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INNOVATIONS AS A FACTOR OF COMPETITIVENESS OF TOURIST ECONOMY

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Abstract

Innovation, as a way of change, represents the condition for successful functioning of enterprises with the aim to achieve a long term business success. An innovative enterprise is characterized by orientation towards the customers and market and turning to technology, while the openness and orientation towards changes represents a condition for a high level of innovation. The factors which affect innovation are the specific competitive environment in the branch that the enterprise belongs to, and the innovation of the very enterprise. The authors in the paper analyze the essence of innovations and different approaches in their sorting, as well as the specificities of the paradigms of innovative approaches. As the tourist sector is less innovative in comparison to the rest of the economic sectors, the goal of this paper is to emphasize the importance of innovations for the tourist sector.

Key Words: *innovation, innovation process, enterprise, tourism.*

JEL classification: *Z30, O30*

Introduction

When it comes to tourism industry, it must be borne in mind that this is a dynamic branch followed by various changes. Given the increasing revenues from tourism worldwide and the projected growth in the number of tourists in the future, many countries find solutions for their own development in a competitive tourist offer (Cvetkovski et al., 2014). Tourism is one of the most important actuators of the economy development in the world and most likely the only activity that connects nations and countries without any prejudices, which is one of the main

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reasons that enables tourism to develop rapidly. Successful business and the achievement of appropriate results require a proper understanding of the changes taking place on the market (Cvijanović, 2016, p.46).

Changes involve the space in which business entities operate, the means of communication they use, the technology of business organization, the level of knowledge and competence of employees, i.e. all the determinants of a successful business, as well as a list of available contracts that are available to businesses that have the capacity to express the true intent of the contracting parties on one hand and understand the economic reality on the other. The market is one of the most important supporting pillars, as a place where supply and demand meet, and lately electronic communications network, so thanks to the market, tourism policy has changed and improved. Compared to other economic activities, tourism exceeds the national level much faster, becoming a vital global activity (Ristić & Milanović, 2017.).

Proper positioning in a dynamic and competitive tourism market is conditioned by the observation of contemporary trends, and tourism as a business provides much for the entire economy, so it is necessary to pay more attention to it and to highlight the positive effects, especially when it comes to countries in development. Man increasingly invests his efforts to improve both supply and demand in the sector. The tourism development strategy lives in the future, so the offer has to be more contemporary. We live in a time of modern technologies that affect all areas of human life. The application of new information and communication technologies has caused a change in the relationship towards the role of innovation which represents a means of economic improvement and a powerful means of globalization.

Defining *innovation*

The simplest and most well-known definition of innovation was given by Paul Trot according to which innovation is the process of transforming the idea into practical application. Myers and Marquis say that innovation is the overall process of some interconnected subprocesses and that it is not always the concept of implementing a new idea, the invention of a new device or the development of a new market, but the innovation is operation of all these processes together (Myers & Marquis, 1969).

The term innovation signifies:

- Product - Innovation as output - a product or service that has market verification;
- Process - Innovation as a process - innovation process from idea to realization, i.e. from generating ideas to implementation.

In 2005, the Organization for Economic Cooperation and Development (OECD) gave a general definition of innovation: "Technological innovations are significantly improved products (goods and services), or processes, new marketing methods, or new methods of organization in business practice, work environment or external relations"(OECD, 2005).

The European Commission defines innovation as "improving and expanding the range of products and services and related markets; establishing new methods of production, procurement and distribution; introduction of changes in the management, organization and working conditions of employees" (European Commission, 1995).

When defining innovation, four aspects of observation can be considered:

- Entrepreneurship;
- Competition advantage;
- Innovation activities and processes;
- Nature of innovation.

Peter Drucker defines innovation as a key element of entrepreneurship: "Innovation is the specific tool of entrepreneurship, the means by which they exploit change as an opportunity for different business or a different service" (Draker, 1991). Drucker believes that innovation is the basis of entrepreneurship. On one occasion, Drucker warned: "A well-known company that is incapable of innovating in an era of innovation, is condemned to ruin and disappearance." In other words, most companies in a modern competitive environment have only one option – "To be innovative or die."

Porter emphasizes the importance of innovation, i.e. the ability of the company to realize successful innovation projects, to acquire a competitive advantage (Porter, 2008). Freeman points out that innovation includes technical design, production, management and commercial activities that are involved in the marketing of a new or improved product or the first commercial use of a new or improved process or equipment.

Emphasizing the importance of innovation for the company, the author has formulated the famous thesis that he is familiar for in literature: "Not to innovate is to die" (Freeman, 1997).

Contribution of innovation to the development of entrepreneurship

Today in economic theory there are numerous definitions of entrepreneurship, so it is often said that there are as much definitions of the term of entrepreneurship as the authors who dealt with this inexhaustible topic. Each of the definitions emphasized one of the key features expected from entrepreneurs, as conditions in which an entrepreneur operates. Sublimation of the subjective aspect which refers to the personal characteristics of an individual as an entrepreneur, and objectively regarding the economic environment in which an individual manifests his entrepreneurial qualities, leads to a complete definition of entrepreneurship. Joseph Schumpeter, designates an entrepreneur as an innovator, Kirzner points out that it is crucial for entrepreneurs to discover and exploit new business opportunities, according to Knight for entrepreneurs the decisive is to notice the difference between risk and uncertainty, etc. (Iversen et al., 2008.). One of the definitions is that entrepreneurship is control and exploitation of resources in order to create an innovative economic organization for the purpose of development and growth under the circumstances of existence and uncertainty (Dollinger, 2008., p. 9).

The initial steps in the development of the theory of innovation were made by Joseph Schumpeter (1883-1950) in the 1940s, pointing out that economic development was largely determined by non-economic factors that relate to the institutional structure of society. The entrepreneur has a key role in this, who is not only a manager, but a person who accepts the risk as an inevitable companion for the introduction of new products and new technologies. The most important factor of economic growth is the combination of five factors, which in essence represent the complex of innovations:

- New products,
- New production technologies,
- Opening up new markets,
- Introduction of new resources and raw materials,
- A new organization of economic activity (Schumpeter, 1939).

Realizing the process of innovation is approached by only some, bold entrepreneurs, who use innovation, profit, but also provide the benefit to the whole society, because there are significant interdependencies between different forms of innovation. Thus, new products open up new markets, generating demand for new resources and raw materials and encouraging innovation in manufacturing technologies. Innovations in economy are realized in the form of clusters, because after some entrepreneurs have successfully innovated, they will be followed by other entrepreneurs, and new products or new technologies will expand in the economy. Most entrepreneurs that generally have a risk aversion are not the bearers of this expansion, but a small number of entrepreneurs are responsible for innovation and economic development, which are willing to take the risk. Schumpeter considered that economic development brings qualitative changes that are crucial, stimulated by innovations in different historical periods. He declared innovation as the basic factor of technological progress and economic development, in terms of replacing old technologies with new ones, which he called "creative destruction."

The importance of innovation is enormous, and technological innovations represent the core of technological progress, which is the most important factor of growth in productivity, technological growth and economic development. Technological innovations are one of the most important factors for achieving competitive advantage. Technological progress implies the improvement of existing ones and the introduction of new means of work, work items and work processes (technology and production organization). The process of technological progress leads to structural changes in the production process, resulting in a higher product mass, shortening of production time, saving of raw materials, lowering of costs per unit of product, and improvement of product quality. The impact of technological progress on productivity growth (which is standardly measured by the analysis of residuals in the production function) is so great that it is thought that about half of the rate of economic growth comes from it. Technological progress meets the growing and, in principle, unlimited human needs, but also creates new needs.

Innovation, as a feature of an organization, consists in the organization's openness towards changes, the successful management of changes, and the successful acceptance of changes. Innovation is the characteristic of business entities that deal with the adoption of new ideas and respond quickly to the impulses from the environment. Innovation is a necessary

condition for successful functioning in order to achieve long-term business success, i.e. profitability and competitiveness.

The innovative economic organization is characterized by customer and market orientation and reliance on technology, openness and orientation towards change, which is a requirement for a high degree of innovation. Key factor in the competitiveness of an innovative business entity are innovations that represent its strategic resource. The main factors influencing innovation are the specific competitive environment in the branch to which the economic entity belongs and the innovation thereof.

When it comes to the innovativeness of an entity, there is a paradox, because although companies are often motivated to develop new products (services or processes) due to the needs of customers, competitive factors and corporate goals, they themselves raise barriers and create difficulties that jeopardize the innovative process. As a result of the forces that stimulate innovation (the interaction of business entities and the market environment) and the forces that create resistance to change (internal strength in the company), a paradox of the development of a new product arrives.

Economic entities, branches, regions observed in different contexts, manifest in today's conditions of operating a radically different perception of the intensity and significance of change and innovation. The attitude of the economic entity towards the change can be different. Principally, a distinction should be made between: passive and active attitude toward change. Passive attitude means waiting, in a nutshell, i.e. adapting companies to the resulting changes. On the contrary, an active attitude means stimulating, that is, the company's precedence in change.

Innovations are a special form of change. They represent an instrument by which an entrepreneur creates new creative resources, or enriches already existing resources with a higher potential for wealth creation. Bearing in mind this fact, a number of authors rightly point out that innovations are a specific tool for entrepreneurs, that is, the tools through which the entrepreneur realizes the desired changes. In other words, entrepreneurship is a driving force for development and a fundamental generator of innovation. In the changes taking place in the company or in the environment in which it works, entrepreneurs find the possibility of innovating. Uncertainty as the immanent quality of the market, forces the entrepreneur to continuously evaluate business alternatives in an even

more dynamic environment. For entrepreneurs, innovation is the process of taking a creative idea and transforming it into a useful product, service or method of work. "Hence, an innovative organization is characterized by the ability to channel its creative efforts into useful results. When managers talk about changing an organization to make it more creative, they are usually thought to want to stimulate innovation" (Milisavljević et al., 1993, pp. 52-53).

In order to understand the phenomenon of innovation, it is not enough to investigate only the object of innovation, but it is necessary to introduce a complex that deals with the innovation process in the analysis. The innovation process has been treated for a long time as an organizational issue. Transformation of basic inventions into commercial products, processes, or services is a long-term, highly risky, complex, inter-dependent and non-linear process. On the other hand, the organizational possibilities for initiating and maintaining innovations are to a large extent determined by regional or national significance. Therefore, the economic and social conditions in which the innovation process takes place will always play a very important role when business organizations take the risk by taking into account the viewpoint that innovation is the key factor of competitiveness, survival and sustainable growth.

The process of creating innovations is composed of various activities that are in interaction between each other and which can be represented in the order of performance in the following way:

- Collecting information about the problem,
- Research (general or applied),
- Idea and development,
- Finding a solution,
- Marketing solutions (Gallouj, 2002, pp. 35-36).

The set of elements that make up the innovation process can be combined with the typology of different types of knowledge. Some authors cite five relatively well-rounded knowledge groups:

- Knowledge related to nature,
- Knowledge in the field of design,
- Knowledge related to research and development,
- Knowledge related to the final product,
- Knowledge related to knowledge (Faulkner et al., 1995).

Typology of knowledge constructed like this can be applied to the complex of innovations assuming that knowledge related to nature is expanding with knowledge related to social life, as well as to consider the consequences of this expansion on other types of knowledge. The purpose of a creative combination of economic resources is to connect not only information and knowledge, but also people and organizations.

Innovation must basically situate in the company, as an unprecedented form of organizing economic life everywhere in the world. Innovation in the company is not, nor can it be someones's privilege or imposed obligation, because in principle everyone can be inovators, which is why it is necessary to create an incentive and inspirational atmosphere in which innovative fever, cramp and compulsion is replaced with creative positive rivalry of new ideas and solutions.

Innovation, as a particular state of the human spirit, always integrates several goals in itself, and the most important ones are economic, aesthetic, ecological and ethical. Innovative does not always have to be absolutely original. The so-called "creative imitation" also represents a significant breakthrough in innovative behavior, which is why it is always better than "creative rest". Every innovative behavior involves risk acceptance, but the innovator is more focused on the possibility than on the risk.

The need to develop innovative tourism products and services

Tourism in today's conditions is becoming more and more important and it is becoming a big challenge for countries that see a great chance in the export of tourism services to accelerate their economic growth (Đurić & Đurić, 2016). Contribution to the importance of the tourism industry is a consequence of not only dynamic changes in tourism trends, but also an exceptional contribution to the overall economy, as confirmed by UNWTO statistics. Namely, tourist arrivals increased by 7% in 2017 and reached a total of 1.322 million dollars according to the latest World Tourism Barometer of UNWTO, and it is expected to continue in 2018 with a rate of 4% -5%, which is the strongest results from 2010 (Maksimović et al., 2017, p.27).

It is expected that this trend will continue in 2018. Based on current trends and economic perspectives, international tourist arrivals around the world will grow at a rate of 4% -5% in 2018, which is above the average

increase of 3.8% planned for the period 2010-2020, as well as in the long-term tourism forecast by 2030. International arrivals to Europe and America are expected to increase by 3.5%-4.5%, Asia and the Pacific by 5%-6%, Africa for 5%-7%, and in the Middle East by 4%-6%.

Chart 1: *International tourist arrivals*

INTERNATIONAL TOURIST ARRIVALS in mil.		
Continent	2017	2030 (forecast)
Europe	671	744
USA	207	248
Asia and Pasific	324	535
Middle East	58	149
Africa	62	134

Source: *www.unwto.org*

From the foregoing, the progressive development of tourism can be clearly seen not only in Europe, but also in the world, so that the tourism development strategy must become the backbone of the economic development of all countries that have comparative advantages in this economic area (Đurić & Đurić, 2017).

The development of new products means connecting different disciplines, such as marketing, finance, production, etc. Each of these disciplines has its task in creating new products, and only by synchronized action of all disciplines will the product be ready for placement on the market. However, companies differ from each other, so it is necessary to find a way to produce a new product that will match their business strategy. For example, the automotive industry and travel agency do not have the same business, so the production process and the use of quality parts itself will play an important role in the production of cars, while the marketing sector will be important in the travel agency, and this is mostly based on modern information technology, not excluding the quality of the offer. Taking into account all the impacts on the creation of a new product, both internal and external, as well as the work of each individual segment, at the end when everything is completed a product will be made that will be beneficial to its consumers and will bring profit to the company that created it.

There are several ways to define a new product. In that sense, it is important to ask: what would be a new product in tourism? It is widely

known that tourism is an economic activity that includes a wide range of activities: trade, catering, accommodation, entertainment, cultural institutions, events, educational institutions and many others. Therefore, tourism is usually associated with services, but also tourism products. If we take into account the definition that the products are new things or improved products that already exist then it can be concluded that tourism products in the narrow sense belong to: hotels, hostels, tourist resorts, B&B, private apartments, travel agencies and tourist boards, sports and recreational centers, wellness centers, fitness halls, restaurants, souvenir shops, etc., and in a wider sense there are tourist services that would include everything that these facilities offer. So, there are new services, or existing, but upgraded. These would be, for example: new rooms in hotels, bicycle rental services in the accommodation facility, a new type of meal in a restaurant, a new destination that will be offered by a travel agency (which may be a product and service), and so on (Prester, 2010).

Picture 1: *International tourist arrivals*



Source: <https://www.e-unwto.org/doi/book/10.18111/9789284418725>

Globalization is certainly the most recognizable general trend that marks the development of tourism in recent years (Cvijanović et al., 2016, p. 82). The increase in the number of business entities registered for performing of service activities is caused by the importance of services in the economic sphere, since they generate 70% of the total GDP and 70% of the total employment, so more and more present thoughts on the

possibilities and the need for legal regulation of the heterogeneous service sector seem justified. The European Union moved far in the direction of a mutual normative regulation of service economic activities by adopting the EU Directive 2006/123 on services in the internal market.

Services are seen as a special discipline because they are different from products they are not tangible and in their creation, the consumer / buyer is also involved. When it comes to nowadays services, technology plays a big role there. Production is automated, which leads to a situation where people have more free time, and excess free time means going to a hairdresser, a wellness center, a gym, or the like. This was recognized by all service providers and, therefore, increased their share in GDP.

Significant revenues from service activities rest on strong support coming from the field of informational technologies, the Internet and software development. From this it can be concluded that technology truly changes the understanding of services and introduces a special dimension in the whole story.

The development of new services is a process that starts with the idea and ends with the launch of a service, and many companies launch a service in parallel with the product. For example, the car industry, besides the production of a specific car, also provides maintenance, servicing and financing of this product. Hotels, in addition to rooms and beds (tangible things), also offer a restaurant, bar, gym, wellness center, wedding or similar events, business meetings, etc. The buyer is, therefore, in the center of attention, and hence the customers / consumers themselves should be involved in the development of new products or services, because it will show best in what direction the production should go and what to offer on the market, under what conditions, prices and quality.

Market advancement of companies in modern global conditions and the launch of new products and services must be based on a well-developed market entry strategy. During the implementation of the new product on an already existing market, the company must develop a strategy for developing a new product. If the product already exists and the market is new, then it is approached to the creation of a new market development / research strategy. When both the market and the product are brand new for the company, in this case a strategy for completely new innovations is established, which means research of market and products, as well as their mutual influence and development.

Successful innovation means that the company has managed to pass a risky path from idea to launch to the market. When the market accepts innovation, it can spread to other areas. At the same time, it is necessary to make a corrective insight into what has happened in the past in order to eliminate certain critical elements, negativities, bad decisions, moves, etc. in order to better manage innovations in the future.

When it comes to tourism, innovation should be the everyday life of tourism companies. The essential component of tourism companies is a smart investment in new tourist services or creating a supply differently than others, as tourism trends and tourism demand change rapidly and competition is growing.

There are certain stages that the company must pass on the way of implementing its innovations, but also to determine if there are opportunities to introduce innovations. These stages and barriers that appear on the path to successful innovation are equally worthwhile for all sectors of the economy, whether for trade or tourism. In this respect, the joint work of all employees is very important in order to achieve successful innovation. Also, it is necessary to use all available resources and sources of information in order to select the best idea, and it also means constant learning about new chances, opportunities and behavior in certain situations that the company encounters. Innovations mean that the company is constantly working on its offer, and that it cares for both its customers and its employees.

There is no best or unique way of managing the innovation process, because it depends on the industry in which the subject operates, on the technological possibilities, the market conditions, etc. The stages of the innovation process can be: identification of potential innovation; choosing the one that is considered to be the greatest success - because resources need to be invested in innovation; implementing innovation, upgrading ideas at different stages until the final launch of a product or service on the external market.

Sources of innovation in tourism usually come out of the tourist sector, which means that the IT revolution is responsible for nowadays tourism development, which has led to the development of online tourist agents and tour operators of companies that work on their products and launch new, in order to be far ahead its competitors. To survive in the conditions

of global competition it is very important to use the achievements of modern information technologies.

Information and communication technologies play a very important role in the development of innovations and the overall development of the tourism industry. The development of innovative products and services would not be possible without the existence of the aforementioned technologies. Information and communication technologies (ICT) are important for the tourism sector, since they enable searching of information, purchasing services, making reservations, etc.

Tourism shows that it will increasingly depend on innovations in the future, especially those involving ICT. Information and communication technologies are now an integral part of our lives, so it is logical to conclude that they have an important role in planning the trip. As travel is more pronounced and more frequent than before, and people travel for different reasons and desires, it allows travelers to quickly and easily access information so that it makes the journey more enjoyable and easier, and that would not exist without advanced ICT technology. Although the potential of IT is enormous, this does not necessarily mean that business performance is guaranteed. The use of information technology does not give an automatic advantage in business, but certainly represents the necessity of today.

Conclusion

Schumpeter was the first scientist to recognize the importance of developing a new product for economic development, considering that competitiveness is achieved by the introduction of a new product and that the gained advantage is more significant than that based on marginal changes in the price of already existing products. Schumpeter defined the innovation as a "new combination" of existing resources. He called this combinational activity an entrepreneurial function and linked it to entrepreneurs and entrepreneurship.

Schumpeter emphasized the importance of technological innovations for economic development, and for the initiation of innovations, he equally emphasized the inventions that were caused by demand and exogenous scientific discoveries. He emphasizes the interdependence of these two factors, while in the early stages he attaches greater importance to an exogenous scientific discovery that directly changes the technological

basis of the production of a number of enterprises, while later, when the industry achieves maturity characterized by new technology and a new product market, the importance of the demand for new product increases, which directly affects the further expansion of technological innovation by the industry, so that it is accepted by most companies.

The importance of innovation has been underestimated in service activities for a long time. This is changing with the emergence of information and communication technologies, which gives a particular contribution to the field of tourism. Tourism shows that it will increasingly depend on innovations in the future, especially those involving ICT. Market performance of tourism companies in modern global conditions and the launch of new products and services based on innovations must be based on a well-developed strategy of entering the tourist markets.

In that respect, innovations should represent the everyday life of companies in the field of tourism industry, and their business activity must be based on smart investments in new products and tourist services different from others, as tourism trends and tourism demand change rapidly, and competition is becoming more and more sharp and merciless.

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