

# MEASURING THE INNOVATION ACTIVITY OF TOURISM BUSINESSES IN BULGARIA

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**Abstract:** The implementation of innovations in tourism enterprises is a key factor in increasing their competitiveness. A challenge for the tourism businesses in Bulgaria is to develop innovative solutions that will diversify their tourism products, optimize business operations and improve the overall efficiency of the tourism industry.

The **aim** of this research is to systematize and interpret theoretical and empirical statements of innovations in tourism in order to propose and test a model for measuring the innovation activity of tourist enterprises in Bulgaria and, based on this, to formulate conclusions and recommendations. This paper examines the scope of innovation activity of tourism enterprises and measures their innovation activity by means of a proposed model that has been tested in organizations providing tourism-related services. Research methodology includes induction and deduction, method of analysis and synthesis, analogy, content analysis, comparative analysis, survey, etc. As a result of the research, an innovation index is calculated, using the developed Model for measuring innovation activity in tourist enterprises, based on the evaluation of seven groups of qualitative indicators, and conclusions and recommendations are formulated for the promotion of innovation activity in the tourism sector. The tested model shows that it is possible to measure the innovation activity in the tourism sector by covering all enterprises offering the main tourism services.

**Key words:** innovations, innovation activity, tourist enterprise, tourism.

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## Introduction

The tourism industry is a key pillar of the Bulgarian economy, contributing significantly to the economic growth and employment opportunities of the country. However, in order to maintain a competitive edge, the industry must constantly adapt to the changing market requirements and consumer preferences. Innovations play a crucial role in the adaptation process as they can diversify tourism products, optimize business operations, and improve the overall efficiency and competitiveness of the tourism industry.

**The aim** of this study is, by systematizing and interpreting theoretical and empirical statements of innovations in tourism, to propose and test a model for measuring the innovation activity of tourism enterprises in Bulgaria and, on this basis, to formulate conclusions and recommendations. To achieve the aim, the following research tasks have been set: presenting the main directions of innovation in the tourism businesses; developing and testing a model for measuring the innovation activity in the tourism sector; an empirical study of the innovation activity of Bulgarian tourism enterprises.

The relevance of this research stems from the need for a thorough understanding of innovation processes in the tourism sector, as they can increase the adaptability of tourism enterprises to changing conditions and contribute to increasing the competitiveness of a tourism product.

## 1. Literature review

The essence of innovation in tourism is expressed in promoting the creation of new tourism products, services, marketing approaches, organizational practices and implementing changes in activities in order to achieve a competitive advantage (Schumpeter, 2017; Ilieva, 2024; Stanovcic et al., 2015).

The development of an innovative tourism business depends on a number of factors, including the size of the enterprise; the availability of financial resources; human capital; technological capability; managerial culture and external support. (Sin et al., 2020; Stanovcic et al., 2015; Yuzbasioglu et al., 2014; Sushchenko et al., 2024). The development of innovative tourism products and services, the implementation of new technologies, the optimization of business processes and the adaptation to the changing environment enable tourism enterprises to increase their

competitiveness and add value to their customers. By implementing such innovations, tourism enterprises diversify their products, improve the efficiency of their operations, and adapt to changing market requirements. (Alonso-Almeida et al., 2016; Sin et al., 2020; Savvopoulos et al., 2019).

The tourism industry has undergone significant transformations over the past decades, but they have been particularly intense in the last four years, driven by rapid advances in technology and the ever-evolving tourists' expectations. Technology is becoming increasingly integrated into the operations of tourism businesses, which has led to a wave of innovative solutions that have the potential to improve the productivity and competitiveness of the industry. (Bhat & Shah, 2014).

The main types of innovations adopted by the tourism businesses for economic viability are the following (Ilieva & Todorova, 2023; Ilieva, 2024; Stoykov, 2023; Ilieva, Petrova & Todorova, 2023; Proenca, 2024):

**Technological innovations:** These include the implementation of new or significantly improved methods of providing services and delivering tourism products through technology transfer from other industries or innovations specific to the tourism industry. Technological innovations encompass equipment, human resources, working methods or a combination of them all. The innovation process is long-term, with significant investments and hiring not only employees, but often external experts as well.

**Product Innovation:** Product innovation refers to the introduction of a new product or an improved version of a product that differs from a company's current product offerings. This does not include minor modifications to existing products.

**Marketing innovations:** This type of innovation includes enterprise initiatives to more effectively commercialize tourism products, build brand loyalty, and manage customer relationships.

**Organizational innovations:** Organizational innovation is based on business practices for organizing the work process and relationships with other businesses and organizations; as well as the organization of work related to the distribution of responsibilities, decision-making and human resource management.

In addition to innovations aimed at achieving an organization's economic goals, a growing number of tourism organizations are also turning to **socially responsible innovations** in an attempt to respond to the changes in consumer behaviour and expectations. These include social innovations, sustainable innovations, also known as "green innovations," and responsible innovations.

Digital innovations that are becoming widespread as a result of consumer expectations, such as: Internet of Things (IoT) and Internet of Everything (IoE); virtual reality, augmented reality; big data; artificial intelligence; robots; wearables; mobile devices (smartphones and tablets) are also of interest (Popova et al., 2023a; Petrova et al., 2018; Ivchenko et al., 2023; Popova et al., 2023b; Kirilov, 2024; Oryekhov et al., 2024). The implementation of technological innovations is related to the change in the preferences of modern tourists towards the use of digital technologies when choosing a specific tourist destination and tourist site, when planning and organizing their trip (Mileva-Bojanova, 2023). In addition, tourists perceive digital innovations as a means of enriching their experiences and personalizing tourism products and offers.

Another important change in society is related to sustainable development, which requires the implementation of ecological and socially responsible innovations (Miloiu et al., 2023). Ecological innovations are considered to be all those that reduce the use of natural resources, respectively reduce the emission of harmful substances throughout the life cycle of tourism products and services. Socially responsible innovations, on the other hand, focus on building a connection between researchers, businesses, citizens, and educational institutions, with the aim of collaborating in the overall process of creating innovations that best meet the needs of society.

Although the tourism industry is recognized as a sector with significant potential for innovation (Booyens, 2018), enterprises from the sector are not among those surveyed when forming the Innovation Index of the country. This is mainly due to the fact that tourism is part of the service sector and new technologies are integrated and adapted for the purposes of tourism enterprises, i.e. the tourism business innovates by adapting innovative solutions originating from other sectors of the economy. Regardless of this interpretation of innovation activity in the tourism sector, innovation in tourism can take different forms - from the introduction of new tourism products and services to the adoption of new technologies and business models (Aldebert et al., 2011; Ilieva et al., 2023). However, measuring the impact and effectiveness of these innovations is a challenging task, due to the heterogeneous nature of the tourism product, which combines tangible and intangible components.

A possible approach to measuring innovation in tourism is to adapt the Oslo Manual (OECD/Eurostat, 2018) and the European innovation scoreboard, which are widely used in other industries, to the specific context

of the tourism sector (Booyens, 2018). This includes collecting data on the types of innovation introduced in a tourism enterprise, the resources and activities involved in the innovation process, and the subsequent impact of the innovation on the final results. This type of enterprise-level innovation research can provide valuable insight into the drivers and barriers to innovation in tourism, as well as the factors that contribute to the success or failure of specific innovation initiatives.

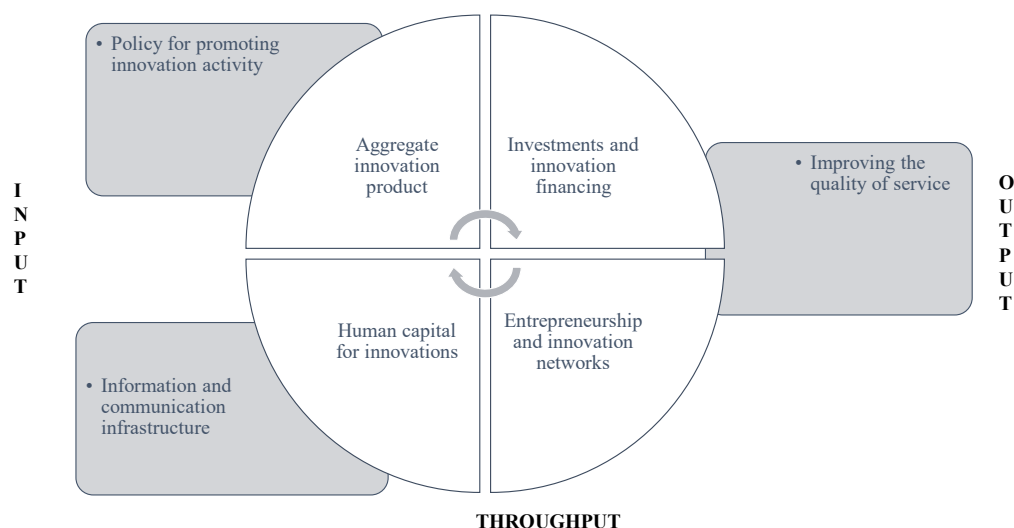
On the other hand, to identify and measure service innovations, an adaptation of a model developed in the report of Working Group II of the EU initiative EPISIS is used. The model consists of three parts (ESIC European Service Innovation Centre, 2014):

- Policy: Regulation, infrastructure, education system and other societal factors, combined with policies, create the framework within which innovation in enterprises takes place;

- Innovation in the service sector: In the model, innovation in the service sector is viewed as three closely related parts: innovation input, actual implementation of the innovation, and market output;

- Result: The structural change that results from the transformative power of service innovation.

Taking a closer look at the definition of service innovation, the model describes the three parts of service innovation as follows (ESIC European Service Innovation Centre, 2014) (Fig. 1):



**Figure 1. A model for measuring innovation activity in a tourism enterprise**

Source: Adapted from the Model developed in the report of Working Group II of the EU initiative EPISIS (ESIC European Service Innovation Centre, 2014) and Methodology of the Applied Research and Communications Found (Working Group, 2006)

- An input that represents the targeted development of service innovation. Service innovation is developed with a specific purpose, and the innovation process is goal-directed. The innovation process is therefore purposeful and did not just happen - the latter case can be characterized as evolution rather than innovation;

- Throughput, which represents the aggregate innovation product;
- Output, which is the value creation. It can be the value to both the company and the customer. If no value is created, it will not be considered a service innovation in this analysis.

The proposed model focuses on the processes taking place in companies where knowledge is created and which, together with entrepreneurship, are at the heart of the innovation process. However, the model also shows how other factors influence the ability of enterprises to innovate, most notably how resources are attracted and allocated through human and financial capital and how specific innovations are selected and developed.

The innovation index of an enterprise can be calculated by measuring indicators grouped into seven main groups (Ilieva, 2011) that form its innovation activity (Working Group, 2006):

- **Policy for promoting the innovation activity.** Public policy can influence business activities in direct and indirect ways. The regulatory and enforcement framework influences the way in which tourism businesses can exploit the results of implemented innovations, as well as the numerous relationships and transactions they are engaged in, while the tax system influences the costs of business activities.

- **Determining the aggregate innovation product** (as a result of all types of innovations introduced in an enterprise) is the most important step towards a comprehensive evaluation of the innovation intensity of enterprises, which provides an accurate picture of whether enterprises innovate and how often they do so; whether innovations are focused in one area or are comprehensive; and whether they are gradual or radical. The main areas of innovation are related to technical and technological innovations, product innovations, marketing innovations, organizational innovations and socially responsible innovations.

- The next group of indicators measures **entrepreneurship and innovation networks**, which support the study of the entrepreneurial activity of owners and managers of tourism enterprises. Information is collected on new tourist sites that were put into operation during the year under study; mergers with other tourist enterprises; creation of networks for technology and innovation transfer; signing of contracts with new intermediary structures and acquisition of rights to established innovation practices.

- The fourth group of indicators measures **investment and financing of innovations**. These indicators aim to study the investment policy of the enterprise and the extent to which it is aimed at financing innovation projects. In addition, this group of indicators aims to determine whether the enterprise uses financing from various programs and funds to support innovative initiatives in the tourism sector.

- The fifth set of indicators focuses researchers' attention on **measuring human capital for implementing innovations in the tourism enterprises**. It is assumed that there is a relationship between the age structure of the employees and the innovativeness of the enterprise.

- The sixth set of indicators is aimed at **measuring the access of tourism enterprises to information and communication technologies and their use**. Computer and information systems play a crucial role in facilitating the activities and management of a tourism organization as they provide the opportunity to implement specialized software to organize and monitor various operations, such as reservations, customer relations, and accounting.

- The seventh group of indicators measures the extent to which the **innovations introduced by a tourism enterprise lead to the improvement of service quality and the creation of value for both the enterprise and its customers**. This is a key aspect of service innovation, as innovation must be perceived by target customers as increasing the quality of services provided.

It is appropriate, within a tourism enterprise, after measuring the innovation index, to move on to measuring the economic and financial benefits that the tourism enterprise receives as a result of its innovation efforts. These metrics focus on quantifying the increase in direct revenue, cost reduction, and the market share gain that can be directly attributed to the successful implementation of innovations. By examining these impact metrics, the analysis can provide insight into the overall return on investment in innovation and help tourism businesses see the tangible business results of their innovation initiatives.

To summarize, the proposed **innovation index** for tourism enterprises covers seven key dimensions. By incorporating these different dimensions – from aggregate innovation products to entrepreneurship, networks and human capital – the innovation index aims to provide a multifaceted and nuanced evaluation of the innovation activity of tourism enterprises.

This comprehensive innovation index can serve as a valuable framework for tourism organizations to identify their strengths, weaknesses and areas for improvement in fostering a culture of innovation, allowing them

to develop targeting strategies to drive innovation and sustain a competitive advantage in the marketplace.

## **2. Methodology**

The research methodology includes: induction and deduction, method of analysis and synthesis, analogy, content analysis, comparative analysis, survey research, etc. In this study, an innovation index is calculated by using a developed Model for measuring the innovation activity in the tourism enterprises, based on the evaluation of seven groups of qualitative indicators. For the purpose of testing the proposed model, two survey cards have been used. The first questionnaire "Measuring innovation activity and the effect of innovations on tourism" is intended for representatives of tourism businesses, and the second - "Research on consumer preferences for innovations in tourism" is aimed at consumers of tourism services.

The surveys were conducted by using electronic surveys on Microsoft Forms, in the period June - July 2024, and the survey results were processed and analyzed by using Microsoft Excel. The data obtained cover the period 2019-2023. The surveys were conducted by using Microsoft Forms electronic surveys in the period June 6 - July 6, 2024, and the survey results were processed and analyzed by using Microsoft Excel.

In order to measure the scope of the innovation activity in the tourism sector, responses were received from 116 representatives of the tourism sector, of which: hoteliers - 59%, restaurateurs - 14%, tour operators and travel agents - 17%, event organizers - 7% and tourist information centres (TICs) - 3%. Territorially, they are representatives of both the Black Sea destinations and mountain and urban destinations.

The survey method of data collection is appropriate to use in this study because innovation activity is individual and cannot be measured by quantitative methods. The responses regarding the activities carried out according to the specified criteria are given by the entrepreneurs by filling out a questionnaire, which serves the researchers in creating a checklist. The systematization and analysis of information allows for measurement of the innovation activity of an enterprise. The results of measuring the innovation activity using this index can be used to compare the innovation activity of different tourism enterprises, as well as to monitor the process over time for the same enterprise. The use of this index contributes to revealing obstacles to innovation and promoting the innovation activity in tourism.



The positive indicators used with their minimum and maximum values have been upgraded by taking into account the indicators specified by ESIC (European Service Innovation Centre) (ESIC European Service Innovation Centre, 2014) in the proposed Methodology for Measuring the Transformative Power of Service Innovation. The proposed methodology has been upgraded with two new groups of indicators: Policy for encouraging innovation activity and Improving the quality of service, tested in a study of hotel enterprises in rural tourism (Ilieva et al., 2010) and the evaluation of innovation activity in hotel enterprises in the Albena Resort (Ilieva, 2011), where dependencies between the values of the innovation index and the predominantly implemented types of innovations in the research period were highlighted. Each of the indicators included in the methodology receives a score, which forms the overall score of the respective group indicator. The importance of the indicators is proposed as follows: In the absence of the specified operation – 0, in the case of a positive answer regarding the presence of the specified operation during the year – 1. In each group of indicators, a score is given for each of them, taking an average score from the submitted answers, giving the overall score for the group indicator. In such a situation, the possible maximum of points that can be scored, in case a positive answer is received for the seven groups of indicators, is 1, and the possible minimum – 0. After processing the data, an average score for each group indicator is calculated. It is only necessary to divide the total sum of the actually obtained scores for the seven group indicators by their possible maximum number - 7, in order to obtain a single coefficient (or converted into a percentage), which is the value of the innovation index.

### 3. Results

Measuring the innovation activity of a tourism enterprise provides assessment of its innovation activity. Since innovation operations shape the innovation activity of an enterprise, the degree of innovation also indicates the degree of development of its innovation activity. After reviewing and analyzing scientific publications and empirical research conducted in the field of innovation implementation in the tourism sector, taking into account the opinions of experts, the developed model for measuring innovation activity was applied.

Out of the total 116 tourism enterprises covered, the model was applied to 10 enterprises offering accommodation services, 10 enterprises providing

restaurant services and 10 representatives of tour operators and travel agents. The owners of these enterprises have indicated that they implement innovations. As can be seen in Table 1., after measuring the innovation activity, an innovation index of each of the studied tourist enterprises is calculated.

**Table 1.**  
***Innovation index of tourism enterprises***

Accommodation	1	2	3	4	5	6	7	8	9	10
Policy to promote innovation activity	0.33	0.33	0.33	0.67	0.50	0.50	0.50	0.67	0.33	0.33
Innovation product	0.60	0.73	0.67	1.00	0.80	0.70	0.93	0.87	0.73	0.93
Entrepreneurship and innovation networks	0.40	0.00	0.47	0.47	0.67	0.47	0.67	0.47	0.40	0.57
Investment and financing of innovation	0.56	0.31	0.29	0.69	0.88	0.56	0.42	0.75	0.33	0.75
Human capital for innovation	0.61	0.55	0.35	0.67	0.55	0.23	0.39	0.71	0.23	0.59
Information and communication infrastructure	0.63	0.56	0.56	0.81	0.63	0.56	0.56	0.81	0.56	0.81
Improving the quality of services and increasing value	0.75	0.54	0.75	0.75	0.88	0.67	0.75	0.75	0.42	0.75
Innovation index i	<b>0.55</b>	<b>0.43</b>	<b>0.49</b>	<b>0.72</b>	<b>0.70</b>	<b>0.53</b>	<b>0.60</b>	<b>0.72</b>	<b>0.43</b>	<b>0.68</b>
Food and entertainment establishments	1	2	3	4	5	6	7	8	9	10
Policy to promote innovation activity	0.33	0.33	0.33	0.67	0.50	0.50	0.33	0.67	0.33	0.67
Innovation product	0.60	0.63	0.27	0.90	0.73	0.63	0.27	0.93	0.63	0.93
Entrepreneurship and innovation networks	0.13	0.00	0.00	0.47	0.30	0.07	0.00	0.47	0.00	0.47
Investment and financing of innovation	0.63	0.31	0.08	0.69	0.88	0.31	0.08	0.69	0.31	0.69
Human capital for innovation	0.61	0.19	0.19	0.79	0.61	0.19	0.19	0.79	0.19	0.79
Information and communication infrastructure	0.63	0.56	0.56	0.81	0.63	0.56	0.56	0.81	0.56	0.81
Improving the quality of services and increasing value	0.75	0.42	0.50	0.75	0.75	0.42	0.50	0.67	0.42	0.75
Innovation index i	<b>0.52</b>	<b>0.35</b>	<b>0.28</b>	<b>0.72</b>	<b>0.63</b>	<b>0.38</b>	<b>0.28</b>	<b>0.72</b>	<b>0.35</b>	<b>0.73</b>
Tour operators and travel agents	1	2	3	4	5	6	7	8	9	10
Policy to promote innovation activity	0.00	0.33	0.33	0.33	0.00	0.33	0.00	0.33	0.00	0.25
Innovation product	0.57	0.40	0.43	0.67	0.40	0.67	0.40	0.43	0.57	0.40
Entrepreneurship and innovation networks	0.30	0.23	0.83	0.40	0.27	0.40	0.27	0.73	0.30	0.23
Investment and financing of innovation	0.38	0.36	0.36	0.31	0.23	0.31	0.23	0.36	0.38	0.36
Human capital for innovation	0.59	0.59	0.43	0.63	0.35	0.63	0.35	0.43	0.59	0.59
Information and communication infrastructure	0.69	0.50	0.81	0.63	0.38	0.81	0.38	0.81	0.69	0.75
Improving the quality of services and increasing value	0.75	0.34	0.50	0.50	0.25	0.50	0.25	0.50	0.75	0.34
Innovation Index i	<b>0.47</b>	<b>0.39</b>	<b>0.53</b>	<b>0.49</b>	<b>0.27</b>	<b>0.52</b>	<b>0.27</b>	<b>0.51</b>	<b>0.47</b>	<b>0.42</b>

Source: Author's research

The limits of the measured innovation index are (Ilieva, 2009):  $0 < i < 0.33$  – low innovation activity,  $0.33 < i < 0.66$  – medium innovation activity and  $0.66 < i < 1$  – high innovation activity, which shows that tour operators and travel agents are relatively less innovative ( $i=0.43$ ) compared to accommodation ( $i=0.58$ ) and catering and entertainment establishments ( $i=0.50$ ). However, all three groups of enterprises offering the main tourist activities fall within the limits of medium innovation-active companies.

Despite the averaged coefficients, in the separate groups of enterprises there are also those with above average innovation activity. For example, in the accommodation group there are three hotels with high innovation activity (above 0.70), which is mainly due to the implementation of innovations from the five groups, i.e. the creation of the overall innovation product and the increased quality of services. As can be seen from the table, places of accommodation 4, 5 and 8 stand out from the others both in terms of the innovations implemented and the growth of investments, and in the use of information and communications infrastructure and human capital for the implementation of innovations. The indicators are similar for food and entertainment establishments. Three of the studied restaurants have an index above 0.70, and all three are 4-star category restaurants. The data in the table shows that all three restaurants have the maximum number of points for the implemented innovations, which cover the five groups of innovations that make up the overall innovation product. The high index is also due to the good results on indicators related to the quality of services provided, high levels of investment in innovation, the effective use of information and communications infrastructure and highly qualified human capital in these establishments. These findings indicate that the restaurants in the sample are leaders in innovation and technology adoption in their sector. Despite the low levels of innovation activity among tour operators and travel agents compared to the other two categories of tourism enterprises (hotels and restaurants), they also feature organizations with higher innovation activity. We can single out 3, 6 and 8 companies that are tour operators and create their own products, invest in reservation systems, create partnerships and organize the sale of their products in the value creation channel.

The tested model shows that it is possible to measure the innovation activity in the tourism sector by covering all enterprises offering the main tourism services. The individual indicators can be further developed with additional questions to allow for greater differentiation of the actions taken on the implementation of innovations, the creation of networks and the transfer of knowledge.

## 4. Discussion

Based on the responses received in this study, it is clear that there is practically no policy to promote innovation in the tourism sector. The few available innovation funding initiatives are mainly focused on resource-saving technologies that have an indirect impact on the quality of tourism services.

It seems that intellectual property and knowledge management are not among the priorities of tourism enterprises, as they do not pay special attention or make investments in this direction. Moreover, there is a lack of a clear strategy and support from the state and local authorities to foster innovation in tourism, which further complicates efforts of the enterprises in this direction.

An issue that was identified in this study is the difficulty tourism businesses experience in networking, joining associations and collaborating with other organizations in implementing innovations. There is a lack of coordination and interaction between state institutions, academic units and businesses with the aim of developing an innovation ecosystem in tourism. This limits the opportunities for the exchange of knowledge, technology and good practices, which is of key importance for increasing the innovation capacity of the tourism sector.

Another serious problem found in the research of innovation activity is the lack of purposeful management of innovations in tourism organizations. This also leads to difficulties in tracking the return and effectiveness of implemented innovations. Without clear processes for managing innovation, tourism businesses often face challenges in evaluating the benefits and impact of their innovation initiatives.

Another problem related to the implementation of innovations is the lack of human capital. A large number of the owners of tourism enterprises do not engage consultants in the development of innovation projects, and the organizations lack employees to deal with this activity. This is the reason why many promising ideas remain undeveloped and tourism businesses miss opportunities to improve their competitive position through innovation.

Another significant problem identified in this study is the difficulty faced by tourism businesses in determining whether the innovations they have implemented really qualify as true innovations. Many of the interviewed entrepreneurs were excluded from the study for this very reason – they simply failed to clearly and categorically define whether the changes they were making in their business activities were truly innovative or not. The challenge of distinguishing between true innovation and mere modifications or

incremental improvements is a serious obstacle that prevents tourism businesses from fully adopting and benefiting from innovative practices.

### Conclusion

The analysis carried out reveals that the innovation activities of tourism enterprises in Bulgaria are quite limited in scope and are mainly aimed at technological innovations, while non-technological innovations, such as social, sustainable and responsible innovations, are still at an early stage of development.

To solve the outlined problems, specific measures could be implemented to support innovation activities in tourist enterprises:

- developing a comprehensive national innovation strategy for the tourism sector, which is in accordance with the overall economic development goals of the sector and the country;
- creating a system to support innovation in the tourism sector, including financing schemes, tax incentives and advisory services in order to encourage tourism enterprises to invest in innovation projects;
- promoting cooperation and knowledge sharing between tourism enterprises, research and educational institutions and government organizations to foster an innovation ecosystem in the tourism industry;
- investing in building the innovation capacity of tourism enterprises by providing training and resources to develop skills and capabilities for innovation management;
- encouraging tourism enterprises to adopt a more holistic approach to innovation, focusing not only on technological innovations, but also on non-technological innovations that can increase the overall competitiveness and sustainability of the Bulgarian tourism product.

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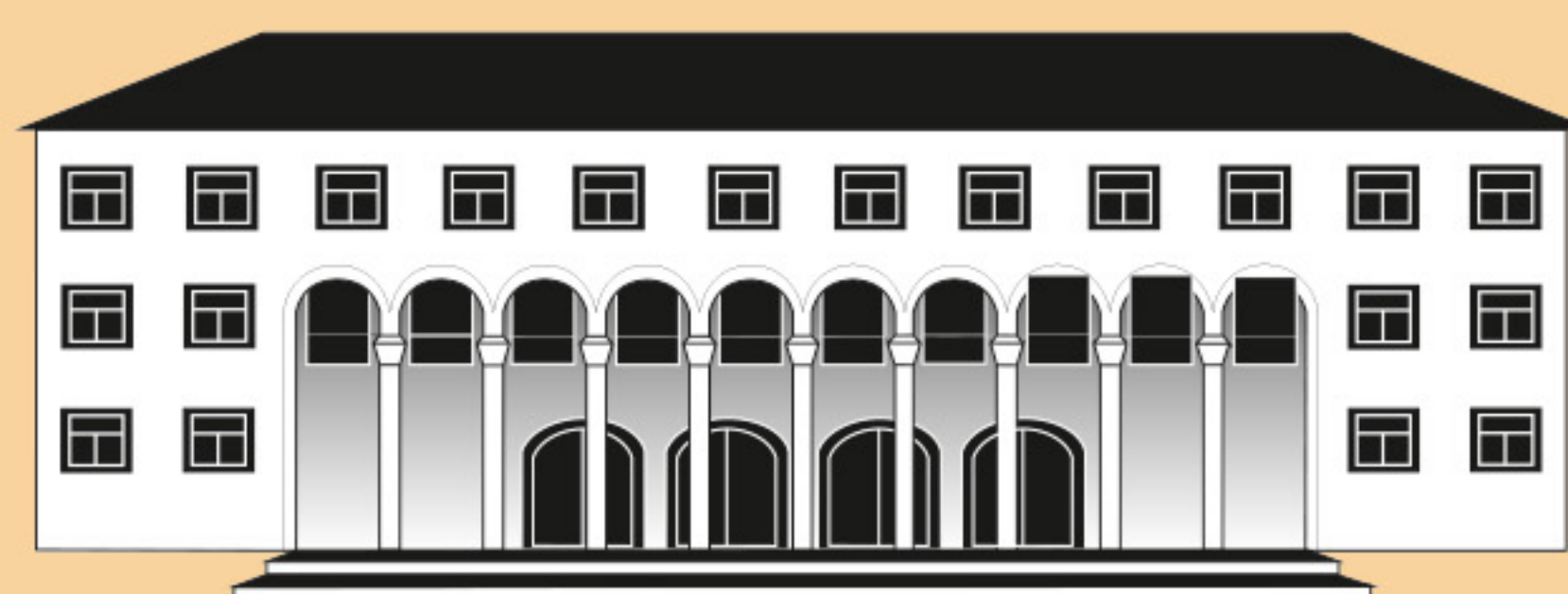
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## **CONTENTS**

### **MANAGEMENT practice**

#### **PROFITABILITY PUZZLES: INSIGHTS FROM NORTH MACEDONIAN BANKS**

Tatjana Spaseska, Ilija Hristoski, Dragica Odzaklieska..... 5

#### **THE IMPACT OF DIGITAL TRANSFORMATION, CORPORATE SOCIAL RESPONSIBILITY AND MARKET ORIENTATION ON FIRM PERFORMANCE: EVIDENCE FROM VIETNAMESE COMMERCIAL BANKS**

Danh, Luu-Xuan, Nguyen Thanh Long.....25

#### **PERCEPTIONS ABOUT IMPLEMENTATION OF SERVICE ROBOTS IN HOSPITALITY BUSINESSES IN KAZAKHSTAN AND RUSSIA – COMPARATIVE ANALYSIS**

Vesselin Blagoev, Elena Shustova, Alexandr Koichubayev ..... 50

#### **CORPORATE SOCIAL RESPONSIBILITY OF AGRIBUSINESS AS A DETERMINANT FOR ENSURING THE DEVELOPMENT OF RURAL AREAS OF UKRAINE**

Nataliia Kurovska, Dmytro Dema, Oleksandr Vilenchuk,  
Larysa Nedilska, Olga Vikarchuk.....68

#### **MEASURING THE INNOVATION ACTIVITY OF TOURISM BUSINESSES IN BULGARIA**

Lyubka Ilieva, Mariyana Bozhinova, Lyubomira Todorova, Pavlin Pavlov .....87

#### **SPACE INSURANCE – INNOVATIONS AND CHALLENGES FOR THE INSURANCE BUSINESS**

Irena Markova ..... 102