareness of young people in science and technologies, as the foundation for establishing and building the knowledge-based economy, unthinkable otherwise. The bulk companies investing in Georgia shall find it possible to hire qualified staff on the local market. This staff will be involved in management and will meet the requirements for specific positions. The state programme for applicants' professional training and development working in Georgia will relatively ease the situation; however, more investments are needed in education to enhance the innovative management, to have young managers with the specialized education and capable of managing the innovative processes. Schools and higher education institutions will need the technologically equipped labs for the STEM studies: physics, chemistry, biology, etc. If needed expert teachers can be invited from outside Georgia to train local teachers to learn and use different technology. The next step would be to design special study programmes that are in compliance with the reality and will introduce modern technologies and their practical application presented in engaging way, in understandable language.

9. Innovations have stimulated the modern economy and can be even said to serve the role of catalyst. The countries that have cast their lot with innovations in their development strategy achieve great success in various fields: governance, tourism, health care, education, manufacturing, etc. Respectively, the organisations in Georgia shall focus on innovations if we plan to be competitive against imported goods and services at least in our own country.

10. Nowadays the prospects for innovative development of human resource management are enhancing as a result of the technological advancement that eased production. This is the reason why the organisations and public agencies shall train their staff in special fields to decrease the administrative costs. Maintaining competitiveness will also require granting each staff even small-scale decision making rights and rational delegation of authority.

11. To ensure the sustainable world and to stay loyal to the next generations, the existing resources and opportunities have to be used reasonably. In other words, we have to support the sustainable development of the world. The successful countries make special emphasis on sustainable development, and thus focus on innovative organisations expecting the best results from them in increasing global competitiveness and environmental problem-solving. On the other hand, innovation-oriented organisations need qualified and accordingly thinking managers who can set the right aims for the organisation and establish the manufacturing or service with the principle: maximal effect with limited resources. In 2015, 193 UN nations agreed on the sustainable development document 'Transforming our World: Sustainable Development Agenda 2030'. This document includes 17 goals and 169 objectives. New goals are the part of the sustainable development agenda and are oriented on three interconnected components of the sustainable development: economic growth, social inclusion, and environmental protection. These goals are somewhat a stimulant to the innovative management, on the one hand, and those principles that build foundations for the innovative management, on the other hand.

12. Various donor and international organisations, thereof EU, UN, etc., deliver serious measures for social and economic development. It has to be noted that these organisations were the source of not only funding but the extensive expertise that is as valuable for developing innovations in the fields. To get the knowledge-based economy and enhance the innovative management prospects, we need to continue active cooperation with the aforementioned organisations and their

recommendations shall be considered with great interest by the public and private sectors.