



## Innovative Opportunities for Small Business in Tourism and the Application of Ethical Moral Principles

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*Abstract:* The authors are starting from the thesis that the innovative possibilities of a small business in tourism are numerous, beginning from new content and processes to improvement of existing ones. At the same time, there are various obstacles whose overcoming requires creativity and inventiveness, as well as personal commitment. Obstacles are in limited financial, technical, and personal reasons, since small businesses are usually the property of one person or a smaller number of connected and close people. It was concluded that the innovation of small businesses can most be developed in tourism of special interests, where big businesses do not have big interest because of a smaller number of users, and that respect and personalization of ethical-moral principles additionally contribute to the development of small businesses.

*Keywords:* tourism; small business; innovation; ethics.

*JEL classification:* M00, L83

### Inovativne možnosti za mala podjetja v turizmu in uporaba etično-moralnih načel

*Povzetek:* Avtorji izhajajo iz teze, da so inovativne možnosti drobnega gospodarstva v turizmu številne, od novih vsebin in procesov do izboljšav obstoječih. Obenem pa obstajajo tudi različne ovire, katerih premagovanje zahteva ustvarjalnost in inventivnost ter osebno predanost. Ovire so v omejenih finančnih, tehničnih in osebnih razlogih, saj so mala podjetja običajno v lasti ene osebe ali manjšega števila povezanih in bližnjih ljudi. Ugotovljeno je bilo, da je inovativnost malih podjetij najbolj razvita v turizmu posebnih interesov, kjer velika podjetja nimajo velikega interesa zaradi manjšega števila uporabnikov in da spoštovanje in personalizacija etično-moralnih načel dodatno prispevata k razvoju malih podjetij.

*Ključne besede:* turizem; mala podjetja; inovativnost; etika.

*JEL klasifikacija:* M00, L83

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## 1. Introduction

Innovations are a necessary initiator for the development of small and medium-sized businesses in tourism, despite the fact that they are reserved for large tourism companies. Innovations have gained primary from secondary role in the development, which is one of the causes of the expansionary development and the increasing share of the tourism sector in the world economy. It is anticipated that global tourism growth, which has been going on for seven years, will continue in the next decade.

- *Global share of tourism in GDP is 10.4%.*
- *313 million jobs are opened thanks to tourism or 9.9% of the total number of employees in the world.*
- *The global growth of the tourism sector in 2017 is 4.6%.*
- *In the last ten years, every fifth new job has been opened in the tourism sector.*
- *It is estimated that nearly 100 million new jobs will be opened in the next decade.*

Figure 1: Tourism in the World Economy.

Source: WTC, Travel & Tourism Power and Performance Report, (2018, p. 1).

These are even more important data given the fact that in tourism medium, small and micro enterprises dominate. Much research suggests that the greatest innovative potential lies with large tourism companies that have much easier access to world knowledge and information or can finance the development of innovations. Today, the global tourism market is changing rapidly, making small and medium-sized enterprises face difficulties in adapting to changes. One way of adjusting is the innovative approach to business and services offered on the tourism market.

## 2. Methods

Our hypothetical starting point is that if the innovative possibilities of a small business are numerous, then the innovative opportunities of a small business in tourism are also numerous if we look at innovation in a wider context. The work is and accordingly conceived.

In this paper, the analytical-synthetic method, the method of comparison, concretization, and deductive-inductive methods were used.

## 3. Notional demarcations and types of innovation in tourism

Depending on the need and purpose, the Latin term "innovatio", which denotes the creation of something new, can be interpreted in different ways. The most famous definition of innovation was given by Schumpeter, which considered innovation to be the introduction of new products, production methods, markets, suppliers, and new organizational structures. Other definitions deal only with different aspects of innovation or are particular to specific activities, structures, participants, etc. In short, innovation in business involves the process of creating a new value. For us in tourism it is important that "innovation is not the same as creativity, which involves (exclusively) the creation of new ideas, new approaches, new inventions" (Xavier, 2006.p.86). Wider observation is that innovation with the creation of a new and application of "new-old" existing products that were not used in tourism in general or in the specific case in the company. Otherwise, innovation itself does not necessarily mean business success, as it is measured through the "performance of the market, finance and employees and service users" (Ottenbacher, 2007.p. 437). Hence, only the effects of business confirm its purpose, which means that every innovation carries with it the risk, which small business is not able to handle to the extent that big business can.

Innovation can be categorized by application areas, although some authors consider it not necessary since most innovations are imported from other areas or interconnected within tourism as an industry branch.

Most authors, however, categorize innovations in several groups that are more similar and related to the subject, character, time of innovation, etc. For us, a division is permissible for the subject, where the basic categories of innovation are "product, process, organization / management, and market innovation" (Hjalager, 1997. p.2). Over time, they are expanding to distribution, institutional, revolutionary, information management, and others as an attempt to legitimize as specific to tourism.

#### 4. Characteristics of SME tourism

Small and medium-sized enterprises in many countries are the bearers of tourism. Their characteristics and way of doing business are similar to other SMEs, as they also have their specific characteristics that derive from tourism as an industry branch.

Some authors consider that in tourism, especially in a small business, it is not a matter of genuine innovation, but about changes in company behavior. It is our opinion that if a small business in tourism is entrepreneurial, it means that it is to some extent innovative, so it is irrelevant whether it creates or imitates more, if it improves its business. One study suggests that small businesses in tourism "do not suffer from the lack of new ideas, but from complex problems that make it difficult to translate these ideas into comprehensive innovations" (Janoszka & Kopera 2014, p.199).

From the general role of a small business in the local environment, we derived the concrete and specific role of the small business in tourism on the development of the local community, according to Figure 2.

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- *Benefit for individuals, families, the local community*
  - *Can change the local environment*
  - *They can stimulate others*
  - *Increases local employment*
  - *Stimulates self-employment*
  - *Integrates multiple community branches*
  - *Directs local development*
  - *Contributes to balanced development*
  - *Develops a tourist destination*
  - *Introduces a technological innovation*
  - *It functions innovatively*
  - *Adapts the business outside of tourism according to modern trends*

Figure 2: Influence of Small Business on Local Environment

Source: Authors

Analyzing the number of SMEs in tourism, according to the data in Figure 3, we noted that in recent years Serbia has achieved growth in the area of tourism and its share in GDP, which is why the strategic commitment to changing the business environment is continuously "in support of free enterprise and sustainable development entrepreneurial micro and small enterprises "(Tourism Development Strategy, 2016, p. 81).

*Small and medium-sized enterprises (SMEs) make a significant contribution to the development of the economy, for example in Serbia, SMEs account for 99.8% of total active enterprises and employ almost 2/3 employees in the non-financial sector and account for 56% of Serbia's GDP.*

*The total number of tourism companies in Serbia from 2008 to 2013, despite the economic crisis, rose to 4079, which is 32% more, of which 27% were small, 155% were big and 190% large.*

*The share of micro and small tourist companies is 93.6%, medium 5.68, and large 0.71% of the total number. Due to the economic crisis and restructuring, the share in the total number of small enterprises decreased by 3.11% and the double increase of medium and large, medium to 5.69% and large ones to 0.71%.*

*Since 2013, the share of GDP has started to grow since 2011 and has continued to grow to date, with estimates that it will grow at a rate of 4.8% per annum in the next decade.*

Figure 3: Small and Medium Enterprises in Tourism in Serbia.

Source: Tourism Development Strategy of the Republic of Serbia 2016 -2025

In comparison to the business environment and relations in small business in general and tourism, we concluded that they do not differ much, but that there are certain differences in tourism in the internal and external environment arising from the tourism itself, according to Table 1.

Table 1: Business Environment and Relationships in Small Business in Tourism

<i>Internal</i>	<i>External</i>
<ul style="list-style-type: none"> <li>• <i>The owner, manager and employees are usually one person or are a smaller number of persons, part of the family</i></li> <li>• <i>Small business operates in the existing environment and rarely can change it</i></li> <li>• <i>Small business follows the needs of the users, the big one also creates them</i></li> <li>• <i>Small enterprises have less impact on consumer preferences, most often follow them</i></li> <li>• <i>In a small business, the relationship between the owners and the users of the services is business-like but also largely personal</i></li> <li>• <i>Technology changes in tourism are adapted and not developed</i></li> <li>• <i>It acts as an incentive to other industries</i></li> <li>• <i>Provides integrated services</i></li> <li>• <i>Innovative capabilities are correlated with the size of the company</i></li> <li>• <i>Innovation, decision-making and responsibility are usually individual or familiar</i></li> <li>• <i>Small businesses control with difficulty expansion, failure, and risk management</i></li> <li>• <i>Small business for an individual or family has a wider value than a business. Identifies himself with him and promotes him as a lifestyle.</i></li> <li>• <i>The speed of change today reduces the life cycle of SMEs, the old ones disappear, and the new ones emerge</i></li> </ul>	<ul style="list-style-type: none"> <li>• <i>Sensitivity to global changes</i></li> <li>• <i>Sensitivity to the impact of other industries</i></li> <li>• <i>Sensitivity to the business environment</i></li> <li>• <i>Direct impact of large tourist companies</i></li> <li>• <i>The great influence of the local community</i></li> <li>• <i>Small businesses are not always in the center of stakeholders</i></li> <li>• <i>External relations are based on personal integrity, reputation, and trust with business partners</i></li> <li>• <i>Direct contact with customers, suppliers, and other stakeholders</i></li> <li>• <i>Greater and faster flexibility of services to specific tourist requirements</i></li> <li>• <i>Problems of developmental and innovative financing (banks, funds, and most often personal loans and personal capital)</i></li> <li>• <i>Poor protection of business against risks and damages (legal, insurance companies, etc.)</i></li> </ul>

Source: Authors

Small and micro companies are mostly family-owned or run by an entrepreneur. That is why innovation in tourism depends on one person or a small number, which narrows the innovative possibilities of a small

business. On the other hand, a small business for survival in the market has a more pronounced need for innovation. The reason is exactly the size and possibilities for someone else to take over the idea, modify it and take over the business, or that a large company does not allow the development of a small one with its position.

To the extent that tourism acts stimulating to other branches of the economy, it affects even more tourism business and the environment of small businesses (transport, agriculture, trade, taxes, etc.). The problems encountered by small businesses are caused by external and internal factors.

It is important for a small business to recognize factors that it cannot influence, and to focus on the factors that it can influence, whereby entrepreneurial inventiveness is crucial.

## 5. Barriers and innovative opportunities in small business

Barriers to innovation in SMEs are similar to those of other tourism companies, but they also have their own specificity to the extent that SMEs differ in relation to large businesses, according to Table 2. Barriers are "lack of time, money and knowledge, risk aversion, fear of technology, bureaucracy, traditional thinking and lethargy" (Weiermair, 2004, p. 63). In our opinion, these are the same barriers to every business, but small businesses need finance, technical conditions, and human resources for innovation. In this sense, there are obstacles, somewhat differently formulated, organizational, financial, human, and environmental, administrative, local, etc. Small businesses are sometimes more encumbered with local than global barriers. For this reason, they are not "what is most often thought to be crucial financial barriers, but with human resources and technologies, relations between the main local tourist protagonists" (Janoszka & Kopera 2014, p. 199). We would also add a personal component of a small business. In a small business an entrepreneur or family members identify with it, business becomes the way and the meaning of life, which is why market criteria or profitability are not always in the foreground. This can prevent further development, for example by taking it from others, changing business practices, managing, changing services or tourism products, etc.

Table 2: Barriers and Opportunities for Innovation

Barriers	Opportunities
<ul style="list-style-type: none"> <li>• The lagging and underdeveloped tourist market</li> <li>• Misunderstanding of the importance of innovation and the way of commercialization of innovative ideas, services, and tourism products.</li> <li>• Insufficient knowledge</li> <li>• Barriers in human resources</li> <li>• Small business is not capable of building an IT infrastructure for tourism</li> <li>• Inertness of local authorities in encouraging innovative opportunities</li> <li>• Poor teamwork in a small business</li> <li>• Changes in organizational, managerial and ownership structure</li> <li>• Lack of innovation strategy</li> <li>• Dilemma: specialization or diversification</li> <li>• Insufficient interoperability</li> </ul>	<ul style="list-style-type: none"> <li>• Tracking trends in tourism</li> <li>• Specialization</li> <li>• Implementation of modern innovative solutions</li> <li>• Application of Information Technology</li> <li>• Info Networking</li> <li>• Knowledge and access to information</li> <li>• Education</li> <li>• Creation is desirable, but innovation is sufficient</li> <li>• Finance</li> <li>• Personalization</li> <li>• Good governance, organization, resources, clear business policy,</li> <li>• Knowledge structure at the local level in the form of application and in the form of sources of specific knowledge that others do not have</li> <li>• Ethics in business relationships</li> </ul>

Source: Authors

The obstacle to the implementation of innovations is, paradoxically or not, the backward and underdeveloped tourism market that believes that existing innovations should be developed, or revitalized, and then later innovations should be applied.

Small business, if it moves in the area of unused possibilities, which is today information, has more chances for success, creation and inventiveness. Information encourages ideas, and is found in the competition, current and potential clients, in the environment, in virtual reality, etc.

Human resource barriers relate to poor educational qualifications, lack of necessary skills and competences, poor motivation. Regardless of what this may be due to the structural solutions and limitations of the tourism industry and beyond the impact of a small business there is a space for innovation.

Small business is not capable of building an IT structure, it needs the help of the local community to create an informational and digital environment, for promoting, networking, and informing.

The local community should create a local economic environment for the development of tourism, indirectly by building infrastructure capacities and directly by different ways of encouraging small businesses. The biggest obstacles in Serbia at the local level are the lack of funding for the incentive and unresolved ownership structure of tourist capacities.

In order to successfully apply innovations, teamwork is needed for everyone to provide a unique experience for tourists, and this is only possible by learning and improving the application of new technologies and new ideas.

*According to the European Innovation Scoreboard 2018 (EUI, 82), the status of Serbia is of a moderate innovator with a tendency of growth compared to 2010. The general problem is the protection of intellectual property in all areas. The innovative environment for small businesses has been normatively improved, but financial support and interconnections are still not necessary. Public private partnership is in its infancy. According to the chart below, it is evident that small businesses have a lower score in their own innovations and marketing and org. innovations.*

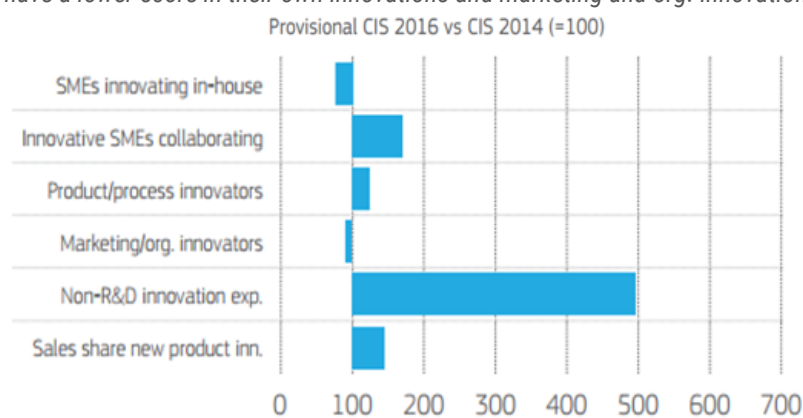


Figure 4: Inovativne Performanse SME in Serbia

Source: European Innovation Scoreboard 2018

Changes in the organizational and management structure are the most difficult when a small business goes beyond the term "small" through the scope of business, so it is necessary to make changes, which by their nature affect ownership and personal integrity.

Lack of strategy for the implementation of innovation, and it should involve association and cooperation at all levels of local tourism actors, from local authorities, businesses to other tourism entities.

The dilemmas of a small business about directions of development and application of innovative solutions. Whether to specialize or diversify. In our opinion, specialization has a greater advantage, since this small business in tourism can exaggerate the influence of the great, and that diversification applies as a creation of diversity within the product range it offers.

Interoperability requires the capacity of a small business in tourism to develop cooperation, exchange of experience, information with different heterogeneous systems in tourism and abroad, without requiring special investment.

#### *Ways and Solutions*

- Tourism, social networking, tourist needs
  - Connecting at a horizontal or vertical level
  - Info networking at the local level and by type of service
  - Taking over from others, franchisees,
  - Knowledge at the local level in the form of application and in the form of sources of specific knowledge that others do not have
  - Information that they offer, suggest, change their needs
  - Developing personal traits
  - Education in the field of IT and management
  - Promotion of one's own style or a special lifestyle
  - Public-private partnership
  - Promoting ethical-moral values
  - Web application development, WF, high speed internet,
  - Tourism of special interest
  - A range of products of particular interest (camping in the yard, own food storage, picking fruits, hunting, fishing, birds, etc.)
- Areas of application: product, process, technology, organizational/managerial, market innovations etc.

Figure 7: Some Innovative Solutions and Ways in a Small Business

Source: Authors

The most important initiators of innovation are owners, tourists, tour operators, technology, competition, and other entities that are directly or indirectly connected with tourism. In a small business, initiators are dependent on many factors that are not applicable to everything and are different for every small business. Interestingly, the results of a case study in a specific area of tourism, where seven of the SMEs innovation starters are "crucial for innovation is the way of life of owners and customers, while families and friends are rarely mentioned" (Liu & Cheng, 2018, p. 13). Of course, this is not crucial for everyone.

When asked if small businesses should receive a certain category of innovation, our opinion is negative. Small business is diversified in tourism, so priorities cannot be prescribed. It can be generalized that priority should be given to taking on the innovations of others.

Since today tourists are increasingly looking for experience, which is a complex tourism product, because it does not only include a specific tourist service and destination, but everything that goes before, during and after a tourist experience, then a small business has its own chances. Experience and tourist experience are among the tourists in the domain of personal, small business has personal and familial characteristics, so this interactive relationship can be stimulating and innovative for a successful business relationship. A business relationship here is also built on the exchange of information and, accordingly, a coordinated response to needs. In a tourist product, various innovative contents can be implemented that do not change the essential product but make it more attractive or increase its tourist market value.

If we synthesize the knowledge and previous experience of others, a number of innovative solutions and ways of developing a tourism business in a small business are opened, as given in Table 7. In innovation, chances lie in the interconnectedness of a small business in a joint venture, building a communication channel between itself and users, in accessing information, and marketing. Connection with local authority in the use of infrastructure projects and financial assistance in the function of innovative tourism

development, etc. In our opinion, tourism of special interests and special needs offers a wide range of opportunities where the inventiveness of a small business can be expressed.

## **6. Innovative application of ethical-moral principles**

Innovations as well as any business goal or action carry ethical-moral values within themselves and are subject to ethical-moral judgment or perception. In applying innovative solutions, especially those of others, one should adhere to legal and moral norms. However, our goal is to point out how ethical-moral principles can appear as an innovation.

Innovation in a small business is in the greatest correlation primarily with the owner, his personal characteristics, and affinities, and from external subjects, with users. This tells us about a strong personal component of a small business. Therefore, the application of personal understanding of morality to business goals and activities is more prominent.

Only personalization of ethical-moral principles or respect for other personalities contributes to the development of a small business. If the modern trend is the creation of experience, and the experience is in the domain of personal, then it can incorporate personal components that arise from the relationship owner-user of tourist services. One way is to promote a tourist event as if it were created for a specific person or group of people with the same affinities and a common goal that everyone feels comfortable with. Then communication creates a sense of belonging, communion, and familiarity by recognizing the needs and habits of individuals, and what a big business cannot do because of its size. Promote ethical standards such as respect for personality and diversity, honesty, kindness, companionship, concern, family environment and values, nature conservation, healthy food, etc. contribute to a better atmosphere. Respecting moral values of a universal character and the ability of the owner to project them in concrete procedures, according to specific persons, so that their character is individualized, guarantees the success of the business. This way it opens many innovative options in front of a small business, in a way that adapts its services adaptively to different target groups, at different times and with different needs.

## **7. Conclusion**

In line with the subject matter, based on the hypothetical starting point and the information they have found, the authors conclude that the innovative possibilities of a small business in tourism are numerous if innovation is viewed in a wider context, as a creation of a new one but also as an application of the existing one. According to the author's opinion, based on the modern business trends, the general character of the small business, the obstacles and opportunities that lie ahead, we can conclude that small business in tourism has a perspective only by applying innovative solutions and following tourist trends.

More specifically, the importance of the paper stems from the knowledge that small businesses have the potential for innovation but cannot develop them equally in all areas as a big business because of their nature as "small". Selective application requires knowledge of opportunities and priorities. This implies the application of innovations understood in the wider context, primarily as the application of existing inventive solutions, since for their own research there are no financial resources. On the other hand, small business innovation is in some segments bigger than innovations of larger businesses. The reason is that big business is striving for new and original ideas and solutions, while small businesses can apply others, get together easier and this choice makes it more flexible and competitive. This means that if a small business has no primacy in innovation, it is not inferior and has enough space and opportunities. There are original inventive solutions in the area of tourism of special interest. One is that the interactive attitude of the personalities of the owners and tourists is exploited as an opportunity for the application of different product and ethical principles in the function of a good tourist experience. That is why the future of a small business is in innovations. This is the key to success and survival.



*Note: Some parts of the paper have been presented at the 2nd International Scientific Conference on IT, Tourism, Economics, Management and Agriculture – ITEMA 2018.*

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