

Article

# Montenegro's Road to Sustainable Tourism Growth and Innovation

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**Abstract:** Tourism is the most important export sector in Montenegro, with a share of 22% of the total Gross Domestic Product (GDP) and a strong tendency toward growth. Tourism revenues contribute substantially to both the current account balance and employment. However, the current level of the tourist sector suffers from serious limitations. The switch from the current approach to tourism in Montenegro to a more sustainable tourism is only possible by becoming more innovative. Highlighting the importance of innovation in all its forms has been the motivation for our research. The application of the organizational, marketing, and design innovations of the Montenegrin tourism industry actors was examined in a survey, based on the Community Innovation Survey (CIS), with some necessary adaptations. The sample covered more than 70% of available tourism actors. The authors also analysed the experience from Slovenia, in particular the Slovenian example of the Bank of Tourism Potentials, finding this innovation potentially suitable for transfer to Montenegro. Based on the survey and analysis, the team designed certain recommendations for policy action that can be used as guidelines for policy makers.

**Keywords:** sustainable tourism growth; Montenegro; non-technological innovation; Slovenia; policy recommendations

## 1. Introduction

The Montenegrin economy is a service economy, with a share of services exceeding 70% of the GDP. Within this, tourism is the most important export sector in Montenegro. Based on the latest data of the National Tourism Organization of Montenegro (NTOM), direct and indirect travel and tourism account for about 22% of the total GDP [1]. The tourism sector has significant potential for future income generation in the country. According to the report by the World Travel & Tourism Council (WTTC), Montenegro is among the top three countries for growth rates in the tourism industry over the next ten years [2], based on statistics for 184 countries. When it comes to tourism investment, the same institution ranks Montenegro among the top eight destinations over the next decade. It is expected that by 2026, tourism revenues will reach around one billion euros and the total contribution of tourism to the GDP will be around 30%. However, any further development faces several challenges, since it needs to follow the concept of sustainable tourism to bring the kind of quality acceptable to the global tourist market. This can only be achieved with increased innovation activity in the sector. These facts provided the framework for the research team to focus more closely on the potential for innovation in the tourism sector.

The concept of sustainable tourism development implies a tourism sector providing high-quality products, which satisfy the current needs of tourists, while also preserving tourism resources for future

generations. The United Nations World Tourism Organization (2005) defined sustainable tourism as: “Tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host community” [3] (p. 12). Tourist destinations are increasingly encouraged to deal with social, economic, cultural, and environmental issues. Tourism requires the interconnection of new technologies and human resources. Here, innovation can play a crucial role.

Modern economic growth and the increase of exports depend on the national capacity for innovation [4]. Innovation is one of the most significant factors of economic development today [5]. This has been widely recognised in both theory and policy. Many countries and groups, including the EU, have placed the promotion of innovation activities among their top priorities, so as to ensure the competitiveness of their business sector. In order for Montenegro to overcome its current economic problems and achieve sustainable tourism growth, the focus should be on innovation and on creating new tourist products, as well as on introducing new business models into the tourism industry, which should include marketing, organizational, and design innovations.

Building a National Innovation Ecosystem in any country and the very complexity of innovation can be a challenge in itself. Montenegro is at the starting point in this process [4,6]. However, a modern innovation system is essential to help in the transition from a classic tourist sector based on providing simple accommodation and travel services to a more creative, sustainable tourism, based on innovative products and services of higher value added.

Our research examines the implementation of innovation practices in Montenegro in the tourism sector. For the purpose of the research, a survey was conducted over two years, involving both the summer and winter tourist seasons in 2017 and 2018. The level of innovation practice in the services provided by the tourism sector was measured by survey research, which was based on the “European Community Innovation Survey (CIS)” (See more at: <https://ec.europa.eu/eurostat/web/microdata/community-innovation-survey>), with certain necessary adaptations. The main aim of this research is to look at how to shift from the current tourism system to a more sustainable form of tourism, especially through the help of non-technological innovation.

The Slovenian experience, including its positive examples, as well as the barriers faced, can serve as a lesson to be learned in this process for Montenegro. During its transition period and the process of accession to the European Union (EU), Slovenia sought to develop a complete National Innovation System (NIS). Our assumption is that the Slovenian experience is more suited to Montenegro than the innovation ecosystems of larger EU countries, especially as some of the barriers Slovenia experienced are common to both countries. Over the years, Slovenia has introduced various instruments in R&D and innovation policy, some with greater success, and others which have not worked as well. Both the successful and unsuccessful efforts could be of value when Montenegro is designing its measures: in this way, costly mistakes can be avoided from the start and the country can concentrate on positive actions. This research placed special attention on the innovation product of the Bank of Tourism Potential in Slovenia, since it relates to non-technological innovation in the service sector, specifically in tourism.

The main research hypothesis is: The more systematic promotion of innovation activity in Montenegrin tourism is the only way to achieve sustainability, as well as an increase of comparative advantages, of the sector. The main goal of the article is to further investigate the state of affairs in Montenegro tourism as far as the innovation activity is present at the moment.

The use of a unified type of survey (CIS) was emphasized for the possibility of comparing innovation at an international level [7]. The existing literature does not have sufficiently developed models for measuring innovations in tourism at the enterprise level, so there is space for an academic contribution in this direction [8,9]. In this sense, the aim of this analysis is to identify the most important types of innovations that are present in the tourism industry in Montenegro, and to measure their impact on the comparative advantage of tourism actors in Montenegro. An additional contribution

consists of the consideration of Montenegro as a new destination that has not been observed in the existing literature in tourism so far.

## 2. Literature Review

The primary attention at this stage of Montenegro's development is assigned to the development of sustainable tourism growth, with the ambition to also administer other key principles of sustainable tourism.

According to Chirila et al. (2018), sustainable tourism is an alternative form of tourism that is based on several principles [10]:

- Minimizing the impact of tourism activity on the environment in order to achieve ecological sustainability, maintaining and improving the conservation status by returning a part of the income to the protected area;
- Minimizing the negative impact of tourism activity on the local community in order to achieve social sustainability; and
- Minimizing the negative impact of tourism activity on the culture of local communities in order to achieve cultural sustainability.

Several United Nations' organizations, including the UNWTO, have recognized the concept of sustainable tourism, which has three dimensions—environmental, social, and economic dimensions [3]. These three pillars enable tourism operations competitiveness in the long term. This concept has become the focus of academic attention and the starting point for many tourism strategies and policies [11]. It is thus clear that sustainability is as consequential in tourism as it is in any other sector of the global economy. The existing academic literature suggests that the implementation of sustainability principles is rather slow in tourism [12] and needs the dedicated role of all stakeholders [13].

Innovation is the foundation of competitive and sustainable tourism development. Thus, it is important to look at what type of innovation is most suitable and why this is the case for the tourist sector.

In the context of innovation in tourism, one first has to look at the most relevant specifics of innovation in the service sector. Coombs and Miles [14] distinguished three approaches to analyzing innovation in services: assimilation, demarcation, and synthesis. The first one is treating the service innovation similarly to innovation in manufacturing, whereas the second one clearly delineates it from innovation in manufacturing. The synthesis formulation defines the features of innovation in such a way that they apply to both manufacturing and services.

In the empirical analysis, the first two approaches still prevail. Lusch and Nambisan [15] say that innovation in services can be viewed as a way of merging different resources so as to create new resources that are useful to actors; the whole process usually refers to a network of actors, as well as the final user of a service. Therefore, the final user is active and their experience is the output of the process. About 70% of studies on innovation in services have been conducted since 2010 [16], so this topic is truly new in terms of research.

The term "service innovation" involves both the whole range of innovations in service sectors and innovations in service functions (technological and non-technological) introduced in any sector of the economy, as well as in civil society (social innovations). Businesses can only maintain or strengthen their competitive advantage by interlinking product and service innovations more intensively [17]. For example, information and services are increasingly important value components of most industrial and agricultural goods.

The acknowledgement of service innovation has been shaped in the following theoretical models: (i) *the Service Dominant Logic* [18] and "experience economics" [19], which argue that the service experience is at the core of corporate activity; (ii) *the economics of functionalities or product service model*, which proposes the equal treatment of goods and services [20]; and (iii) *the characteristics-based approach of the product*, which puts the characteristics of the product in the forefront of the final outcome [21].

There are several *special features of service innovation* that have an impact on the understanding of service innovation and possible policy interventions [22]. The following represent the most important characteristics of service innovation:

1. It is difficult to measure the phenomenon, since it is usually intangible [23,24];
2. Service innovation occurs differently and less often requires research and development. However, this does not necessarily reflect a lack of innovation, as demonstrated in the Community Innovation Survey;
3. Intangibles such as multi-disciplinary methodologies, organisational and marketing competences, interactions among stakeholders, and the integration of user needs are key inputs to the process of services innovation [25];
4. The invisible nature of a great deal of service innovation leads to specific and less formalized modes of innovation organization, resulting in various models: the ad hoc model, the practice-based model, the bricolage model, the rapid application model, the consumer/user driven model, and so on [26–29];
5. Demand is a more important trigger of service innovation than supply [29] and customers/final users [30,31];
6. As a consequence of the above-mentioned features, service innovation raises appropriation and intellectual property protection issues. Service innovation is easy to imitate and difficult to protect [32]. Unlike in manufacturing, where patents are most often used in this respect, brands and models seem to be more appropriate modes of intellectual property protection in services;
7. Knowledge intensive services (KIS) are considered essential in facilitating innovation in any activity [33–35]. A significant correlation exists between the share of employment in KIS and the Innovation Scoreboard index for European economies. Firm-level analysis confirms that knowledge from external partners is considered very important to the success of organizational and marketing innovations [36];
8. Non-market and public services have specificities that influence innovation, like their non-market and monopolistic nature-equality of access, etc. However, they also innovate and can provide a supporting environment for innovation in other sectors [37–39];
9. Service innovation is closely related to social innovation and is performed by individuals, institutions, and companies [39,40].

The term service innovation applies to both the whole range of innovations in services and innovations in service functions (technological and non-technological innovations). This also applies to the tourism sector where the interconnection of new technologies and human resources is highly relevant. Tourists seek to enjoy the new attractions and atmosphere, enabled with the help of modern tools; however, their overall experience depends on their interaction with the people who create the service.

Some analyses point to the creation of a quality management system in tourism organizations as an important organizational innovation [41], while others consider that companies do not improve innovation implementation when adopting organizational strategies [42]. The study by Nguyen-Thi and Mothe [42] emphasizes marketing innovation, as the most important activity.

Globally, services have gradually gained an increasingly important place, thus motivating academics to start researching and measuring innovation in this sector. Numerous analyses have determined innovation as the central force for the comparative advantage and competitiveness of destinations and companies [43–46]. However, this topic is still unclear at the level of enterprises that are tourism actors [8,47,48]. The same is confirmed by studies that link innovation in tourism to its outcomes [43,49]. A particular problem is that the studies that have been done so far in tourism innovations are more qualitative [8,14,50,51]. Hall (2009) cites as a central thesis that there is a strong need for the quantification of innovation in the tourism industry, which will allow a comparison of results between different countries [8,47]. It is particularly emphasized that the research

of organizational and marketing innovations only relates to recent studies [52,53]. Some analyses have also measured the capabilities of the company in terms of innovative performance, but these analyses relate to other sectors rather than to tourism [54,55]. The effects of innovation in tourism on the performance and comparative advantage of the company are less explored [56,57]. Some other analyses link different types of innovation to competitiveness, or to the ability of a company to survive [48] and/or are based on the comparison of innovations in the tourism sector with the manufacturing sector [47,58,59].

There are a few studies that link innovation in tourism and sustainable tourism [60–62] and suggest a new way of thinking as a solution. Three possible synergies between tourism and other activities are observed—product, market, and marketing synergies [63]. Product synergies involve the joint use of resources between tourism and other sectors. This particularly applies to infrastructure and transport, as well as the development of other service activities. Market synergies view tourists as potential consumers of other products and services [64,65]. Finally, marketing synergies enable a better recognition of existing tourism products and destinations. For example, the products of local producers are advertised through tourism websites and brochures [60]. Sustainable tourism as a long-term approach requires environmental sustainability, innovation, and a productivity increase [66]. It has also been shown that tourists recognized and showed preferences towards a sustainable tourist destination [67], which evidenced the number of tourists and their flows as an important factor for sustainable tourism destinations.

### 3. Country and tourism profile of Montenegro

Montenegro is a Mediterranean country located in the Adriatic Sea. It covers 13,812 km<sup>2</sup> and, according to the most recent census in 2003, it has a population of 622,099 [68].

In the period between February 2003 to June 2006, Montenegro was a member of the state union of Serbia and Montenegro. On 21 May 2006, after a referendum, Montenegro declared independence. On June 28, 2006, the country became the 192nd member state member of the United Nations. Since the declaration of independence, Montenegro has made significant efforts to stabilize the political and economic situation in the country. Montenegro has applied for EU membership. Although Montenegro is not a member of the EU, the official currency in the country is the euro. The Euro as a currency is allocated under the Law of the Central Bank as a replacement for the German Mark, which was previously used instead of the Yugoslav dinar.

The gross domestic product of the country in the second quarter of 2017 amounted to 947 million euros, while in the same period in 2016, it amounted to 880 million euros [69]. The real GDP growth rate in the 2017 was 2.9%. Services account for more than 70% of GDP, followed by non-production industry with 13–14% and agriculture with 9–10% [70]. The main business sector is tourism, followed by services and metal processing.

#### 3.1. *The State of the Art in the Tourism Sector in Montenegro*

Montenegro is among the top ten countries according to growth forecasts for the tourism industry over the next ten years, and it represents a growing sector in Montenegro [71]. According to the latest data of the National Tourism Organization of Montenegro, direct and indirect travel, as well as tourism, account for about 22% of the total GDP [72].

Seasonality is one of the biggest problems facing Montenegrin tourism, although in recent years, the summer tourist season has been extended, beginning earlier and ending later. Based on the interviews conducted in National Tourist Organization of Montenegro and in the Ministry of Sustainable Development and tourism in Montenegro, during 2016 and 2017, tourist centers in the north have achieved significant visitor numbers during the summer months, due to improvement in the tourism sector there (including walking and cycling tours, dance competitions in Kolasin in August, and so on). High-quality tourism depends on the attractiveness of the destination throughout the year. In order for our destination to overcome the problem of seasonality or the concentration

of tourists in a few months of the year, the focus of the Montenegrin tourism industry should be on innovation and on creating new tourism products and introducing new business models into the tourism industry, including marketing, organizational, and design innovations [73].

The promotion of tourism, both in the region and in other markets around Europe, is conducted in traditional ways—by organizing press conferences or by participating in fairs, workshops, study trips, and so on. As highlighted by the Tourism Reform Agenda, the Ministry of Sustainable Development and Tourism [73] and the National Tourism Organization [74] of Montenegro have defined several key measures in terms of promoting Montenegro as a tourism destination in recent years. This promotion has included campaigns through global networks, campaigns at the regional level, strengthening new forms of online promotion, and promotion through the most popular tourist promotion portals: Trip Advisor, Your Tour, Google, and the like. There is also a plan to create communication strategies for blogging and social networks, notably Facebook, Twitter, Flickr, Wayn, and so on.

For the purpose of the presentation of Montenegro as an attractive tourist destination, a new and improved web portal has been introduced: [www.montenegro.travel](http://www.montenegro.travel). (See more at: <https://www.montenegro.travel>). Through this portal, any tourist from around the world can learn about what Montenegro offers in one place. The site is designed as very easy-to-use and provides basic information about the main destinations and amenities that can be found in our country. Marketing strategies play a key role in finding new users of services, i.e., new tourists who will visit Montenegro. With the Montenegrin Development Strategy until 2020 for the promotion of Montenegro as a Unique Selling Product (USP), the existence of effective marketing structures is inevitable. This includes a well-balanced marketing strategy, as well as an adequate institutional structure. The Wild Beauty brand will be further strengthened and a constant presence in important emitting markets will be ensured. This brand will be the focus of future marketing efforts and will be an “umbrella brand” for the further specific brands of particular locations and regions.

Through surveys, the National Tourism Organization of Montenegro regularly monitors the impressions of tourists—most notably their satisfaction with services. In this way, their impressions become one of the most important sales instruments. Significant innovation in the field of tourist impression research is taking place at the level of the Ministry of Sustainable Development and Tourism of Montenegro, where the presentation of a new model for exploring the satisfaction of tourists through horizontal segmentation is at the planning stage.

International hotel companies reduce the consequences of having a complex organizational structure and a lack of flexibility by developing a sense of belonging to the parent company for their employees. It strengthens their loyalty through proper motivation and rewards. In terms of the existing experience, a good example of motivation development and employee loyalty is the hotel chain Aman Resort, the current tenant of Hotel Sveti Stefan.

A deeper analysis of the functioning of the organizational structures of Montenegrin tourist facilities suggests that rigid models of an organizational structure followed by autocratic methods of guidance are increasingly being abandoned in the modern tourism industry, due to the lack of a sufficient level of flexibility within what is a constantly volatile market. The obvious alternatives are innovative models of organizational structures with a greater degree of decentralization and the introduction of modern project approaches to certain activities. A prerequisite for this is a professional and modern educated workforce, competent enough to independently decide on its domain of authority and responsibility [74].

The development of primary management awareness of the importance of educating employees, as well as managers at different levels, is a prerequisite for starting the same process. At the same time, retaining a high-quality workforce has been recognized as a problem of Montenegro’s tourist capacity, which must be addressed in a planned manner, using different strategies of material and immaterial motivation, as well as the development of access to human resources as a long-term investment.

The main characteristic of the hotel industry in Montenegro and at the same time, one of the main problems, is short-term or seasonal employment (employment varies between extensive in the

high season and very low during the off season) [1]. In addition to this, typical problems related to employees in the tourism sector in Montenegro include: a lack of job analysis, written standards, and job descriptions; ignorance of job issues on the part of the owners and managers, which is why the expectations employees are often too high (which often results in cancellation, dismissal, termination of contract, and so on); short-term contracts; insecurity of work that disturbs the continuity and quality of service; low salaries; the lack of a high level of motivation; working in the semi-legal, “grey” zone; unpaid overtime; the denial of rights to free days and holidays; the advantage of permanent residents in the employment process; and various other factors. A very small percentage of the investment in the hotel business is targeted at R&D [75]. Most hotels are not familiar with the significant EU funds available that can help their business financially.

Recommendations to national level organizations concern the following [75]: the improvement of the national innovation systems efficiency, the improvement of training for tourism staff, the development of the role of public and private agents, research stimulation, and the creation of incentive systems for employees.

The tourism sector in Montenegro has experienced a number of limitations and restrictions to its further development, limiting its capacity to achieve its potential. Most of limitations are the results of a low level of novelty and innovation activity and awareness of their importance, especially amongst the direct tourist actors. The switch from the current tourism system of Montenegro to a more sustainable tourism is only possible by becoming more innovative. Research has clearly indicated that the potential for the development of the country, based on increased non-technological innovation, lies in the progressive development of sustainable tourism.

### 3.2. The Montenegrin Innovation Policy

Montenegro has spent approximately 0.38% of its GDP on R&D since 2010, which nominally means a gradual increase in funding. By 2015 [68], this translated into € 13.67 million, or in per capita terms, € 22, one of the smallest amounts in Europe (EU average is € 593 and the lowest per capita spending among EU member states is € 39 in Romania (Eurostat)). While there are 1766 registered researchers within the Ministry of Science, this nominal figure translated into only 673 FTE (2015), partly explained by the fact that most of the R&D is performed at the universities, where research is a side activity to teaching [69]. One important factor in terms of research potential is also the qualifications of the research staff: of 1766 researchers, 849 were researchers with a PhD (ISCED 8), 745 had a Masters degree (ISCED 7) including PhD students, and 172 researchers had completed the first cycle of higher education.

Most of the research infrastructure in Montenegro is outdated, with very few laboratories or research institutes that meet European standards. The available data suggest that business enterprises invest little in R&D, limiting the opportunities for enterprises in developing new products and processes and in absorbing technologies from abroad. The government has developed a Strategy for Scientific Research Activities (2016–2020) and committed itself to increasing research and development investment. Over the past 10 years, Montenegro has established quality assurance systems in science that meet European standards, increased regional cooperation in research, increased opportunities for cooperation between research institutes and the private sector, and improved the legal framework.

There are no CIS data for Montenegro. It was planned that Monstat would introduce its first pilot innovation survey in 2018. The Montenegro authorities prepared the *Strategy of Innovation Activity with the Action Plan (2016–2020)*, which was adopted in July 2016. The Strategy first presents the EU, regional, and country level context, giving basic information on the existing innovation system in Montenegro. Sustainable Development and Tourism has a priority for the innovation activity for the period up to 2020, together with Energy and Agriculture and Food.

In spite of the low starting level, the promotion of innovation is high on the government’s agenda and among the priority fields is sustainable development and tourism, suggesting that this is the right time to design appropriate policies.

#### 4. Country and Tourism Profile of Slovenia

Slovenia is among the smaller EU member countries with its two million inhabitants and GDP in current prices in 2017 amounting to 43,278 million EUR or € 21,000 p. c. 70 [76]. After a crisis following the global financial turmoil, real GDP growth picked up in 2015 and continues to experience relatively high growth, being 4.9% in 2017 with a forecast to increase by 4.2% in 2018 and 3.5% in 2019 [77]. The country joined the EU in 2004, and in 2007, it became a member of the Eurozone. The recent GDP growth has been achieved primarily due to the good results of the export sector and renewed investment activity. The unemployment rate further declined to around 8% in 2018 and is projected to drop to approximately 68,000 [78].

The innovation policy support system as it has evolved over the years provides support to business R&D, helps with the development of human resources for R&D, promotes start-ups and new entrepreneurs, and tries to set up a supportive innovation environment through intermediary institutions. It has several different actors, with the business sector taking the lead in recent years. Slovenia has developed a rather comprehensive institutional system for RDI, which is complimented by policy papers, prepared for the national framework, as well as in alliance with the EU (the Smart specialisation strategy, for example). The EU's impact on RDI has been significant in terms of both policy and funding through structural funds. In spite of its development, there are still several open challenges to making the innovation ecosystem more effective and ensuring that it contributes more to both economic and social development.

While initially the Slovenian innovation policy focused primarily on technological innovation in manufacturing, gradually, non-technological innovation has been recognised as increasingly important. This resulted in the promotion of innovation activity in the service sector, where non-technological innovation is even more pronounced. One of the best examples of how proper policy intervention can snow-ball is provided by the Bank of Tourism Potential, which we present as a case study, from which lessons can be drawn towards increasing both innovation and the potential for the sustainability of tourism in Montenegro.

##### *The Bank of Tourism Potential in Slovenia (BTPS)*

The initiative for BTPS dates back to 2004, and the “Sower” call for innovations was introduced by the Slovenian Tourist Board (STB), organised as a competition on a national level. The three partners: the STB, Faculty of the Tourism, and the Tourism Directorate of the Ministry of Economic Development and Technology (MEDT-DT)—established the Bank of Tourism Potential in Slovenia in 2006. It is not a bricks and mortar institution, but a project with an intention. Its main objective is to enhance creativity and innovation in Slovenian tourism. As such, it is considered an *organizational innovation* underpinned by the Web 2.0 platform. The engagement of public institutions from the outset was very important as it brought credibility to the BTPS and attracted early stakeholders that contributed funds, knowledge, and other resources. The BTPS facilitates cooperation and interaction between different stakeholders—individuals, tourist boards, educational institutions, companies, public institutions, and so on. It acts as a meeting point where actors can deposit *ideas* for new tourism products/services (an idea deposit), or obtain *energy* (energy deposit includes financial, material, and knowledge resources). In addition, a large amount of information is published on the platform related to innovation in tourism.

Since its start, the platform has published 1600+ ideas, 600+ synergies, and 1300+ news articles and analyses. The BTPS has over 2600 registered users and more than 1,000,000 views (Data refer to December 2017).

Awards for the best solutions referring to tourism products and services are granted annually by the Slovenian Tourist Board. For example, the winning innovative solution for the challenge “Give me 3 days of GREEN SLOVENIA” was submitted by a student from Canada.

Even though the BTPS was launched by three public sector institutions, the collaboration has evolved into an open and flexible bottom-up innovation network of high flexibility. A large number



of new tourism products have been introduced as a result of cooperation and networking between various actors in Slovenian tourism from private, pub, and not-for profit actors.

There are also some obstacles that have restricted a more smooth evolution of the BTPS. Perhaps the most important one refers to the lack of interest for a novel innovative approach among the major tourism companies in Slovenia that stick to in-house sources of innovation.

In the context of Montenegro, where tourism is among the three main priority sectors of the economy, innovation activity is rather modest, and the lessons from the BTPS in supporting innovation in tourism are highly relevant.

## 5. Methodology of Analysis

In order to analyze the organizational and marketing innovation of Montenegrin tourism industry actors, a survey was conducted (covering a number of hotels), as well as a set of interviews with policy makers in the field of tourism (notably the Ministry of Sustainable Development and Tourism of Montenegro and the National Tourism Organization of Montenegro).

For the purpose of the research, the survey was conducted over two years, involving the summer and winter tourist seasons in 2017 and 2018, and was based on the “Community Innovation Survey (CIS)”, with certain necessary adaptations.

Our survey included seven hotel groups and seven large hotels; eight from the southern region, which is the most attractive to tourists; six from the northern region, which we find suitable for development; and two from the central region of our country, which is more focused on other branches of the economy rather than tourism. The total share that the hotels included in the survey have in the tourism sector of Montenegro is more than 70%.

First, basic information about the structures of the hotel, such as the location of the hotel and the number of employees, was gathered. Other questions were focused on product innovation, process innovation, organizational and marketing innovation, and the application and implementation of those innovations in hotels. In addition, a special part of the research was dedicated to the impact of social networks on the tourism sector.

Interviews were conducted with policymakers in tourism and innovation in tourism, specifically with the Ministry of Sustainable Development and Tourism of Montenegro and the National Tourism Organization of Montenegro. The issues were primarily related to the connection of tourist actors in Montenegro. It was necessary to clarify the level at which the tourism entities are truly connected, in order to determine to what extent their linkage influences innovation.

The survey process was very complicated, primarily because hotels were reluctant to participate in the research. Likewise, Farsari (2017) found that data availability is the most important issue in most Mediterranean countries [70]. The reasons cited were a lack of time, and, unfortunately, a lack of knowledge as to the terms of organizational and marketing innovations. After explaining the meaning of the terms, the survey was conducted in a representative sample of major hotels in Montenegro, which have made significant profits over the past five years. A five-year period of 2012–2017 was looked at with regard to the issues concerning the introduction of organizational and marketing models into the business. A total of 25 returned surveys were considered for further analysis (above 70% of the hotels offered the chance to participate). This sample adequately represents the structure of the original sample.

Traditional statistical methods are not capable of solving the causal relationships often present when dealing with surveys that have multiple cases [79]. In this regard, the Structural Equation Model (SEM) was used to estimate latent variables that cannot be observed directly, and to measure the causal relationships between them.

Hjalager [80] divided the innovations in a service sector into product innovations, classical process innovations, process innovations in information handling, management innovations, and institutional innovations. Bearing that in mind, and the type of the survey used in this analysis, we decided to investigate the relationships between four factors: process and organizational innovations in tourism,

innovations through social media promotion, marketing innovations, and the comparative advantage of tourism industry actors in Montenegro [81]. However, due to calculation problems - the correlation matrix of all variables was not a positive definite—we had to reduce the number of variables included in the analysis, in order to avoid this problem. So, we concentrated on several variables in these four groups.

Process and organizational innovations are considered through four variables. The variable P1 was formed as an answer to the question on whether the hotel in Montenegro introduced new or significantly improved methods of producing goods or services, as well as methods of logistics, or new or significantly improved supporting activities for the processes, such as maintenance systems or operations for purchasing, accounting, or computing. It has values from 1 to 3, and the descriptive statistics are shown in Table 1. The variable P2 was measured by asking the hotels who developed these process and organizational innovations (1 means mainly the hotel or the hotel group; 2 means mainly the hotel together with other institutions; and 3 means mainly other enterprises or institutions). The third variable from this group of process and organizational innovations is marked by P3, which was formed as an answer to the question of whether the hotel introduced new practices for organizing procedures - such as innovations in supply chain management, knowledge management, quality management, and so on. (It has values 1—Yes and 2—No). The variable P4 was formed as an answer (with 1—Yes and 2—No) to the question of whether the hotel introduced new ways of organizing work responsibilities and decision making (a new system of employee responsibilities, team work, decentralization, education, and the like).

Innovations through social media promotion are new ways of promoting products/services through social networks. The type of promotion is standard use of the hotel profile on social networks. This group contained four variables: the promotion of your product/service on Facebook, the promotion of your product/service on Instagram, the promotion of your product/service on Twitter, and the promotion of your product/service on LinkedIn. All four variables are measured in hours, by asking the interviewees to answer questions on a five-point Likert scale. The variable descriptives are presented in Table 1 (these variables are marked as FB, IG, TW, and LI, respectively).

Marketing innovations as a third group of latent variables contain four variables. These variables are measured through the objectives for marketing innovations. The questions were, respectively, for variables M1, M2, M3, and M4: “How important was the objective to increase awareness of the existence of a product/service for marketing innovations?”; “How important was the objective to increase or maintain market share for marketing innovations?”; “How important was the objective to introduce products to new customer groups for marketing innovations?”; and “How important was the objective to provide basic information about the product/service for marketing innovations?”. The values are formed from 1–4 based on the possible answers (High, Medium, Low, and Not Relevant, respectively).

Camison and Monfort-Mir (2012) investigated the innovation activity of enterprises and the innovative performance and effects of these activities [50]. We followed the same way of measuring innovations, and the only difference is reflected in the measurement of the effects of innovation activity expressed through a comparative advantage. Since the data were collected by CIS and the emphasis is on the innovations and the recognition of their importance in a sustainable comparative advantage in tourism, we decided to measure comparative advantage by asking how effective some methods of innovation or innovative processes actually were in terms of sustainable comparative advantage. This is based on the confirmation that many indicators and innovation scoreboards were considered questionable [50,82]. Additionally, the enterprise can be viewed as the center of resources, knowledge, and skills, so its position and comparative advantage can be determined by its ability to accumulate, protect, and use skills [83].

There were four methods considered: design, trademarks, innovation timeliness, and product/service complexity. These variables are marked by D, T, IT, and PSC, respectively, and are formed based on four possible answers (Not Effective, Slightly Effective, Effective, and Exceptionally Effective).

Table 1 contains the reliability analysis of the constructs. We performed exploratory factor analysis, using principal component analysis, in order to verify the validity of the constructs. This technique was used for each group of variables separately. The factor loadings are shown in Table 1. The minimum loading was 0.632, which is excellent for further analysis. The Bartlett's test for sphericity and KMO (Kayser-Meyer-Olkin test for sampling adequacy) is also available upon request. The reliability of the construct was confirmed by the Cronbach Alpha coefficients, ranging from 0.744 to 0.96. Therefore, we can conclude that all the groups of variables have a good reliability.

**Table 1.** Variable descriptive statistics.

Latent Variables Code	Variable Definition	Mean	S.D.	Factor Loading	Cronbach Alpha
<b>Process and organisational innovation</b>					0.744
P1	New or significantly improved methods of manufacturing or producing goods or services	1.7600	0.72342	0.745	
P2	Who developed this type of innovations?	1.2800	0.61373	0.632	
P3	New business practices for organizing procedures	0.9600	0.20000	0.896	
P4	New methods of organizing work responsibilities and decision making	0.9200	0.27689	0.730	
<b>Social media promotion</b>					0.876
FB	How many hours per week do you use for the promotion of your product/service on Facebook?	1.76	1.268	0.948	
IG	How many hours per week do you use for the promotion of your product/service on Instagram?	1.76	1.332	0.955	
TW	How many hours per week do you use for the promotion of your product/service on Twitter?	1.24	1.268	0.842	
LI	How many hours per week do you use for the promotion of your product/service on LinkedIn?	1.28	1.275	0.661	
<b>Marketing innovation</b>					0.960
M1	Increase awareness of the existence of a product/service	3.2400	1.23423	0.977	
M2	Increase or maintain market share	3.2800	1.20830	0.978	
M3	Introduce products to new customer groups	3.2400	1.20000	0.926	
M4	Provide basic information about the product/service	3.2400	1.39284	0.912	
<b>Comparative advantage</b>					0.883
D	How effective were the following methods to maintain and grow the comparative advantage of product/service innovation or the innovation process your company introduced during the period 2011–2017? (Design)	2.6	1.118	0.791	
T	How effective were the following methods to maintain and grow the comparative advantage of product/service innovation or the innovation process your company introduced during the period 2011–2017? (Trademarks/Brand)	0.96	0.889	0.844	
IT	How effective were the following methods to maintain and grow the comparative advantage of product/service innovation or the innovation process your company introduced during the period 2011–2017? (Innovation timeliness)	2.24	1.535	0.946	
PSC	How effective were the following methods to maintain and grow the comparative advantage of product/service innovation or the innovation process your company introduced during the period 2011–2017? (Product/service complexity)	2.44	1.356	0.827	

Source: Own elaboration.

We estimated the Structural Equation Model that is presented in Table 2, and graphically illustrated in Figure 1, by using the maximum likelihood estimation method. The goodness-of-fit indices recommended by Hair et al. in 2006 [84] are also shown in Table 2. The Chi square statistic is 427.855, with 120 degrees of freedom ( $p = 0$ ), while the CFI, the TFI, and the RMSEA are all acceptable. Based on these statistics, we proceed with our model, since its results are acceptable.

**Table 2.** Estimation results of the structural equation model (SEM).

Causal Relationship	Non-Normalized Path Coefficient	S.E.	$p$	Normalized Path Coefficient
Comparative advantage $\leftarrow$ process and organizational innovation	0.407	0.268	0.128	0.389
Comparative advantage $\leftarrow$ social media promotion	0.420	0.307	0.172	0.280
Comparative advantage $\leftarrow$ marketing innovation	1.103	0.284	0	0.758 ***
P1 $\leftarrow$ process and organizational innovation	1	-	-	0.509
P2 $\leftarrow$ process and organizational innovation	0.802	0.430	0.062	0.436 *
P3 $\leftarrow$ process and organizational innovation	1.364	0.548	0.013	0.997 **
P4 $\leftarrow$ process and organizational innovation	1.010	0.402	0.012	0.694 **
FB $\leftarrow$ social innovations	1	-	-	0.990
IG $\leftarrow$ social innovations	1.047	0.058	0	0.987 ***
TW $\leftarrow$ social innovations	0.739	0.141	0	0.732 ***
LI $\leftarrow$ social innovations	0.504	0.178	0.005	0.496 ***
M1 $\leftarrow$ marketing innovations	1	-	-	0.988
M2 $\leftarrow$ marketing innovations	0.965	0.056	0	0.974 ***
M3 $\leftarrow$ marketing innovations	0.935	0.070	0	0.950 ***
M4 $\leftarrow$ marketing innovations	0.980	0.123	0	0.858 ***
D $\leftarrow$ comparative advantage	1	-	-	0.749
T $\leftarrow$ comparative advantage	1.737	0.435	0	0.770 ***
IT $\leftarrow$ comparative advantage	1.763	0.353	0	0.962 ***
PSC $\leftarrow$ comparative advantage	1.214	0.313	0	0.750 ***
$\chi^2$			427.855	
Df			120	
RMSEA			0.036	
CFI (Comparative Fit Index)			0.915	
TFI (Tucker-Lewis Index)			0.823	

Note: \*, \*\* and \*\*\* denote the significance at the level of 10, 5 and 1% respectively. Source: Own elaboration.

## 6. Results

The main goal of the analysis is to investigate whether the process and organizational innovations, social media promotion, and marketing innovations directly affect the comparative advantage of the tourist offer/hotels in Montenegro. The results of the SEM model shown in Table 2 reveal that there is no statistically significant impact of the process and organizational innovations on the comparative advantage in the tourism sector in Montenegro, while there is no statistically significant impact of social media promotion on the comparative advantage among Montenegrin hotels. The only statistically significant (99%) normalized path coefficient is for marketing innovations. This revealed that only the marketing innovations directly affect the comparative advantage among tourism actors in Montenegro—the contribution of marketing innovations to the comparative advantage is 0.758 (75.8%), while other conditions remain constant.

The group of process and organizational innovations has the least significance, even when discussing it as an exogenous variable. The greatest contribution of this type of innovation in Montenegro has been introducing new business practices for organizing procedures—99.7%,

while introducing new methods of organizing work responsibilities and decision making has a contribution of 69.4%. These contributions are significant at the level of 99%. The development of this kind of innovation is significant at the level of 95%, and has a contribution to the group of process and organizational innovations of 43.6%. New or significantly improved methods of manufacturing or producing goods or services were confirmed not to be significant in this group. All in all, once again, this type of process and organizational innovations was shown not to be significant to comparative advantage in the tourism sector in Montenegro.

Regarding social media promotions as exogenous variables, the greatest contribution to tourism promotion in Montenegro, through social networks, to comparative advantage, is provided by using Facebook and Instagram (0.990 and 0.987, respectively). This means that if other conditions remain constant, the contributions to the tourism product/service promotion through Facebook and Instagram were 99% and 98.7%, respectively. This is followed by promotion through Twitter and LinkedIn, measured by respective standardized path coefficients of 0.732 and 0.496, respectively. All of these standardized path coefficients are statistically significant at 99%. All types of marketing innovation, implemented through certain marketing objectives, are significant at the level of 99%. The most important objective for marketing innovations is to increase the awareness of the existence of a product/service—its contribution to marketing innovations is 98.8%. The subsequent objective is to increase or maintain market share, with a contribution of 97.4%, while the objective to introduce products to new customer groups has a contribution of 95%, and finally, the objective to provide basic information about the product/service has the smallest contribution of 85.8%.

If we look at the comparative advantage, innovation timeliness is estimated as the most effective factor, with the largest contribution of 0.962 (96.2%). The standardized path coefficients for trademarks (brands), product/service complexity, and design are also high—0.770, 0.750, and 0.749, respectively. This implies that all sorts of innovation methods have important roles in the sustainable comparative advantage of tourism actors in Montenegro, at a significance level of 99%.

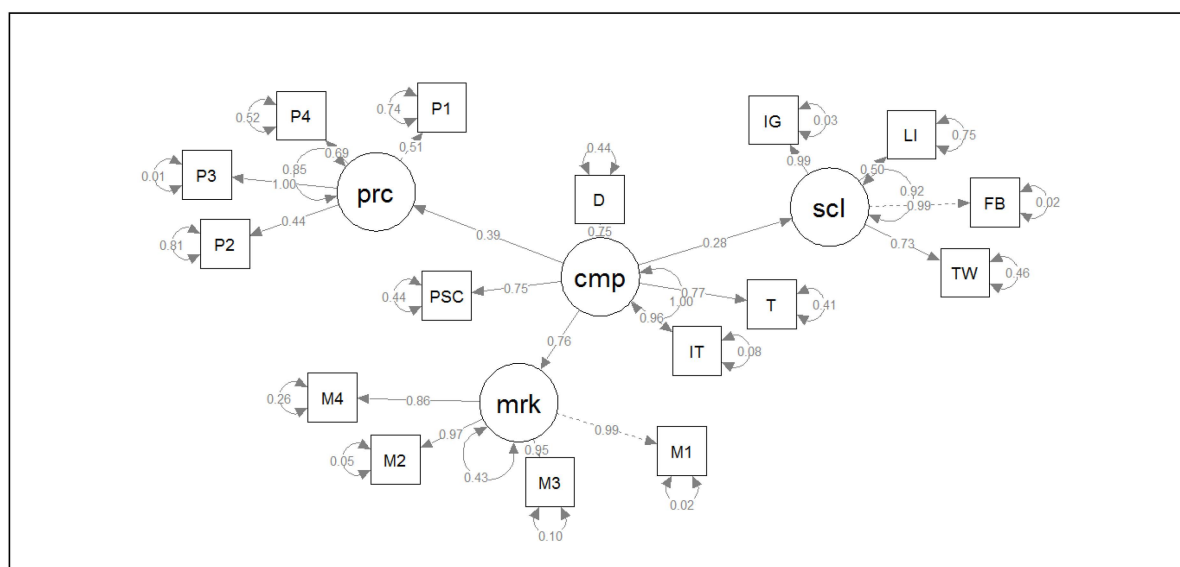


Figure 1. The normalized path coefficients in SEM model.

This suggests that the hotels in Montenegro that use new sorts of marketing objectives have a better performance (75.8%) through their increased comparative advantage.

## 7. Discussion

This paper has tried to combine the findings in the literature on the importance of innovation in the service sector, more specifically in tourism, with the research about experience in tourism innovation in

Montenegro. The main finding is that only the marketing innovations directly affect the comparative advantage among tourism actors in Montenegro. This can be explained by the insufficient development of the tourism sector in Montenegro. Specifically, the insufficiently educated staff working in the tourism sector have not developed organizational innovations that need to be constantly applied in order to keep up with the novelties that exist in the Europe tourism market and elsewhere. In addition, social media promotion is present in Montenegrin hotels, but this is not widely recognized as a tool for comparative advantage. Montenegrin tourist actors should use more sophisticated techniques for promotion through social media. The existing literature [85] has shown that an increased use of the Internet by hospitality firms gives impacts of other benefits for employees. Unlike our results, the role of social media as a tourism marketing tool is emphasized in numerous studies [86–89]. The marketing sector in Montenegrin hotels is the only one that is in tune with current novelties, so the innovations that are introduced through this sector are adequate to contribute to the comparative advantage, and that is an activity that should continue to develop. Victorino et al. (2005) [90] studied the impact of innovation in hotels in North America and demonstrated that enterprises which introduced innovations exhibited an increased competitive advantage and customer preference. The results of this analysis give a contribution to the literature that not all innovations are important to comparative advantage, and that some, like marketing innovations, are more important in terms of sustainable comparative advantage in tourism in Montenegro. Likewise, Blake et al. (2006) [91] revealed that marketing, promotional, and product innovations are important to accommodation and attraction enterprises, while organization and management innovations are somewhat minor contributors to productivity gains. The importance of marketing innovation as a non-technological innovation is highlighted in some studies [21,23,92].

The results showed process and organizational innovations not to be significant to comparative advantage in the tourism sector in Montenegro. This is in line with the existing literature [93–95]. For example, Camison and Monfort-Mir (2012) [50] evidenced a low percentage of tourism companies that have produced product innovation.

The starting claim was that innovation activity is essential to the development of sustainable tourism. While this fact can also be established in theory in some more advanced countries, the Montenegrin case reflects that at the current level of innovation activity, and only the marketing innovation is essential to Montenegro's sustainable tourism [42,90,91]. This area is important to the comparative advantage of the country. Promoting marketing innovation does not require significant financial investment, but rather systematic encouragement to think more creatively and introduce continuous innovation. For this to occur, a set of changes is needed, most notably in education and training for sustainable tourism and in innovation policy instruments supporting such changes. The fact that other forms of innovation are not yet seen as significant contributors to the competitive position of Montenegro tourism, suggests that the level of their development is still too low to bring positive results [96,97].

This paper gives recommendations to respective institutions, as well as national level organizations, that appropriate innovation policy is crucial to develop sustainable tourism in Montenegro. All the actors are aware of the urgent need to foster the introduction of various types of innovation (e.g., product, process, marketing, and organizational innovation); however, they face difficulties in designing relevant policies, in the decision-making process, and in the coordination and implementation of such policies. These difficulties reflect that Montenegro is in the initial phase of designing and implementing appropriate innovation policy that would support sustainable tourism.

The main limitation of this pioneer analysis in Montenegro is that the sample was not large, and that a large number of the variables regarding innovation management, sources of information, and cooperation in the innovation process had to be dealt with. One of the crucial findings of the analysis relevant for researchers, as well as for policy makers, is the low level of understanding of the very concepts of non-technological, organizational, and marketing innovation.

Furthermore, the data we have dealt with lack more pronounced ways of measuring comparative advantage among tourism actors. A similar question was proposed in a study of Camison and Monfort-Mir in 2012 [50], and the indicators often used in analyses were criticized for a narrow definition of innovation performance [7].

## 8. Conclusions

The aim of this analysis is to identify the most important types of innovation that are present in the tourism industry in Montenegro, and to measure their impact on the comparative advantage of tourism actors in Montenegro. The results revealed that only marketing innovations have a statistically significant impact on the comparative advantage in the Montenegrin tourism industry.

Based on the results of the survey and the observations from the Slovenian case study, the researchers have reached various conclusions.

The problem of having a seasonal and relatively limited range of tourism activities, as one of the most significant obstacles to improving tourism services, can be overcome through the intensive implementation of innovation and by creating new tourist products, introducing organizational and marketing innovation, and including new business models in the tourism industry. The first objective of product/service innovation in Montenegro tourism should be to extend the tourist season by offering innovative tourist products, which do not solely depend on the summer season. "Creating" a longer tourist season would accommodate long-term contracts and employment, which could lead to a higher quality of service, higher salaries, and greater motivation for further incremental bottom-up innovation. One of the good ideas that can be used as an example is The Bank of Tourism Potentials in Slovenia (BTSP) model, where, in a very inexpensive fashion, several new creative ideas are continuously developed. A similar project could be organized in Montenegro to help in designing new products, processes, and organizations, followed by marketing innovations. The Slovenian lesson is also that the promotion of innovation culture takes time and several parallel activities, like the promotion of non-technological innovation, the promotion of innovation in the service sector, and the recognition of the importance of organizational innovation by the policy makers, as well as by key stakeholders, are all important.

Montenegro has the ambition to administer key principles of sustainable tourism in its long-term development, yet the very concept of sustainable tourism requires the constant support of innovation activity. Innovative, multidisciplinary knowledge, as well as skills such as the use of new technologies, teamwork, quality management, business communication skills, customer commitment, and so on, are the preconditions for the long-term resilience and development of tourist capacities. The greater compatibility of both formal and informal education with the market demands, as well as stronger partnerships between tourist organizations and educational institutions, are good practices in providing and expanding these preconditions for successful sustainable development.

New policy instruments should focus on staff training, based on the real needs of innovative companies, as well as on current market trends. The new policy instruments should specifically address the product, process, organization, and marketing of innovations in small- and medium-sized enterprises, since it is clear that companies in the Adriatic region do not succeed in independently implementing certain specific types of innovative activities.

The implementation of non-technological innovations is a vital factor for the development of sustainable tourism in Montenegro. Since this approach is novel, it does not need to start at a large scale: in fact, we suggest that a small number of selected projects in different geographical areas should be set up as testing grounds for a combination of different approaches to promote locally sourced, bottom-up innovation. The locations would need to be selected by a mixed team of researchers from economic, agricultural, and tourist studies that would set the foundations for the projects. Afterwards, the local community would need to be engaged in designing the solutions that address local priorities.

The key to succeeding in organizational innovation is the full participation of the people targeted by it—without the interest of these communities, the project is likely to fail. Such living lab cases

could provide feedback to the national policy and provide good practice to follow on a large scale, contributing to the sustainable development of the country's tourism sector.

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