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REGIONAL MARKETING POTENTIAL, THE KEY FACTOR OF INVESTMENT DEVELOPMENT OF THE REGION

Abstract:

The aim of the presented paper is to analyze the current level of development of the marketing potential of the region and the development of regional marketing in general in Georgia. The given work examines the contemporary methodology of the region's socio-economic development policy. Specifically, regional marketing, the positive experience of which has been acquired in the west's highly developed economies. It is reasonable to believe that the use of regional marketing and widely distributed promotion of marketing and investment in the area of the region and the attractiveness of the region's marketing and investment attractiveness.. The authors of the research have identified the problems in the field of the process of creation of marketing potential of the country's regions. The conclusion is that the Effective Regional Marketing Strategy ensures the creation of a recognizable system of unique peculiarities of the region, which is the key factor in attracting investments, including foreign direct investments, in the region. Such strategy will contribute to creation of the region's recognizable system of unique marketing features. In addition, proper governance of the region, its effective positioning or re-positioning, creates new conditions for its investment attractiveness and long-term development.

Keywords:

marketing, regional marketing, regional marketing potential, regional policy, investment attractiveness of the region

JEL Classification: M00, M31, M39

Introduction

In terms of current globalization and accelerated integration processes, existence of both tangible and intangible assets is becoming a more and more pressing issue for the whole country as well as for its separate regions. Marketing potential of the region, marketing attractiveness and the image that significantly impacts the formation of the region's competitiveness belongs to intangible assets. Formation of the marketing potential of the region is related to effective regional marketing. That's why great attention is paid to the study of theoretical-methodological and practical-organizational issues of the combination of tools, means, instruments, methods and techniques for the formation of regional marketing, as high marketing potential of the region, based on which competitive advantage is achieved from the point of attracting investments. Investment activities in the region can be assessed as the main precondition for the development of the region, as high investment activity in the region results in the improvement of the standards of life, overcoming of the socio-economic problems in the region and satisfaction of the interests of the individuals in the region.

The world experience shows that attractive investment environment and investment activity in the country can significantly contribute to achieving a desirable level of development. Although Georgian scholars have published numerous papers in this direction recently, from our point of view, the relation between the level of investments in the region and its marketing potential is not studied well enough. The paper concludes that without effective regional marketing strategies and practical realization of these strategies it is impossible to make the region an attractive place for investments.

Sustainable socio-economic development of the region is a multifactorial and large-scale problem. However, it should be noted that there is a problem of not only practical realization of regional marketing, but also of its theoretical-methodological and conceptual processing and scientific research. The problems of regional marketing are less studied or are not studied at all in economic literature. The causes of the problems and difficulties related with the formation and strengthening of regional marketing should be sought in the socio-economic order, in which our country and society had to live in the last two centuries and due to which there was no regional policy in the country. Moreover, even introduction of any new paradigms on regionalism was considered to be the equivalent of the destruction of ideological and economic basis of the existing system.

Currently, in the context of the uncertainties of solving the acute socio-economic problems in our country, the importance of studying theoretical and practical, conceptual and organizational issues for the development of innovative methods for governing the state, its central and local authorities is especially high. Wide-scale introduction of marketing approaches is an effective mechanism for adjusting economic and social reforms, which is based on innovative methods and technologies. The consistent application of this

mechanism enables decentralization of management processes and their transfer at local level while developing investment, finance and foreign economic policies for certain regions and their self-governing authorities.

The objective of the paper is to substantiate the importance of regional marketing and marketing potential of the region, as a key factor for increasing the investments and socio-economic growth of the region; to develop specific recommendations that will facilitate improvement of the region's marketing potential, and therefore increase its investment activity.

For the realization of the main objectives of the paper, the study aims to implement the following tasks: to study the investment environment in Georgia and its regions and conduct theoretical and practical analysis of investment activities; to develop specific recommendations that will contribute to the formation of marketing potential of the region and therefore, improvement of investment climate.

The theoretical basis of the paper is the studies by the scholars interested in marketing, regional marketing and competitiveness of the region. In this regard it should be noted, that the theoretical basis of the work is manual of Kotler F., Lee N. - Marketing for state and public organizations. St. Petersburg: Peter, 2008. - World-renowned expert Philip Kotler and social marketing consultant Nancy Li shows how state and public organizations are developing a whole range of measures to improve the standard of living of citizens. also manual of Kotler F., Asplund K., Rein I., Haider D. Marketing places. Attraction of investments, enterprises, residents and tourists to cities, communes, regions and countries of Europe. - St. Petersburg. , 2005, which explains how local government agencies to adopt a strategic marketing plan that will enable places to attract investments and to adapt and conquer the ever-evolving world marketplace. Was used the work of scientists: Frolov D., Vazhenina I., Pankrukhin A.

The information basis of the paper comprises publications in periodicals, proceedings of the conferences regarding the research topic, official statistical data and materials provided by the State Department of Statistics, Ministry of Economic Development of Georgia, Ministry of Finance of Georgia and international financial organizations.

The methodological basis of the paper is the abstract method and the theory of comparative advantage. Systemic, synergistic, logical, grouping methods are used in the paper.

Body of the article

In terms of current globalization, competition between the regions with the purpose of attracting more investments is becoming more and more intense. In this case, the existence of information system, managerial factors in the regions such as natural resources,

geographical location, labor, development of transport infrastructure, timely and efficient service provided by the governing bodies to the internal (the region's residents, economic entities operating in the region) and external (investors, entrepreneurs of other region, tourists, students from other regions) entities of the region play a decisive role. All these factors represent the strategic potential for the region's competitiveness and competitive advantage. However, without marketing potential of the region, which can transform all the above factors into powerful factors for the competitiveness of the region, each of them may remain only the potential for a long time, without turning into a real and significant factor for increasing the competitiveness. Marketing potential of the region is one of the most important factors for attracting investors. It is relatively new and less studied concept from the point of its structure, compositions and interaction. Currently, marketing potential of firms and companies – ability and skills of these entities to perform marketing functions in a timely and quality manner – is widely discussed. It can be argued that practical realization of attracting investments and therefore, increasing economic activity in the region heavily depends on the ability of governing bodies to fulfill marketing functions and on the marketing potential of the region.

The level of investment activity in Georgia is far below the corresponding level of highly developed countries. Investment processes, investing activity, formation of a favorable investment environment in our country still remains one of the most painful issues and an almost insuperable obstacle on the way of sustainable development of the whole country as well as of its regions. Foreign direct investments are an important source of financial investments especially for developing countries, where domestic investments account for a relatively small share. Foreign direct investments represent an important source of foreign currency inflow in the country and therefore, are of great importance for the stability of the national currency exchange rate. Although the members of the government of Georgia have repeatedly emphasized advancement of Georgia in various international rankings and attraction of investments is named as one of the main priorities in the main strategic documents of the country, official statistics show that investments have not significantly increased in recent years. (See Figure 1 and Figure2.). According to the National Statistics Office of Georgia, the volume of foreign direct investments amounted to \$ 1.566 billion in 2016, which is 0.1% higher compared with the 2015 data but is quite lower compared with the volume of FDI in 2014 and significantly lower compared with the volume of FDI in 2007 when it amounted to \$ 2.01 billion. The average annual growth rate of FDI in 2006-2015 calculated on the basis of statistical data is 2.8%, which cannot be considered a positive indicator and cannot meet the challenges and requirements needed for overcoming the crisis in the country.

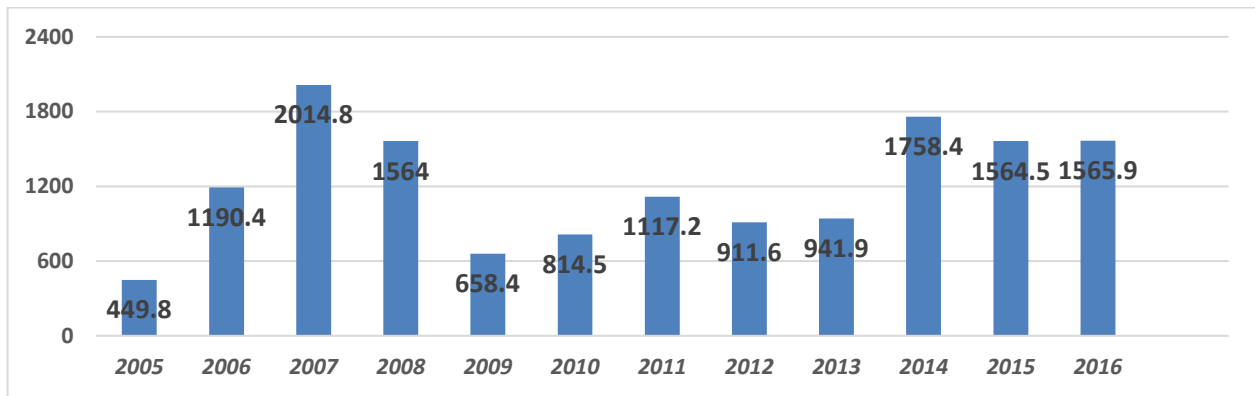


Figure 1. Foreign Direct Investments in Georgia

Source: <http://www.geostat.ge>

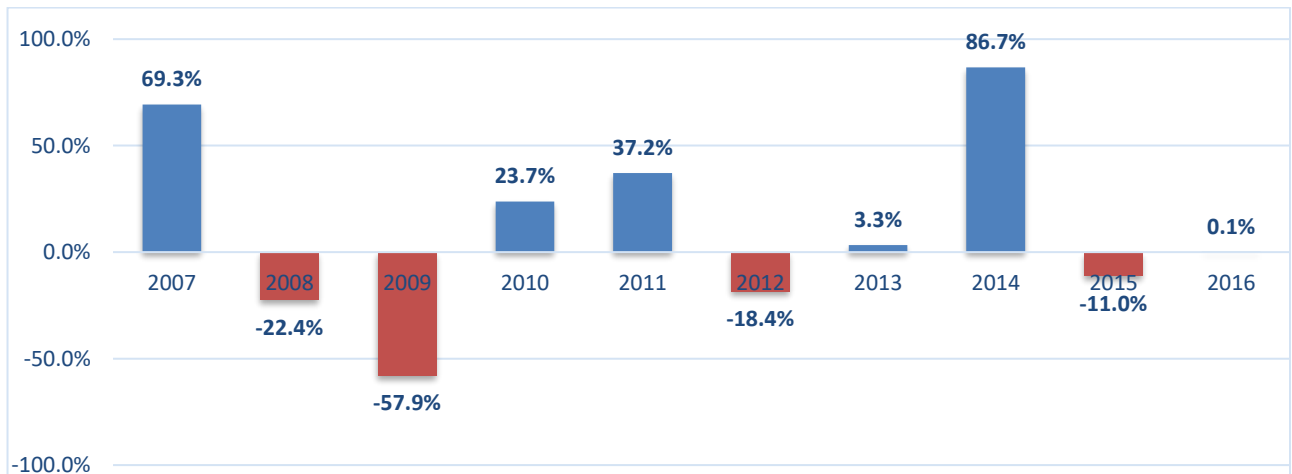


Figure 2. Percentage Change of Foreign Direct Investments in Georgia

Source: <http://www.geostat.ge>

Low level of investment activities in Georgia, lack of absolute volume of investments, irrational structure of sources for financing investments, lower volume of investments per capita compared to other countries and other unfavorable trends are even more evident on the regional level. Currently, according to territorial arrangement of Georgia there are 9 regions which are not self-governing units. They only have coordination and advisory

Table 1 .FDI in Georgia by RegionsSource: <http://www.geostat.ge>

	2009	2010	2011	2012	2013	2014	2015	2016*
Total	658,400.6	814,496.6	1,117,244.1	911,564.3	941,902.6	1,758,422.9	1,564,499.8	1,645,368.6
Regions								
Tbilisi	345,125.5	559,903.8	805,228.2	693,433.8	688,367.7	1,326,936.6	1,234,657.0	1,275,857.0
Adjara	99,386.4	56,573.1	93,868.0	39,105.4	61,544.3	159,275.1	204,531.0	160,976.9
Kakheti	4,193.9	-4,810.3	352.4	15,088.0	9,892.7	10,530.4	16,118.6	962.2
Samtskhe-Javakheti	-459.4	21,405.3	4,547.0	21,251.3	51,732.6	74,040.7	28,099.3	50,180.6
Kvemo Kartli	49,765.0	66,685.4	146,882.6	41,648.3	14,430.2	55,083.4	21,159.8	77,478.5
Samegrelo-Zemo Svaneti and Guria	100,357.2	25,013.4	66,326.5	55,278.2	57,229.8	93,648.2	49,822.3	52,614.5
Imereti, Racha-Lechkhumi and Kvemo Svaneti	61,058.0	80,126.5	-14,714.5	37,773.2	58,882.0	26,363.7	25,701.8	26,584.1
Shida Kartli and Mtskheta-Mtianeti	-1,026.0	9,599.4	14,754.0	7,986.0	-176.5	12,544.8	-15,590.1	714.7

functions between self-governing units and the government of Georgia. The government in these regions is represented by the governor. In addition, the capital of Georgia has all the authorities assigned to the region. The volume of foreign direct investments in these regions for 2015-2016 is shown on the figure (see Table 1)

Large share of FDI (78%; \$1.2 billion) in 2016 is still concentrated in Tbilisi. The volume of FDI invested in Tbilisi in this period also increased (by 3%, \$ 41 million). After Tbilisi the most attractive regions for investors are Adjara (10% of total investments), Kvemo Kartli (5%), Samegrelo-Zemo Svaneti and Guria (3%), while Shida Kartli is less attractive (0.04%). In 2016 the volume of investments significantly reduced in Kakheti (- 94%; by \$ 15 million) and in Adjara (-21%; by \$ 43 million). The volume of foreign direct investments in Adjara steadily increased since 2013, but in 2016 reduction of FDI was observed in the region.

Thus, it can be said that investment activity in the regions of the country is not increasing and is even characterized with a decreasing tendency in some cases. Each region oriented on attracting investments should try to be attractive especially in the eyes of foreign investors. Investments are decreasing in many regions of Georgia. These statistical data allows us to conclude that currently, regions of Georgia do not have their own well-formed image, which separates them from other regions and helps them to attract investments. Although, it has already been for two decades that there has been no non-market economy in the country, the investment activities in the country are still carried out in a centralized way, the regions continue to function using old approaches, when investments were

distributed between the regions in a centralized way in terms of planned economy. Contradiction of these approaches with the conditions of market economy determines the fact that the regions of Georgia despite their rich natural resources still remain underdeveloped and unattractive for the investors.

Regional marketing, which implies changing the approach to managing the investments, represents a powerful tool to overcome the above-mentioned inconsistencies. Based on a comprehensive and systematic analysis of the region, it determines the priorities of development of the region and distributes capabilities and resources of the region to solve strategic and tactical goals and tasks. Increasing the competitiveness of the region and therefore its investment attractiveness is achieved through effective regional marketing. We believe that sustainable and rapid development of the entire country, as well as of its regions is related to the development and practical implementation of the state marketing and the regional marketing as its interconnected and priority direction. No single decision made in the direction of the development of the country will ever be able to bring the desired outcomes unless it includes the objectives and tasks for the development of individual regions. Any regional marketing strategy or measures for the development of any region will also be equally ineffective unless they take into consideration national interests of the whole country. Compatibility of interests of the state with those of the regions is the key factor for irreversible development of both the country and its regions.

Regional marketing is committed to ensuring viability of the region for the consensual and interconnected development of all the elements located on a definite territory taking local conditions into consideration. The main subject of the regional marketing policy should be individuals, people living in a particular area with their interests, with forms and methods for the realization of these interests, with their needs and capabilities to satisfy these needs. Consequently, the results of the regional marketing are primarily assessed by the living standards of the population. The effectiveness of regional marketing highly depends on the awareness of external and internal participants of the regional marketing about the objectives and tasks of the regional marketing strategies and the ways and methods for their implementation. Development of regional marketing awareness, thinking and worldview is possible only in case of such awareness.

The absence of mechanisms that facilitate attraction and development of investments in the regions can result in irreparable consequences. Therefore, overcoming of the conditions that cause lagging behind should be a subject of permanent care and urgent intervention. Economic and cultural degradation of the regions was followed by the economic and social backwardness of the whole country. Implementation of incorrect policy towards the regions and the mistakes made in their development lead to the fact that people living in these regions began to strive to move to the capital of the country. As a result, these regions became almost fully abandoned from Georgian population. Backwardness of these regions and their uneven development has become especially evident today, when

the country is unequivocally on the way of forming market relations. However, this way could not automatically resolve and improve the disproportions in the development of the regions.

Taking into account the peculiarities that are characteristic for the activities of local authorities the system of regional marketing principally coincides with the traditional concept of marketing,. The central and essential element of the regional marketing system is the information on the needs and interests of the population in order to create desirable conditions for all the social groups living in the region. The significant expansion of the independence and responsibility of the region and its territorial entities creates the possibility to influence its reproduction processes. Therefore, it can be surely said that marketing relationships emerge not only between market partners. These relations make governing bodies and institutions, whose function it is to ensure meeting the needs of the population and non-profit (public) organizations, be actively involved in reproduction processes.

Taking into consideration the modern trends of marketing development, regional marketing represents the reflection of marketing development, enhancement and expansion tendencies at regional level. Regional marketing creates conditions for making regional system of reproduction consistent with the social needs, forms the organizational infrastructure for market research, creates a favorable economic environment, is involved in coordination activities and therefore, increases the competitiveness of economic entities operating in the area.

The scale, depth and complexity of the tasks to be solved at the regional level requires organizational-economic, financial and budgetary management of regional marketing based on essentially new conceptual-methodological basis and marketing management of the region's attractiveness using different marketing instruments. The socio-economic development of the region is the major task of regional marketing.

The region is an open economic system. Local authorities should organize the system of management that will be appealing not only to entrepreneurs but will also stimulate self-development of economic and social fields and facilitate the solution of various social problems related to the unsatisfied requirements of the people living in the region. The goals of the socio-economic policy of the region determine the directions for the development of reproduction processes in the region and marketing serves as a tool for its implementation. Thus, in current conditions, regional marketing is one of the most important types of marketing and promising direction of the theory and practice of marketing in today's world, which ensures improving the living standards of the population living in the region through raising marketing and investment attractiveness of the region.

From our point of view, in order to achieve the objective of raising the region's attractiveness, the following key principles of efficient functioning of regional marketing should be identified:

- ✓ Taking into consideration the needs of the population living in the region and the interests of both external and internal entities of the region;
- ✓ Creating conditions for maximum adaptation of regional economic structure with internal and external environment of the region;
- ✓ Creation of the image, attractiveness and prestige of the region by carrying out the lobbying activities on regional, national and especially, international levels;
- ✓ Introduction of the complex of marketing activities, which will ensure increasing the efficiency of all types of management decisions.

Determination of the marketing goals of separate economic programs is essential for the realizations of the above principles. Creating objective image of the factors of marketing environment is of great importance for determining the realistic and optimal goals of the economic program to be implemented. Market impact, on its part, causes the necessity of segmentation, selection of target markets and positioning.

One of the first steps in developing marketing strategies for attracting investments in the region is to identify potential investors and select the most prospective ones. Then, it is necessary to develop an effective strategy for positioning the region, ensuring efficient reflection of the outcomes of positioning on potential consumers through the relevant marketing complex. Regional marketing complex for attracting investment flows can be imagined as a set of changing factors of marketing that is under control, combination of which will be used by the governing bodies of the region to achieve the desired reaction from potential investors. Development of the marketing complex of the measures to be carried out implies influencing selected prospective investors through marketing efforts. They are determined by strategic decisions to maintain or support the achieved position or change (reposition) it.

For attracting investors, from our point of view, it is advisable to implement regional marketing at different levels: marketing of the image of the region, marketing of sightseeing, marketing of infrastructure, based on which the high marketing and high investment attractiveness of the region is formed. Each specific direction of regional marketing should be implemented by the local authorities, as well as with the participation of the residents of the region and the unions of the citizens. Wide engagement of the region's residents and various entities in the implementation of the functions of regional marketing will contribute to effective utilization of the economic potential of the region, development of the new fields of economy, increasing investment and tourist flows in the region, improving competitiveness of the entities operating in the region. Effective strategy of the regional marketing ensures optimization of the economic structure, creation of a recognizable

system of unique peculiarities of the region through commodity specialization and expansion of the market potential of goods and services of the region. Under the proper administration, effective positioning or repositioning of the region, new conditions for investment attractiveness are created in the region. All this should be considered as a main means of solving the social problems, as its outcome – increase in the level of economic activity, increase in revenues and welfare of the population, reduction of the number of the unemployed, etc. - most clearly expresses the social nature.

Conclusions:

Based on the study of the positive experience of regional policy of democratic, developed countries it can be concluded that investment attractiveness of the region and attraction of foreign direct investments, which is one of the most pressing issue for the region, is directly related to the marketing potential of the region as an expression and outcome of the realization of effective regional marketing. Therefore, marketing potential of the region can be evaluated as the ability of the region's strategic development in accordance with the interests of the people living in it.

The fact that there are no marketing divisions in the governing structures of Georgian regions that will deal with the realization of the tasks and functions of regional marketing provides a basis to conclude that governing structures of the region not only do not care to improve the marketing potential of the region, they even do not or cannot understand its role and importance for effective functioning of the region and improvement of investment attractiveness of the region. Such approach to governing the region can be evaluated as ineffective, which cannot meet the modern requirements and challenges and contradicts the practice of highly developed countries in the region's governance.

It is essential to develop modern organizational-economic mechanism for managing marketing potential of the region aiming to raise the region's attractiveness. For this purpose, from our point of view, the first step should be establishment of a marketing service as a structural unit in the administration of the governor, a state representative, which will ensure implementation of all aspects and directions of regional marketing. Such marketing service with its strategically important directions such as marketing of the image of the region, marketing of sightseeing, marketing of infrastructure and marketing of personnel ensures formation of the region's marketing potential, which, in turn, can attract investments in the region and solve socio-economic problems.

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