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SILENT PROGRESS: REGENERATIVE TOURISM THROUGH ESG PRACTICE – THE LUŠTICA BAY EXPERIENCE

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Abstract: *This paper analyses the application of ESG (Environmental, Social, and Governance) principles in the luxury tourism sector through a case study of The Chedi Hotel and the Luštica Bay destination in Montenegro. The focus is on identifying concrete sustainability measures and evaluating their impact on operational performance, branding, and social responsibility. The paper adopts a case study methodology, relying on secondary sources such as ESG reports, international standards, and EU regulatory frameworks. The findings suggest that ESG strategies can become a competitive advantage, while also highlighting challenges related to reporting standardization and replicability in smaller entities. Particular attention is given to the role of ESG policies in the process of European integration. It is concluded that sustainability should not be a peripheral business component but the foundation of modern tourism development.*

Keywords: *ESG principles, sustainable tourism, non-financial reporting, competitive advantage, social responsibility.*

1. Introduction

Tourism is one of the fastest-growing sectors in the world and is increasingly recognized for its contribution to job creation, economic growth, environmental protection, and poverty reduction. When properly planned and managed, tourism can help preserve natural and cultural assets and support local communities. However,

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the rising number of travelers may also lead to issues such as pollution, excessive resource consumption, and negative impacts on local populations.

Luxury tourism follows the trends of other luxury goods and services markets but is not regularly considered part of the luxury industry. Nonetheless, much like traditional luxury products—cars, watches, fashion, or cosmetics—luxury tourism distinguishes itself primarily through brand image, uniqueness, and high pricing (Horwath HTL, 2011).

Within the tourism industry, luxury tourism represents a unique niche, not only from the supply side but especially from the demand perspective. It typically encompasses two opposing categories. One involves a preference for exclusive vacations in destinations frequented by celebrities (e.g., exotic islands, cosmopolitan cities, or remote international locations). The other entails a desire for undiscovered and untouched places (e.g., deserted islands, secluded beaches, low-demand towns with historical significance and no pollution) (Popescu & Olteanu, 2014).

In recent decades, increasing concern about climate change, environmental degradation, and the depletion of natural resources has led to a redefinition of corporate priorities. Traditional models that place profit at the center of business strategy are being increasingly criticised for their adverse impact on society and the environment (Wright & Nyberg, 2015). At the same time, sustainable development is becoming an essential concept—not only in regulatory and political discourse but also in private sector strategies.

Environmental, Social, and Governance (ESG) refers to a set of standards that align business operations with sustainable development principles across three key areas: environmental protection, social responsibility, and corporate governance. ESG comprises three pillars:

- The **Environmental (E)** pillar may include climate change mitigation and adaptation, sustainable resource use and energy efficiency, circular economy practices, pollution prevention and waste management, environmental conservation, biodiversity protection, and the restoration of natural habitats.
- The **Social (S)** pillar encompasses internal and external social factors and impacts, including human rights, labour practices, decent work, consumer issues, community relations and engagement (implying inclusion, impact, and integration of an organization's ESG initiatives), privacy and data protection, health, well-being and safety, supply chain management, human capital development, and issues of social justice.
- The **Governance (G)** pillar relates to the management of the organization, including oversight of environmental and social categories. It covers board composition and structure, strategic sustainability oversight and compliance, executive compensation, process standardization, anti-corruption measures, responsible political engagement, fair competition, promotion of social responsibility within the value chain, respect for property rights, and relations with communities and society at large.

ESG also encompasses the concept of **Corporate Social Responsibility (CSR)**.

In the context of tourism and particularly luxury tourism ESG principles are becoming key mechanisms for safeguarding competitiveness, reputation, and long-term sustainability (UNWTO, 2023). Nonetheless, challenges in operationalizing ESG principles remain, especially concerning their concrete implementation and the measurement of their contribution to the overall performance of tourism destinations (GSTC, 2022).

This paper explores how an ESG-based approach can serve as a source of competitive advantage in luxury tourism, through an analysis of the Luštica Bay destination and The Chedi Hotel, which have positioned themselves as leaders in sustainable practices in the Adriatic region.

2. Theoretical Framework and ESG in Contemporary Tourism

Interest in sustainability among high-end travellers is on the rise, with tangible effects across the tourism industry. This growing awareness provides significant impetus to destinations committed to environmental protection, cultural preservation, and the well-being of local economies—while simultaneously benefiting the sector as a whole. Wealthy travellers seek luxury accommodation, fine dining, and comfortable transportation, but increasingly also desire unique experiences in meaningful locations. Moreover, they want their travel to support nature, people, and wildlife. This may involve staying in a “green” hotel or participating in nature conservation initiatives. According to the *Virtuoso Sustainable Travel Report 2024*, as many as 82% of affluent travellers prefer hotels that implement eco-friendly practices, while 62% actively seek sustainable luxury accommodation. Likewise, 88% of institutional investors prioritise companies aligned with ESG principles.

In its report *The Future of Luxury Travel – The Sustainability Imperative*, Deloitte notes that luxury travel brands are presented with numerous opportunities to enter the market by merging exclusivity with sustainability. Some notable examples include:

- Accor, operating in 110 countries under a variety of resort and hotel brands, is a member of the *Sustainable Hospitality Alliance*—a global sustainability network representing 25% of the industry. This hotel group funds tree-planting initiatives using savings generated from reduced water and energy consumption, equips hotels with recycled and eco-certified materials, and sources food from sustainable suppliers or its own organic gardens.
- Aman Resorts, a Swiss-based luxury hospitality operator active in 20 countries, adheres to the criteria of the *Global Sustainable Tourism Council (GSTC)*, integrating respect for local heritage, culture, and economy, environmental conservation, and social responsibility into every stage of hotel development and operations.
- Magdas Hotel in Vienna presents itself as Austria’s first *Social Business Hotel*, combining social entrepreneurship with sustainable design using recycled materials to deliver a distinctive tourism experience. The hotel trains and employs former refugees, newly arrived immigrants, and professionals from diverse backgrounds. Guest rooms are furnished with mid-20th-century

recycled furniture, and the building is powered by geothermal and solar energy. Travellers arriving by bicycle or public transport receive a 10% discount.

These examples underscore the importance of embedding ESG principles not only as a matter of regulatory compliance, but as a strategic foundation for the long-term success of luxury hospitality brands.

An analysis of international research and best practices indicates that initiatives such as energy efficiency, waste management, local community engagement, and ethical governance significantly contribute to the growth and attractiveness of high-end tourism destinations. For example, the *UNWTO report Tourism and Sustainability: Towards a Green Economy* (2012) highlights that sustainable tourism—engaging local communities, conserving resources, and supporting green initiatives—enhances the long-term appeal of destinations.

Furthermore, *Booking.com's Sustainable Travel Report (2023)* states that 76% of global travellers want their trips to have a positive impact on local communities and the environment, reinforcing the growing role of sustainability in attracting tourists.

In this context, the core ESG pillars in luxury hospitality (Srikant Peri) include:

1. Environmental Sustainability

Luxury brands lead the way in sustainability through:

- Energy optimisation,
- Waste management,
- Water conservation,
- Sustainable sourcing – prioritising local, organic, and ethically sourced products,
- Guest education – raising awareness about sustainable options.

2. Social Responsibility

Brands play a vital role in promoting social justice by:

- Employee development,
- Community engagement,
- Guest participation – such as eco-tours, farm-to-table initiatives, and more.

3. Methodology

This study employs a case study methodology, allowing for a deeper understanding of ESG integration within the context of a specific tourism destination and hotel brand. The case study approach is particularly suitable when examining contemporary phenomena within real-world settings.

The selection of Luštica Bay and The Chedi Hotel is based on the presence of formalised ESG policies and reporting, international certifications, and a strategic commitment to sustainability.

The analysis relies on secondary data sources, including ESG and CSR reports, publications of international organisations, and EU regulations. The limitations of the research include the inability to generalise findings and the reliance on internal reports that may contain elements of bias.

The ESG data referenced are included in corporate ESG reports. Non-financial reporting, sustainability reports, and ESG disclosures are among the new practices shaping the emerging system of corporate reporting and governance. While the EU adopted the Corporate Sustainability Reporting Directive (Directive 2022/2464) in early 2023, Montenegro will be required to comply with it from January 2029.

Luštica has prepared a corporate-level ESG report that can serve as a model for other organisations aiming to begin effective ESG-aligned reporting. Many companies initially treated ESG primarily as a marketing tool until it became a legal obligation subject to audit and regulatory oversight. Therefore, the goal should not be the report itself, but the activities it reflects and their ability to demonstrate a destination's commitment to the green agenda.

The evolving system of corporate reporting, previously limited to non-financial disclosures, must now incorporate dual materiality: alongside profit-related information, reports must include environmental, social, and governance data. Dual materiality requires identifying issues that are material from both the organisation's and stakeholders' perspectives. Prioritising them based on their impact enables the creation of a time-sensitive action plan.

CSR activities are part of these reports, along with initiatives aimed at improving working conditions and employee well-being. Through this process, employees are encouraged to continue advancing these practices. Additionally, it contributes to the development of an ethical and responsible business culture, promotes transparency, and supports the comprehensive alignment of financial performance and ESG outcomes.

4. Case Study: ESG Practice at The Chedi Hotel

The Chedi Hotel is the first five-star luxury hotel in Europe officially on the path to becoming Zero Waste, positioning itself as a leader in sustainable luxury hospitality. According to the 2024 ODH ESG annual report, its environmental initiatives include the elimination of single-use plastics, an 85% reduction in waste, and a significant decrease in paper usage.

The social component is demonstrated through the employment of local residents (72%), annual donations, and comprehensive ESG training for all staff.

The governance of ESG aspects includes the implementation of standard operating procedures (SOPs), key performance indicators (KPIs), and internationally recognised certifications (Responsible Hospitality VERIFIED™, Green Key, EarthCheck Bronze).

The results include an 11% reduction in energy consumption and increased international visibility, indicating both operational and reputational benefits from the ESG model.

Key achievements²:

- Implementation of the Responsible Hospitality VERIFIED™ standard by Forbes Travel Guide;
- First hotel in Montenegro to receive this label and among the first 100 globally;
- Complete elimination of single-use plastics and significant paper reduction;
- Avoidance of over 75,000 plastic bottles annually;
- 85% reduction in waste through 7R principles and life-cycle assessment;
- Local and seasonal cuisine – 50% of the wine list features Montenegrin wines.

Community contributions:

- 1% of annual revenue donated;
- 82.56% of suppliers are local;
- 72% of employees are from the local community;
- 100% of employees trained in sustainability;
- Energy efficiency: 11% reduction in energy use.

Cultural and environmental conservation:

- 21 community support projects;
- Collaboration with local artists;
- Establishment of the Adriatic Green Hub – a platform for sustainable hospitality practices.

5. Results and Discussion

The Luštica Bay project aspires to become the leading destination on the Adriatic. At present, The Chedi Hotel operates as Europe's first luxury Zero Waste hotel. Achievements in 2024, as reported by ODH ESG, are outlined as follows:

Sustainable development is implemented through:

- Integration of natural surroundings into planning and management;
- Support for Montenegro's environmental agenda;

² Source: Author's calculation

- Activities of the ESG Ambassador Team, active at the destination since the previous year.

Key accomplishments in 2024³:

- Recognition by the Red Cross of Montenegro for social responsibility;
- Inclusion in the ODH ESG annual report;
- Environmental and health initiatives such as beach cleanups.

Core ESG metrics from the annual report:

Environment:

- Water consumption: 152,377 m³;
- Total waste: 1,161 tonnes;
- Paper recycling: 3 tonnes out of 3.7 tonnes;
- Energy consumption: 7,364 MWh;
- Renewable energy: 4,261 MWh;
- CO₂ emissions: 5,852 MT.

Social:

- 71% of employees from the local community;
- 13 different nationalities;
- Average of 12 hours of training per employee;
- 100% of employees trained in health and safety.

Governance:

- Transparent policies and zero tolerance for discrimination;
- 81 SOPs implemented;
- Defined KPIs;
- Internal auditors trained according to ISO 9001 standards.

The destination is recognised through participation in the ESG Adria Summit, its inclusion in the ODH ESG report, and accolades from the Red Cross.

The case examples confirm that ESG in tourism can serve as a strategic tool for differentiation and long-term growth. At The Chedi, ESG enhances brand identity, while at Luštica Bay, ESG serves as a destination-wide narrative.

Challenges include the need for deeper impact evaluation and increased external validation of ESG reporting. The replication of such models requires institutional support, education, and appropriate regulatory frameworks.

³ Source: Author's calculation

In the context of EU accession, ESG must become an integral part of Montenegro's tourism strategy.

6. Conclusion and Recommendations

ESG principles provide a sustainable foundation for enhancing competitiveness, resilience, and reputation in luxury tourism. The analysed cases—The Chedi and Luštica Bay—demonstrate that ESG can be strategically integrated into core business models.

Recommendations:

- For the private sector: establish ESG teams, provide employee training, and implement transparent reporting;
- For regulators: prepare for EU CSRD implementation, introduce incentives, and develop a national ESG platform;
- For academia: conduct quantitative research on ESG ROI and map implementation barriers.

Sustainable tourism is feasible when ESG is not treated as a formality, but as a principle of action. Sustainability is not merely a goal but a responsibility. Zero waste is not a destination but a continuous process without end.

Luštica Bay has emerged as a leading example of strategic development guided by ESG principles—setting a new standard for responsible and sustainable growth in the region. Its vision is clear: to establish a premier Adriatic destination that promotes sustainable living 365 days a year, ensuring long-term stability and a prosperous, self-sustaining community.

This is more than building a town—it is about creating an ecosystem in which economic resilience, environmental stewardship, and quality of life generate a lasting value. Luštica Bay exemplifies how a visionary and well-executed investment can yield enduring prosperity while preserving the region's natural and cultural identity. Through innovation, strategic planning, and deep respect for the environment, it not only redefines the Montenegrin coast but positions it as a global benchmark for sustainable excellence.

The challenges facing the destination stem primarily from external stakeholders. For example, advancing waste classification is difficult if local municipal utilities do not keep pace. Moreover, regulatory frameworks often lag behind, with certain deficiencies acting as bottlenecks.

The findings confirm that sustainable luxury tourism not only reduces environmental impact but also increases guest loyalty, operational resilience, and long-term profitability.

In light of the above, this paper demonstrates the competitive advantages of ESG integration and provides practical examples and recommendations for successful implementation in contemporary luxury tourism.

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RAZVOJ U TIŠINI: REGENERATIVNI TURIZAM KROZ ESG PRAKSU – ISKUSTVO LUŠTICA BAY

Apstrakt: Rad analizira primjenu ESG (ekoloških, društvenih i upravljačkih) principa u sektoru luksuznog turizma kroz studiju slučaja hotela The Chedi i destinacije Luštica Bay u Crnoj Gori. Fokus je na identifikaciji konkretnih mjera održivosti i evaluaciji njihovog uticaja na operativne performanse, brendiranje i društvenu odgovornost. Rad koristi metod studije slučaja, oslanjajući se na sekundarne izvore – ESG izvještaje, međunarodne standarde i regulatorne okvire EU. Rezultati pokazuju da ESG strategije mogu postati konkurentna prednost, ali i ukazuju na izazove vezane za standardizaciju izvještavanja i replikabilnost u manjim subjektima. Poseban značaj dat je ulozi ESG politika u procesu evropskih integracija. Zaključuje se da održivost ne treba biti marginalna komponenta poslovanja, već temelj savremenog razvoja turističkih destinacija.

Ključne reči: principi, održivi turizam, nefinansijsko izvještavanje, konkurentna prednost, društvena odgovornost.