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TOURISM CLUSTER AS A FORM OF INNOVATION ACTIVITY

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Introduction. At the moment, innovation development is among key priorities in the development of Latvian economy. According to European Innovation Scoreboard assessment, Latvia joined the group of Moderate Innovators in 2016. However, its level of innovation effectiveness only reached 54% of the average EU index. That said, it has to be noted that enterprises that are innovation active in the service industry only account for 23.4%. In view of this, diverse forms of innovation activity and clusters in particular, have become more and more relevant. In 2006 European Competitiveness Council defined clusters as one of nine priorities aimed to promote and develop innovations. According to the European Commission, clustering is a key factor for successful innovation and enhanced competitiveness.

Aim and tasks. The subject matter of this article are tourism clusters as a type of innovation activity.

Results. Scientific research as well as practical experience of a number of countries have shown that cluster approach in tourism business is an effective instrument to enhance competitiveness both nationwide and at the level of an industry.At the present time, entrepreneurs are facing serious difficulty in converting ideas into new products and services. This is true of the national economy as a whole as well as particular industries. That said, the primary objective is the development and implementation of a program aimed at the cooperation of a wide range of social partners involved in innovation activity, who are capable of facilitating the enhancement of economic effectiveness.

Conclusions. The development of tourism sectoris regarded as a priority of Latvian economy. According to Central Statistical Bureau of Latvia, tourism is a major factor of Latvia's economic development, an important source of export revenue, and a key factor of GDP growth. The development of Latvian tourism industry is part and parcel of global tourism market. Latvia has a strong potential for the development of business and health tourism. However, Latvia's climate, its geographic position and the lack of world-famous architecture have an unfavorable effect on its tourism development opportunities. This is the reason why it is essential for Latvia to spur innovative activity in tourism industry with a focus on clustering. Creation of new clusters in tourism industry, such as business tourism cluster as an example, as well as the implementation of formerly declared goals related to the existing clusters, will help to meet some of the objectives.

Keywords: cluster, innovation activity, tourism.

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ТУРИСТИЧНИЙ КЛАСТЕР ЯК ФОРМА ІННОВАЦІЙНОЇ ДІЯЛЬНОСТІ

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Вступ. На даний час інноваційний розвиток є одним з ключових пріоритетів у розвитку економіки Латвії. В 2016 році згідно з оцінкою Європейського інноваційного табло, Латвія приєдналася до групи помірних інноваторів (Moderate Innovators), однак рівень ефективності інновацій досяг тільки 54% від середнього показника ЄС. Проте, слід зазначити, що інноваційно активні підприємства сфери послуг складають лише 23,4%. У зв'язку з цим особливої актуальності набувають різні форми інноваційної діяльності, зокрема кластери. Європейська Рада з конкурентоспроможності у 2006 році визначила кластери як один з дев'яти пріоритетів, спрямованих на просування і розвиток інновацій. За даними Європейської комісії, кластеризація є ключовим фактором для успішних інновацій та підвищення конкурентоспроможності.

Мета і завдання. У статті розглядається питання туристичних кластерів як форми інноваційної активності.

Результати. Наукові дослідження та практичний досвід ряду країн показали, що кластерний підхід в туристичному бізнесі є ефективним інструментом підвищення конкурентоспроможності як на національному рівні, так і на рівні галузі. В даний час підприємці стикаються з серйозними труднощами у перетворенні ідей у нові продукти та послуги. Це стосується як національної економіки в цілому, так і окремих галузей. При цьому основною метою є розробка та реалізація програми, спрямованої на співпрацю широкого кола соціальних партнерів, залучених до інноваційної діяльності, які здатні сприяти підвищенню економічної ефективності.

Висновки. Розвиток туристичного сектора вважається пріоритетом латвійської економіки. Згідно з даними Центрального статистичного бюро Латвії, туризм є основним фактором економічного розвитку Латвії, важливим джерелом експортних доходів і ключовим фактором зростання ВВП. Розвиток латвійської туристичної індустрії є невід'ємною частиною глобального туристичного ринку. Латвія має потужний потенціал для розвитку бізнесу та оздоровчого туризму. Однак клімат Латвії, її географічне положення та відсутність всесвітньо відомої архітектури мають несприятливий вплив на її можливості для розвитку туризму. Саме тому для Латвії важливо стимулювати інноваційну діяльність у туристичній галузі, зосереджуючись на кластеризації. Створення нових кластерів у туристичній індустрії, як, наприклад, кластер бізнес-туризму, а також реалізація раніше заявлених цілей, пов'язаних з існуючими кластерами, допоможе досягти деяких цілей.

Ключові слова: кластер, інноваційна діяльність, туризм.

Introduction. At the moment, innovation development is among key priorities in the development of Latvian economy. A lot of businesses are looking for innovative ways to improve efficiency and maintain competitive advantage in order to survive [1, 2]. It also refers to the development of various techniques for improving their business competitiveness [3-6].

This is a feature that defines a company's distinctive capacity to undertake actions that safeguard stable and long-term development and contribute to building market value [7, 8].

According to European Innovation Scoreboard assessment, Latvia joined the group of Moderate Innovators in 2016. However, its level of innovation effectiveness only reached 54% of the average EU index. That said, it has to be noted that enterprises that are innovation active in the service industry only account for 23.4%. In view of this, diverse forms of innovation activity and clusters in particular, have become more and more relevant. In 2006 European Competitiveness Council defined clusters as one of nine priorities aimed to promote and develop innovations. According to the European Commission, clustering is a key factor for successful innovation and enhanced competitiveness. As far back as 2007, the Ministry of Economics of Latvia reached an agreement of cooperation with certain organizations on a number of clusters. The aim of these agreements was to support clusters. However, at that time cluster development failed to gain momentum for a variety of reasons, among them: lack of awareness about the potential benefits of cluster environment, lack of mutual trust, lack of business initiative and failure to coordinate common goals. It should be noted that the above problems are typical of Latvian business environment in general.

Increasing relevance of clusters connected with a number of positive tendencies such as increasing competition among enterprises in the industry and increasing their competitiveness.. Besides, clusters provide a means to enhance the competitiveness not only of an enterprise but also of an entire region. Furthermore, they promote economic growth. In furtherance of this goal, Latvia is following EU clustering initiatives and has achieved considerable success in this area. This is evident from the fact that on the scale of global competitiveness Latvia ranks 73rd for cluster development [9].

The definition of a cluster is "a group of things or items having a specific character". The cluster concepts are common in astronomy, computer science, statistics, mathematics, marketing research, economics and other areas of science. Each of these areas suggests a slightly different approach to the cluster concept.

Analysis recent research and publications. The fundamental research in which clusters are considered as a factor of global competitiveness is the study of M. Porter [10]. M. Porter studied a number of leading economies, such as Japan, Sweden, Germany, Singapore, Denmark and Italy with an increased focus on the competitive ability of regions and enterprises. The issue of his interest was why the enterprises in some regions have achieved considerable progress at international markets, while businesses in other regions have been less successful.

As a result, M.Porter came to the conclusion that there is a number of interconnections which cannot be explained by the traditional approaches to the development of market economy.In his study, M. Porter provided microeconomic foundations to explain how certain factors affect the ability of companies to work in specific regions and to develop competitive development strategies. M. Porter suggested that companies are strongly dependent on the competitive ability of their suppliers, customers and on a number of factors affecting their production and consumption, as well as the strategies that they have adopted and the competitive level in the industry. The interconnection of all these competitiveness factors has been described in the Diamond Model suggested by M.Porter. According to this model, the government can promote competitive advantage which often occurs unpredictably. Another competitiveness factor is the density of geographic concentrationof businesses in certain regions. M.Porter holds the view that in the age of economic globalization, companies compete as groups of enterprises, i.e. clusters, rather than individual business entities.

However, M.Porter cannot be regarded as the pathbreaker in this matter. Alfred Marshall was the first to pay attention to the reasons why groups of companies of a particular industry turn out to be more productive if they are located close to each other, unlike those located a long way apart.

He pointed out three main reasons, namely - specialized suppliers,knowledge spillovers and labor marketintegration. A.Marshall's theory, where enhanced effectiveness due to the proximity of similar companies was referred to as "external economy", laid the foundation for the cluster theory [11]. M. Porter supplemented this concept with additional factors including universities and research and public institutions. M. Porter suggested the following definition of the role of clusters in global economy: "Geographic, cultural, and institutional proximity leads to special access, closer relationships, better information, powerful incentives, and other advantages in productivity and innovation that are difficult to tap from a distance. The more the world economy becomes complex, knowledge based, and dynamic, the more this is true" [12].

Economic literature provides a host of diverse definitions of what a cluster is, which are essentially different. This shows differing interpretations of clusters and their working principles.

M. Porter, the founder of the cluster theory, bases his definition of clusters on geographic concentration and mutual cooperation of enterprises: "Clusters are geographic concentrations of interconnected companies and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition" [13].

A number of international organizations have contributed to the definition of cluster emphasizing the institutional aspects. According to thedefinition by The United Nations Industrial Development Organization (UNIDO) [14], clusters are "geographical concentrations of inter-connected enterprises and associated institutions that face common challenges and opportunities" (UNIDO, 2001). European Commission gives a similar definition of this category and includes geographic concentration, interconnection and specialization of companies: "Clusters are groups of specialised enterprises – often SMEs – and other related supporting actors that cooperate closely together in a particular location" [15].

The definition of cluster provided by the Latvian Investment and Development Agency is also based on the description of certain cluster characteristics, such as geographic concentration, shared resources, mutual competition and cooperation: "A business cluster is a chain of commercial, research, educational and other associated institutions which

– operates in a particular region, sector of economy or in associated industries;

– uses the resources of related technologies and similar labor force;

– consists of independent legal entities which compete and cooperate with each other at the same time" [16].

All these definitions are based on similar approaches to describe a cluster:

– concentration of enterprises in a particular region;

– cooperation and interaction of the participants;

– common business interests.

Aim and tasks. The subject matter of this article are tourism clusters as a type of innovation activity.

Results. Currently, there is no established system of cluster classification. Clusters are distinguished by the following criteria:

– specialization (type of product or service);

– geographic factor;

– development level;

– business environment.

Specialists distinguish between cross-divisional clusters (those which embrace a range of industries) and specialized ones, created around particular products and services. Professor T.Volkova suggests that clusters should be classified according to their specialization, e.g. financial services cluster, or food production cluster. Thus, clusters could be created within particular industries, such as entertainment industry cluster [17].

In practice, there are IT clusters, financial services clusters, tourism and automobile clusters and others. IT cluster in Silicon Valley, motor vehicle clusters in Detroit and Germany and fashion industry cluster in North Italy are just a few examples to illustrate this point. There are examples of specialized clusters in other industries. Tourism clusters can be regarded as cross-divisional clusters, because they involve not only tourism companies as such, but also catering companies, hotels, tourist attractions etc.

Tourism is a major factor of Latvia's economic development. It is a significant source of export revenues and a key factor of GDP growth. According to the assessment made by the World Economic Forum in the Travel & Tourism Competitiveness Index, Latvia ranks 54th out of 136 countries [18]. Our country scored 4on a 7point scale. Latvia has the same total points as Peru, Cyprus and South Africa, which rank 51st, 52nd and 53rd respectively. Lithuania lags behind ranking 56th with 3.9 points, the same as in 2015. As for Estonia, it ranks 37th leaving its neighbors behind with 4.2 points and retaining its last year's result [9]. A detailed evaluation of the main figures provided by this index offers an opportunity to identify some issues related to tourism development.

6.4 was the highest score that Latvia got for"Health & Hygiene" ranking 16thin this category, not least due to the absence of points on the indicator "malaria" (which was the case with 76 other countries). Latvia also has a good result in the category "Safety & Security", because it ranks first, along with 66 other countries,on terrorism incidence indicator. The situation deteriorated dramatically because suicide rate grew by 100,000 cases, which caused Latvia to move to 76th ranking position. Latvia looked quite good inthe category "Environment Sustainability" ranking 13th although it only scored 4.9 points. The situation with waste water(the amount of water purified before it is restored to the environment) proved to be the best in this category. So Latvia ranks 11th on this component. Latvia's position was largely due to the number of regional commercial agreements (component "Trade Openness") as well as the availability of 7 carrental companies ("Tourism Business Infrastructure"). Latvia ranks first on both positions.

Despite the bright spots, the index has highlighted a number of negative trends in the development of tourism business in Latvia. For example, in the category "Cultural Resources and Business Travel" Latvia only ranks 98th, mainly because of the absence of large stadiums and a low rating of "digital needs" (Internet search engine index) for cultural and entertainment tourism. "Digital needs" for nature tourism along with the number of well-known natural attractions caused Latvia to drop in the category "Natural resources". The results were further deterioratedby the poor availability of upgraded sanitary facilities (73rd position) and the number of HIV infected adults (98th position).

The fact that Latvia holds its own in Travel &Tourism Competitiveness Index witnesses the stability of its tourism industry. On the other hand, it reflects the lack of growth in this area in the last few years. Direct impact of tourism industry on Latvia's GDP is an indicator that illustrates the same trend. According to the latest statistics, the direct contribution of Travel & Tourism to GDP in 2017 amounted to 1,110.4 m euro or 4.2% of total GDP. By the projections for 2018, the share of tourism in Latvia's GDP will grow by 6.4%, while in the future (from 2018 to 2028) it will be rising by 4.1% yearly. By 2028 the direct contribution of tourism will have amounted to 1,765.8 m euro or 5% of total GDP. [19]. Speaking about the direct impact on GDP, it should be noted that economic activity in such industries as hotels, travel agencies, airlines and other passenger carriers (other than local transport services) is not the only aspect to consider. Other industries such as restaurants and recreation industries, which are directly supported by tourists are also involved in this process.

It is important to point out that the total contribution of Travel & Tourism to GDP in 2017 amounted to 2,433.1 m euro or 9.2% with the growth of 6.5% in 2018. In the future the upward trend is expected to slow down to 4.1% per year amounting to 3,863.1 euro. Thus, by 2028 the total contribution of Travel & Tourism to Latvia's economy will be 10.9% of GDP. Despite the positive forecast, there are a number of issues in the development of tourism. This industry started to grow in 2012 and halted in 2015 with no significant growth since 2015. The indicators for the period from 2015 to 2017 have remained unchanged. This situation can be regarded either as positive or negative, i.e. stability or lack of growth.

The number of companies operating in tourism has a direct impact on the development of tourism industry. In the last few years, the total quantity of companies has shrunk. The number of tourism companies reached its peak in 2013 but has decreased by half since then. At present, there are 121 Latvian companies operating as tour operators (Fig.1).

Fig.1 Number of tour operators in Latvia

Source: Central Statistical Bureau, 2017

The number of tour operators did not decrease due to incorporation or mergers of tourism companies. All the enterprises involved in tourism are SMEs.

Tourism is an industry with a high economic potential (the so called multiplication effect). The money spent by tourists in a country turns over for a second time and generates income in other industries. Another positive side of the multiplication effect is its impact on employment. It is the common view in today's world practices that every 30 tourists create one job in tourism business.

The figures for 2016 have shown that the direct contribution of tourism to employment was 4.2% of total employment, which accounted for 37 000 jobs. According to projections, this indicator will rise by 3.8% in 2018 and will be growing annually by 1.5% until 2028. This trend will result in an increase in the number of jobs to 45 000. We should bear in mind that tourism influences a few other industries. Considering this aspect, we can point out that in 2017 the total contribution of tourism to employment including the jobs that were supported by the industry indirectly, amounted to 79 500 jobs or8.9% of total employment figures. This indicator is expected to go up by 3.6% and reach 82500 jobs in 2018, with a further growth by 1.1% yearly reaching 92000 jobs in 2028 (12.1% of the total number) [20].

That said, the wage level in Latvia's tourism industry is traditionally among the lowest. According to the figures released by the Central Statistics Authority [20], the average salary in 2017 was 718 euro (before tax) in the hotel business and 549 euro (before tax) in the foodservice industry.

Tourism has had a direct impact on the hotel business, which has been developing quite rapidly in the last ten years. During these years, the number of companies involved in the hotel business has grown by 73%, with an increase of 81.6% in the total market turnover, reaching 176.4 m euro. The growth in the number of hotels resulted in the increase of available hotel rooms (Table 1).

The rapid growth in the number of hotels and other types of accommodation went hand in hand with the growth of the number of visitors to Latvia and to Riga in particular (Fig.2). However, it was not matched with a significant growth in hotel occupancy. The average indicator of the nights spent rose from 4.2 in 2014 to 4.9 in 2016. That said, this indicator has been fluctuating between 4 and 4.6 in the last five years.

Table 1. Changes in the Number of Hotels and Other Types of Accommodation in Latvia

	2014	2015	2016
Number of hotels and other types of accommodation	544	563	607
Number of hotel rooms	14 873	15 138	15 863

Source: Developed by authors.

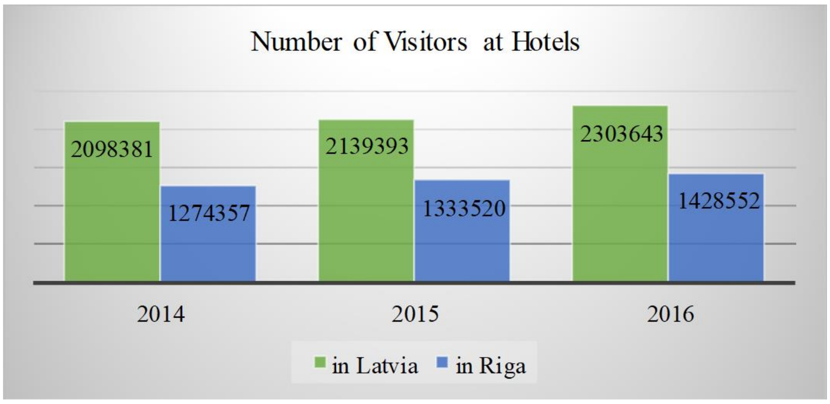

Fig. 2. The number of visitors at hotels and other types of accommodation in Latvia
Source: Central Statistical Bureau, 2017

Despite the steady growth in the number of visitors at Latvian hotels, both *total and average daily foreign tourists' expenses* have shrunk. According to the latest statistics, average daily travel expenses dropped from 66 euro in 2014-2015 to 54 euro in 2016.

Foreign tourist travel expenses have fallen by 28% compared to 75 euro in 2012. It should be noted that Latvia compares poorly with its nearby neighbors for this indicator. Thus, in 2014 tourists spent 85 euro daily in Lithuania and 137 euro in Estonia. As regards total expenses, they increased from 668.5 euro in 2014 to 742.2 euro in 2015, then dropped in 2016 to 645.2 euro [20].

Some experts attribute the drop in foreign tourists' spending to the decrease in the number of tourists from Russia, who traditionally spent more and stayed in Latvia for a longer time. However, the analysis of the information on this issue has shown that the number of tourists coming from Russia has in fact increased.

The percentage of foreign tourists that visited Latvia in 2016 is shown in descending order in Figure 3.

It is easy to see that nearly half of all the foreign tourists (44.5%) arrived from Russia, Germany, Lithuania and Estonia.

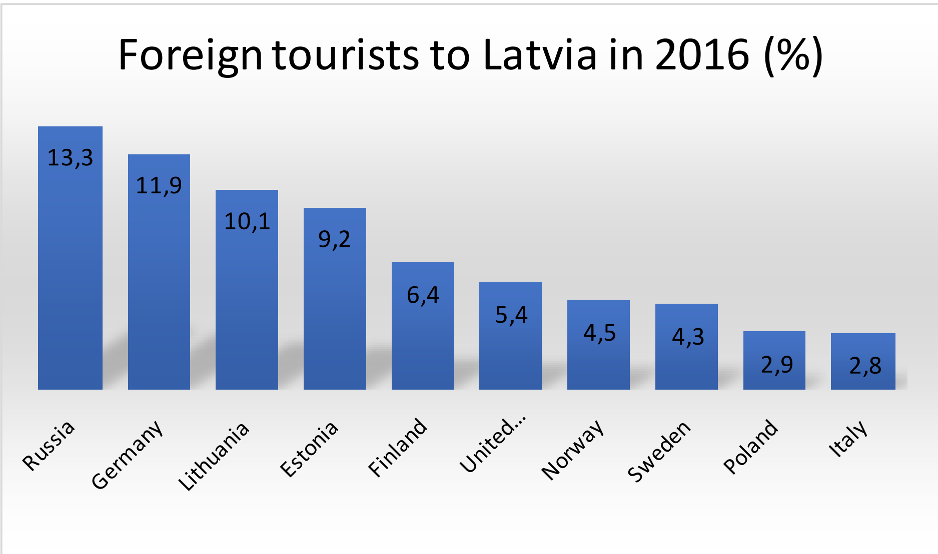

Figure 3. Foreign tourists to Latvia in 2016 (%)
Source: Tourism in Latvia, 2017

Preliminary figures indicate that the number of foreign tourists in Riga hotels and other types of accommodation reached 419000 people in the second quarter of 2018, or 7% more than during the same period of last year. According to LETA, with reference to Central Statistics Authority data consolidated by Riga Tourism Development Bureau, the number of nights that foreign tourists spent in Riga grew by 9% and reached 789 125 nights.

The figures show that in the second quarter of 2018 the majority of tourists in Riga hotels were from Germany. Tourists from Russia accounted for 9.6%, UK – 6.4%, Lithuania – 6.4%, Finland – 6.3%, Estonia – 6.0%, Sweden – 4.7%, Norway and the USA – 4.0%.

There are quite a few local tourists coming to Riga hotels every year. The number of Latvians staying at hotels in 2018 reached 64 000 people and accounted for 15.2% of all hotel bookings.

In 2018, the highest hotel occupancy of 71.2% was in June. That was 6.5% more than in the same month of the previous year. At that period there were 137 tourist accommodation sites operating in Riga with the total of 16 848 beds available.

Hotel occupancy is another significant factor. In the last ten years, the number of hotels in Latvia has grown by 34.7%. That said,the scope of supply in the 4-star segment has risen by 34.7%. This figure is in line with the actual demand. However, according to Eurostat figures, Latvian hotel occupancy in 2016 did not exceed 31.9%. By way of contrast, the same indicator was 38.0% for Sweden and 43.0 % for the neighboring Estonia [20].

When analyzing tourism industry in Latvia we cannot overlook such aspect as the main directions of tourism business. At the present time, the following sectors of tourism are the most competitive:

- event and business tourism (MICE)
- health tourism
- nature tourism
- culture tourism and creative industries.

In Latvia, MICE[1] and event tourism are considered among the most viable and potentially lucrative sectors. This is due to Latvia’s favorable geographical location in the center of the Baltic area. There are 3 hotels with high capacity conference centers in Riga – the Radisson Blue Hotel Daugava with 13 conference halls, the Radisson Blue Hotel Latvia with 11 conference halls and the Maritime Park Hotel with 9 halls. Apart from the hotels, conference halls are available at the National Library, the House of Congresses, the House of the Blackheads, the Large Guild and the Small Guild and some others. In 2017, travel business expenses amounted to 285.2 m euro. According to projections, business travel expenses in Latvia will rise by 6.7% in 2018 and amount to 285.2 m euro. By 2028 these expenses are expected to increase by 6.1% (550.9 m euro).

According to World Travel & Tourism Council (WTTC), the scope of the global business tourism market in 2015 exceeded 0.96 tn euro reaching one trillion in 2016. By 2026 global business tourism market is expected to be worth 1.44 tn euro with an average annual growth of 3.7%.

The other sectors of tourism are equally promising. As an example, Latvia has a strong potential for nature and recreational tourism. There are all the essential prerequisites, such as the availability of unique natural healing resources and the facilities for providing bio-therapeutic, rehabilitation and recreational services.

As for transport, 48% of all the travelers arrive in Latvia by air, therefore, adequate aerial service provides a strategic advantage both for Riga and Latvia. In the last 5 years (2011-2016) passenger traffic at the Riga airport increased by 12%, even though the number of flights shrank by 1% [19]. From 2016 to 2016 the number of destinations from Riga airport dropped from 70 to 60.

It should be noted that rural tourism is developing slower than urban tourism. There are quite a few reasons for this situation, including the lack of adequate transport infrastructure and insufficient local air traffic; high hotel rates which are about the same as the European average; low paying capacity of the local population, who are the largest consumers of these services; depopulation, which has resulted in the shortage of labor necessary for launching successful regional business projects; poor marketing both in the Baltic area and globally.

[1]MICE (Meetings, Incentives, Conferences, and Exhibitions) refers to a specialized niche of tourism dedicated to organizing and facilitating corporate events. The acronym MICE is based on four components: Meetings – meetings, presentations, negotiations etc.; Incentives – incentive or motivational travel and programs, team building events, personnel training, corporate entertainment; Conferences – conferences, congresses, forums, conventions, seminars etc.; Exhibitions – exhibitions, image-building events, (such as festivals, charity concerts etc.), PR-events and press tours.

Another issue to be considered is the fact that most of the tourists prefer to book accommodation at Riga hotels. There is a wide range of hotels and tourism attractions throughout Latvia. However, they are in demand mostly among the local population, while foreign travelers prefer to stay in the capital. Despite the general decrease in the numbers of tourists in Latvia in 2016, Riga hotels provided accommodation to 1,248,358 visitors or 7% more than the year before.

Clustersare seen as a prerequisite for tourism development throughout Latvia.

A tourism cluster is a group of tourism service providers, supporting entities, and research institutions whichcooperate in an efficient way and coordinate their activities in a specific geographic area with a view to develop an integrated offer of tourism services.

As a result of such cooperation, the members of a group become more competitive due to improved quality and productivity of their work as well as to implemented innovations.

Latvian Sustainable Tourism Cluster is a good example to illustrate this point. On 12 September 2012 Association of Latvian Travel Agents and Operators (ALTA) entered into an agreement with Investment and Development Agency of Latvia (LIAA) about the implementation of the Sustainable Tourism Cluster of Latvia (Agreement no. L-KAP-12-0003). This agreement was co-financed by the European Regional Development Fund (ERAF).

Among the collaborating partners of the cluster (cluster members) are mainly travel agents and tour operators. The cluster provides a technology base for tourist traffic management and coordination. [21]

The purpose of the cluster program is to encourage the business community and research, scientific, and educational institutions to cooperate both domestically and globally. All the above listed aspects are vital because they help to increase export turnover and the share of added value products and export related services, as well as innovation and new product development.All these factors help to enhance the competitiveness of business operators.

Latvian Health Tourism Cluster was established in 2012. The purpose of this cluster was to provide quality medical service both to foreign patients and the local population. It has 60 medical tourism companies providing a wide range of services, among them: public, municipal and regional hospitals, private clinics, rehabilitation centers, resort hotels, tourism companies, and educational and research institutions [21].

In order to enhance the effectiveness of health tourism sector, tourism companies and educational institutions support the training of cluster members. Participants of Latvian Health Tourism Cluster have the advantage of enhanced cooperation between health tourism providers, joint marketing campaigns and the creation of integrated offers available both to local inhabitants and foreign tourists.

Establishing cooperation of the cluster participants with research and development entities is a major area of focus. The cluster aims to create high value-added new and innovative products and services making use of Latvia’s unique natural capital [21].

Three clusters have been created in Latvia so far. We can hardly regard this number as satisfactory, since innovation activity in Latvia is still insufficient. Latvian statistics fails to keep record or analyze innovative activity in a number of industries other than major industries, namely, production, agriculture and service industry. According to the official statistics, however, there were 20.3% of innovatively active small businesses and 34.3% medium-sized businesses in 2017. According to the survey released by SEB Bank, Latvia falls behind its nearest neighbors with regard to innovation activity (Table 2) [22].

It should be noted however, that nearly half of all the (49%) SMEs are not looking to implement innovation in 2018. This is a troubling signal for Latvian economy in general and for tourism industry in particular, since all Latvia’s tour operators are SMEs. This situation suggests that clustering process in Latvia has not been successful and has failed to meet the declared objective.

Table 2. The number of companies planning to increase innovation

	Latvia	Estonia	Lithuania
Product/service	22% (+1%)	37% (+2%)	35% (+3%)
Business model	7% (- 1%)	10% (+2%)	12% (+1%)
Staff	17% (+1)	18% (+3%)	28% (+9%0

Source: Developed by authors.

Conclusion. The development of tourism sectoris regarded as a priority of Latvian economy. According to Central Statistical Bureau of Latvia, tourism is a major factor of Latvia's economic development, an important source of export revenue, and a key factor of GDP growth. The development of Latvian tourism industry is part and parcel of global tourism market. Latvia has a strong potential for the development of business and health tourism. However, Latvia's climate, its geographic position and the lack of world-famous architecture have an unfavorable effect on its tourism development opportunities. This is the reason why it is essential for Latvia to spur innovative activity in tourism industry with a focus on clustering. Creation of new clusters in tourism industry, such as business tourism cluster as an example, as well as the implementation of formerly declared goals related to the existing clusters, will help to meet some of the objectives. As an example, it will enhance the quality of services, raise the competitiveness in the tourism industry, improve the awareness of Latvia globally and create conditions for a sustainable economic growth.

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