

International Business (LCMB7014)

Student Number: 1907490

Paulina Damuc

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1. Executive Summary

The below research is focusing on business development and expansion of Kempinski Hotel group into emerging market of Montenegro. It provides the analyses of external environment of Montenegro and the main challenges and opportunities that might be faced by hospitality operators during the international expansion to this region. It also evaluates business development strategy adopted by Kempinski Hotels group in context of further expansion in Montenegro.

2. Company overview

Kempinski group is the oldest in Europe luxury hotel group whose history started in 1897 in Berlin with the opening of its first property "Hotelbetriebs-Aktiengesellschaft" by Berthold Kempinski. Company portfolio includes 76 five star hotels and residences in 31 countries and generated over 1.6 billion euros in revenue. Kempinsky's vision is "to be renowned as hoteliers who offer luxurious hospitality in grand European style. The group strategy is aiming to serve customers who highly value excellence and individuality. Kempinski is a private company that is not publicly listed in line with their long term strategy to create a sustainable global business that can be best delivered through decentralised approach. Kempinsky's group mission states that "Luxury must be felt". In addition, company believe that hospitality industry is based on people's ability to create cosy and sophisticated environments for guests to enjoy. Group management is aiming to bring to life unique experiments for its guests in line with their belief that "luxury does not tolerate uniformity." Company is taking pride from offering constant empowerment to its staff and regional offices; Kempinski group believe that their strategy allows them to deliver their brand promise coherently with maintaining a level of respect for individual countries and cultures. Kempinski group portfolio is constantly increasing through company global expansion. Kempinski group is currently operating on four continents and keeps adding new properties in Europe, Middle East, Asia and Americas. Company capacity of expansion is proved by a large portfolio of properties that include: historic grand hotels, superb city hotels as well as outstanding resorts and residences. Each of the properties is characterised by Kempinsky's distinctive style and elegance; the most famous names include properties like: Hotel Adlon Kempinski in Berlin, Emirates Palace in Abu Dhabi, Taschenbergpalais Kempinski in Dresden or the

Çiragan Palace Kempinski in Istanbul. Kempinski is also a founding member of the Global Hotel Alliance (GHA), the world's largest alliance of independent hotel brands. According to company website Kempinski is planning to open 100 new hotels by the end of 2021. (Kempinski.com, 2020b)

3. External Market Analyses

As described by (Mason Andrew Carpenter and Dunung, 2013) Pestle is an important tool that helps to evaluate company's external environment especially in case of international expansion. As described by authors it helps the firm to better understand the company's external environment through analyses of political, economic, sociocultural, technological, environmental and legal conditions. It also helps to evaluate the opportunities and estimate company future profitability. In addition, as described in the same chapter pestle analyses helps business to establish current market condition and future trends of the market that a company intends to enter. Additionally companies need to analyse microenvironment in order to establish that their strategy is aligned with external forces that might affect their business.

The below analyses are performed in context of external environment of Montenegro as a potential entry market for Kempinski hotel group. Montenegro, which translates to "Black Mountain" is situated in South- East Europe on the coast of Balkans and it borders Croatia, Serbia, Bosnia-Herzegovina and Albania. More than a half of a tiny republic of Montenegro is covered in thick forest. A country is famous for its position on Adriatic coastline as well as lowlands and high mountain ranges. (BBC World, 2018). As described in (Rowe, 2017) Montenegro is one of the fastest growing destinations worldwide. According to the same source World Travel and tourism Council reports that for the next ten-year period an annual growth of 8,8% is expected in that region. In period 2002-2017, Montenegro generated over 8.4 billion euro of foreign direct Investments (Rowe, 2017).

Political factors

According to (Mason Andrew Carpenter and Dunung, 2013) political environment has a significant impact on business. In addition, political stability of the country is one of the main factors that drive tourist into a country. Furthermore government policies and taxation has a direct influence on business profitability. Also, trade treaties such as NAFTA, ASEAN and EU tend to favour trade among the members parties and at the same time impose penalties or less attractive trade terms on non-members.

Due to recent political changes and mainly through gaining independence in 2006 Montenegro has become an attractive destination market for foreign investments. According to (Živković, 2018) one of the favourable factors is country membership in organisations like: UN, EBRD, IFAD, WTO and World Bank Group. Montenegro acquired the official status of a candidate to EU in December 2010 and a government's main priorities is to join the EU in due course. As reported by (Živković, 2018) one of the important aspects for international trade is introduction of euro as the official currency in 2002. A significant impact on country security was becoming a 29th member of NATO in June 2017. Furthermore Montenegro has long-term institutional stability with no changes in political party leadership structure. Montenegro has made an important progress in several political spheres like: the rule of law, fight against corruption and fight against organised crime. Limited political progress has been made in the process of decentralisation on both local and regional level. One of the political factors that drives the investors to Montenegro is liberalisation of foreign trade and low and attractive tax policies. Although Montenegro is still in the process of efforts to join European Union it has been already a member of two important organisations for international trade: since 2007 Central European Free Trade Agreement (CEFTA) and since 2011 European free trade association (EFTA). (Živković, 2018) Nevertheless despite the continuous efforts of the government there are still political issues that need to be improved. For instance, (World Economic Forum, 2018) places Montenegro on the 77th position in their annual Global Competitiveness Index. According to the report the main political issue that negatively impact foreign investments is inefficient government bureaucracy.

Economic Factors

As described by (Mason Andrew Carpenter and Dunung, 2013) Economic factors have a long and short term effects on business strategy and need to be carefully considered by the investors before entering the foreign market. Factors such as: interest rates, inflation, tariffs, the growth of national economy and exchange rates are critical for the business. Also, factors like unemployment rate and the cost of labour might have a very important impact especially in service oriented hospitality business.

According to (Government of Montenegro, 2018) the entire economy of Montenegro expanded by 4.2% in year 2017 with further projection of economic growth from 2.8% in 2018 to 2.6% in 2020. As reported by (Monstat, 2018) gross domestic product per capita in Montenegro in year 2016 was 45% of the EU average and the real growth was visible in comparison to previous years. Economic growth of Montenegro is mainly based on the following industries: tourism, energy, agriculture and rural development. As reported by (Chinese Academy of Social Studies, 2018) tourism and tourist related activities contributed to 22% of GDP in 2016 and it is forecast to reach 30% of GDP by 2027. The official credit rating for Montenegro stands at B1 with the stable outlook. (Trading Economics, 2020). As reported by (International Monetary Fund, 2015) the economic situation of Montenegro is relatively fragile mostly because of high level of liquidity, high claims for the business sector, growth

of public debt unemployment rate and inflation and fiscal deficit. Fiscal strategy of Montenegro main goal is to turn 5% of GDP budget deficit into a 4.5% of GDP surplus for period 2017-2020. According to (Heritage.org, 2020) economic development of Montenegro presented in strategic document “Montenegro in 21st century – era of competitiveness” is aiming towards open economy and strengthening of economic freedom in order to develop the entrepreneurial freedom. Additionally in recent years Montenegro has implemented many reforms aligned with EU regulations in order to improve entrepreneurial environment and remove business barriers. However according to (Begg et al., 2010) economic reforms still need to focus on the labour market performance in general, together with human and physical capital. Additionally Montenegro has an unequal balance between import and export of goods. As reported by (ITSC, 2019) in recent years Montenegro has shown a high potential in tourism which is increasing year by year especially on the costal part of the country it provides one-quarter of the national GDP and employs over three-quarters of total workforce followed by the agriculture at 25% while service sector represents the rest. As reported by (Stathopoulos, 2017) recently the tourism infrastructure has improved however the development of rural infrastructure and living conditions of rural population still represents an improvement challenge for government. According to the same source there is also an improvement that needs to be made in relation to transport links between continental regions and other destinations in terms of quality, security and management efficiency.

Social factors

Cultural influences and social factors such as: local language, demographics, dominant religion and cultural views towards leisure time might have a significant impact on the business. Additionally, sociocultural factors that might influence organisation performance also include attitudes towards consumerism or the role of men and women in the society (Mason Andrew Carpenter and Dunung, 2013)

Montenegro is multicultural democratic country of about 620,000 habitants. Country is rich in natural, historical and socio-cultural heritage. Around 73% of the population is inhabited in the rural areas, most of the population lives in urban and costal regions. In 2017 average gross income was calculated at 765 euros and average net income was around 510 euros. The highest income has been noted in financial sector and the lowest in administration. Additionally, by region division the highest wages have been noted in the costal regions and the lowest in the central parts of the country (apart from capital city Podgorica) and in the north side of the country (Živković, 2018). According to (UNDP, 2020) poverty rate is highest for people with disabilities, minorities and it is higher in the north in comparison to other regions. The newly developed project UNDP Social Welfare Information System, so called Social Card is designed in order to improve the proficiency, administration and provide social services. According to (Montenegro Ministry of Tourism and Environment, 2018) one of the tourism development strategy is also a promotion of cultural and religious tourism in Montenegro. As described in (Benner, 2019) and (Montenegro Ministry of Tourism and Environment, 2018) there has been many strategies included

in tourism development plan in order to provide a skilled workforce for the industry. The most noticeable progress has been achieved in improving the vocational, primary and secondary training system. In regards to higher education Montenegro has one public and two private universities that also specialise in providing qualified professionals in tourism labour market, these are: *Faculty of Tourism and Hotel Management in Kotor* and a *private Faculty of Tourism (Montenegro Tourism School) in Podgorica* (Benner, 2019). The national literacy level per capita is 99% and a country is believed to have a high potential of human resources; it is ranked on 48th place with Very High Human Development, according to UN's Human Development Index for 2016 (Montenegro Ministry of Tourism and Environment, 2018). According to (Živković, 2018) main objectives of economic plan for sustainable growth in Montenegro are based on the following principles: Montenegro is a country where dignity of each individual is respected; socioeconomic relations in Montenegro are based on openness, cultural diversity, tolerance and where all the areas of natural, spiritual and culture value are preserved and positioned in the sustainable development.

Technological Factors

As described by (Mason Andrew Carpenter and Dunung, 2013, chapter 8) technological factors have a crucial impact on company success in the new market. For example, new technology may provide the opportunity for more innovative products and services and allow performing many duties in less cost effective and better quality standard.

Information and communication technology plays an important role in tourism development in Montenegro according to (Montenegro Ministry of Tourism and Environment, 2018). Montenegro is ranked on the 45th position in the world field of development electronic government. Furthermore legislation in the field of information technology is harmonised with EU laws and the country puts a lot of effort in order to achieve digital integration of the ICT in all sectors. According to (Eurostat, 2019) 70.6% of households have access to internet. The territorial representation of households with the internet access is smallest in the northern region of the country and largest in the coastal region, around 85%. In rural areas it is around 60% and urban regions around 76%. There is a 98% of computer use in business environment and 99% of internet use. The development strategy for Montenegro is aiming to provide 100% of coverage by the year of 2020. As reported by (Trade.gov, 2019) the telecommunication in Montenegro is 100% privately owned and the market penetration rate for mobile devices users is one of the highest per capita in the world.

Environmental factors

As stated in (Mason Andrew Carpenter and Dunung, 2013, chapter 8) environment has always been an important factor in development of firm strategy. Primarily it was due to access to raw materials and its direct and indirect impact on company

profitability. Also, it is important in terms of sustainability and environmental practices adopted in the country such as waste-management or the use of organic products.

In 1991 Montenegro was established as a first ecological country in the world when the Parliament adopted the Declaration on the Ecological State of Montenegro. (Živković, 2018) According to (Montenegro.rec.org, n.d.), one of the requirements of joining process to European Union is the establishment of Natura 2000 network. In addition Montenegro is in the process of research and implementation of project related to preservation of areas important for conservation of nature and endangered species and habitats. Montenegro is also a part of Bern Convention of European wildlife since 2008. The network of protected areas currently covers around 13% and 17% of Montenegro's territory and includes national and regional parks and other zones of natural protected areas. As reported by (Montenegro.rec.org, n.d.), Montenegro civil and government organisations are actively working on improving environmental issues in the country such as waste recycling and management in order to make them aligned with National Waste Management Plan. Additionally environmental projects such as wastewater management are under development. According to Report on the implementation of the National Waste Management Plan , of the total amount of waste generated around 30% ends up in unregulated land fields and the same amount in uncontrolled land fields which takes place mostly in northern and central regions of the country. As described in (Živković, 2018) over the past few years Montenegro has implemented many environmental policies and created institutional frameworks aligned with European Union standards. In addition over the last few years the infrastructure of central and northern region is dedicated to development of eco and ethno tourism. In year 2013 Montenegro adopted the "Development Directions 2013-2016", as a model of "Europe 2020" strategy with key factors such as :smart, sustainable and inclusive growth. There has been a lot of efforts invested in quality and detailed planning for long term sustainable tourism development. According to the same source the objectives are promptly achieved, for instance after introducing the Development Action Plan of the United Nations Environment Programme 53% of strategic measures were achieved after five years. Additionally the main objectives of sustainable growth plan of Montenegro until 2030 include following principles: sustainable environmental development is one of the main strategic goals of the economy; socio-economic development of Montenegro is based relationship between man and nature; dignity of each individual is respected with no discrimination. According to (Živković, 2018) Montenegro is a green country the natural connection between traditional way of living and the nature is preserved and where the environment and other natural resources are preserved for the future generations. One of the main objectives on environmental development plan of Montenegro is to reduce the level of greenhouse gas emission for 30% by 2030. By the same year Montenegro is opting to achieve balanced economic and sustainable development as well as productive employment on the regional level.

Legal factors

Finally, according to (Mason Andrew Carpenter and Dunung, 2013) legal factors are very important for the region and organisation. Legal factors can include: cost of regulatory compliance; how quickly laws and regulations can be changed by the government and whether the rule of law is well established across the country.

According to (Živković, 2018) in recent years there has been a significant progress in the legal system and public administration at national, regional and local level. There has been also progress in judicial system and fight against organised crime, war crimes, terrorism and money laundering and corruption. In regards to fundamental rights and freedom of expression a progress has been made in relation to general human rights protection. Additionally there has been a significant progress in legal framework regarding: food safety, agriculture and social development, legislative procedures are changed in the way that complies with European standards. According to the same source there has been also involvement in works regarding regulations of partnerships, associations and stakeholders at national, regional and local level. As reported by (Živković, 2018) in recent years there is an increasing amount of agencies that combine efforts of foreign investors, development agencies and diverse EU funding projects in order to enhance the tourism development in the area; an example is The Regional Development Agency for Bjelasica, Komovi and Prokletije supported by the Austrian Development Agency.

4. Analyses of global expansion and investment in emerging markets

Globalisation

As described in (Mason Andrew Carpenter and Dunung, 2013) for the past decade, new markets have been opened for international competitors and lead to deregulation and privatisation of state-run enterprises. Although not all companies have become global the increased competition has impacted almost every company in every industry and created a need for successful business strategy that allow them to compete on the international markets. According to (Mason Andrew Carpenter and Dunung, 2013) the successful global company is fully aware of four factors that influence their operations and strategy on international level, these are: market opportunities, costs government and competition. The same author states that in a truly globalised industry the core product is standardized, marketing approach is relatively similar and competitive strategies are integrated in different international markets. In addition a wide range of destinations and variety of products in tourism industry has challenged hospitality industries to provide a unique products and services for their customers and provide them with maximised profitability.

Competitiveness and destination choice

As stated in (Ramón Martín, 2015) the shape of global economy has been recently changing by influences from emerging markets and it is very important for companies in tourism and hospitality sector to take advantage of the opportunities offered by those markets in order to achieve competitive advantage. (Khanna, 2010) in Forbes article support this thought and brings up a fact that many companies wrongly associates emerging markets with the countries where economies are not fully developed when in fact those markets are creating best opportunities for future investments.

Entry strategies

As described by (Dev, Brown and Zhou, 2007) brands that are expanding internationally must determine their strategy in terms of management and ownership. According to the same source the relation between company's main strengths and local resources drives the partnership arrangement that determine the characteristics of the terms on which company is going to enter the market. In addition company structure and strategies applied to gain a competitive advantage are determining the way in which company is deciding to enter the new market. According to (Mason Andrew Carpenter and Dunung, 2013) while entering new markets company needs to consider two important aspects : ownership and management strategies. In addition company needs to establish the best ownership structure and the best way of managing property in the local market. According to (Wood and Brotherton, 2008, p71) market entry strategies that Hospitality Company decides to choose is crucial for company profitability and future investments. In hospitality sector there is six different entry choices identified for expansion, these are: sole ownership, joint-venture, franchise, management contract strategic alliance and consortia. According to (Kempinski.com, 2020) the strategic orientation of the Kempinski group is based on management contracts and acquisitions of hotel properties. As a part of future expansion strategy company is searching for unique properties that may be renovated up to company standards and then repositioned under brand logo. Up to date Kempinski is mostly a hotel operator; only the famous hotel Maximilianstrasse in Munich is owned by the company. Kempinski group is also in partnership with investment groups that are working on construction and development of specially build luxury properties that will be soon opened under Kempinski brand name. (Wild, 2007) in chapter fourteen is introducing two methods of developing international strategies standardizing and adapting models. In addition adaption are focused around the use of different selling, management and marketing methods whereas in standardised model company opt for one strategy that is applied to all the markets of its operations. As described in (Kempinski.com, 2020b) in terms of strategic management Kempinski group believes in decentralised approach. In addition company believes in creating the sustainable value of its brand promise through empowerment of staff in the regional offices and introducing their standardised business model and expertise to local environments with the respect for local cultures and customs. As a hotel management company Kempinski brand is especially focusing on talent selection staff training and company culture. Kempinski

group is taking pride from investing in people and developing talents through number of educational programmes for its employees.

Montenegro as an emerging market for hospitality and tourism

As described by (Živković, 2018) due to recent economic and political changes and attractive natural resources Montenegro along other Balkan countries has recently evolve as a great opportunity for investment .Due to the Adriatic coast, Montenegro is separated from Italy by the Adriatic sea and with 293.5 km of coast line it attracts a large number of tourists each year. Montenegro can be divided into two main biogeographical regions: Meditanean and Alpine with both regions offering wide range of ecosystems and habitat types. Additionally, Montenegro is rich in both natural and cultural historic sights as well as attractive mild climate which provide attractive offer for mountain tourists in winter time and costal tourists in the summer. In addition to 300km coastline, 117 beaches, fjords national parks and beautiful lakes Montenegro also offers two UNESCO World Heritage sites: the walled city of Kotor and Durmitor National Park.

As deccribed by (Živković, 2018) the small Balkan country of Montenegro attracts many affluent tourists from all over the world. Additionally in 2017 Monteegro has been recognised as the country to invest in real estate at the Luxury Propert Show along popular destinations like Spain, Portugal and France. Furthermore “ Association of British Travel Agents” published a report of twelve most interesting holiday destinations to visit in 2018. Monenegro has been also branded a luxury destination for tourism by (The Luxury Editor.com, 2019) along with the list of five star superb properties offered by the country. As described in (Goryakin et al., 2015) the globalisation has also influenced marketing and customer perceptions about products. According to Kempinski.com the group target market consist of clientele who seek for luxuries experience therefore Montenegro appearance in various publications and online articles is very important for marketing strategy and competitive advantage of the business.

According to (Živković, 2018) there is more than natural resources that makes Montenegro a great potential destination for tourism investments. Montenegro is a safe country with open friendly economy and with the significant growth in foreign investments in recent years. According to the same source destination has been especially appealing to developers that are investing in luxury resorts, marinas for yachts and top-class hotels. Therefore it would make a great investment opportunity for Kempinski Group and its target markets of customers. Additionally as described in (Mohammad Ayub Khan, 2016) a competitive advantage is also measured by financial returns. In addition economic factors that make Montenegro a great potential for investment are: euro as a national currency; low personal and legal income taxes (9% rate); reductions in income value tax (the standard vat rate is 21% with further reductions to only 7% for tourism and servicing yacht ports and 0% for some basic goods). Another important aspect is a simple and time efficient legislation process related to establishing business. (Podgorica, 2019)

According to company website Kempinski Group is currently operating three successful properties in Balkan region these are: Kempinski Hotel Adriatic Istria in Croatia, Kempinski Palace Portoroz Istria in Slovenia and Kempinski Hotel Grand Arena in Bulgaria. In addition Montenegro would be a great investment opportunity for further expansion in the region that is partly familiar to the management group.

As described by (Živković, 2018) an important factor that makes Montenegro a good opportunity for investment is international infrastructure. As a part of sustainable development government of Montenegro is putting a lot of efforts in improving the quality of roads and infrastructure. Montenegro has two international airports Podgorica which serves 12 airlines and Tivat which serves ten airlines, both are providing a good connectivity with over twenty four other destinations in Europe and worldwide.

According to (Kempinski.com, 2020b) one of the group strategy is long term investment in sustainable tourism. As described in (Živković, 2018) due to that fact that Montenegro is planning to join European Union a lot of programmes and opportunities has been developed by government in order to provide sustainable economic growth and preservation for natural environment and cultural heritage. Additionally as described in (Kempinski.com, 2020b) Kempinski group takes pride in providing highly qualified level of staff and sustainable development therefore investing in Montenegro region could open a lot of job opportunities for locals.

5. Conclusion in Recommendations

Based on above analyses Montenegro is a relatively new market with great opportunities for investments especially in tourism luxury sector. Although it is still an emerging market the above study proves that there have been a number of initiatives and projects introduced by the government in order to make the country attractive for foreign investors. Due to rich offer of natural resources and positive economic prospects it would make a great environment for international investor like Kempinski Hotel group.

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