

# Tourism business and hospitality sphere in Ukraine: the modern conditions, factors and development directions

## Área de negocios turísticos y hospitalidad en Ucrania: las condiciones modernas, factores y direcciones de desarrollo

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### Abstract

The main development indicators of tourism business and hospitality sphere in Ukraine were analyzed. A multifactor correlation-regression analysis was conducted to determine the development prospects of tourism business and hospitality sphere in Ukraine. The most influential external factors of the development of entrepreneurial structures of the studied sphere were identified. The measures to create a favorable business environment in the tourism business and hospitality sphere in Ukraine were proposed.

**Keywords:** entrepreneurship, tourism business and hospitality sphere, correlation-regression analysis, development factors.

### Resumen

Se analizaron los principales indicadores de desarrollo del sector turístico y de la hostelería en Ucrania. Se realizó un análisis multifactorial de correlación-regresión para determinar las perspectivas de desarrollo del negocio turístico y la esfera de la hospitalidad en Ucrania. Se identificaron los factores externos más influyentes del desarrollo de las estructuras empresariales de la esfera estudiada. Se propusieron medidas para crear un entorno empresarial favorable en el ámbito del turismo y la hospitalidad en Ucrania.

**Palabras clave:** espíritu empresarial, turismo de negocios y hotelería, análisis de correlación-regresión, factores de desarrollo.

## 1. Introduction

The sphere of tourism business and hospitality is a dominant factor in securing socio-economic growth for many countries in the world. Investigating the dynamics of the main indicators of the sphere of tourism and hospitality in Ukraine in recent years, it can be noted that there are negative trends, accompanied by a decrease in the number of tourists served and the people employed, and by generating low annual GDP inflows. In order to increase the efficiency of the specified area of activity, there is a need to study in detail the factors that affect its development.

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### 1.1. Literature review

The problems of the development of the tourism and hospitality sphere receive great attention in the works of the following domestic practitioners and scholars. The works of Alonso and Ogle (2010), Breen y Bergin-Seers (2005), Keller (2004), Pierce (2011) are devoted to determining the role and place of business in tourism and hospitality. Some aspects of the development of small businesses in the domestic tourism and hospitality are researched by Kovalyk (2018) - the issue of state support for small business in the tourism sector; Chernega et al. (2019) - comparative analysis of the regional markets of cultural and cognitive tourism development in Ukraine; Shpak (2014, 2015) was engaged in the analysis of the external environment, structure and problematic aspects of state regulation of economic development of regional tourist and recreational complex; the prospects for the development of small businesses in the recreational area of the region were studied by Anoprienko (2012); the problems of institutional support to small businesses in the tourism sector are highlighted in works by Zinchenko (2016).

The research of the impact of the tourism business and hospitality sphere on the socio-economic development of the society has been extensively studied in the foreign and national scientific literature. In particular, an analysis of the impact of sustainable tourism development factors was conducted by Vellas (2011), whose works assessed the impact of tourism on the GDP, employment, supply of goods and services in particular sectors of the economy, economic development and macroeconomic imbalance reduction. Balaguer and Cantavella-Jorda (2002) analyzed the importance of tourism for the economic growth of the Spanish economy. Chan, Lim y McAlleer (2005) investigated the impact of volatility on international tourist arrivals to Australia.

At the same time, a number of scientific studies are concerned with the impact of individual factors on tourism and hospitality sphere. Thus, the works by Gupta y Dutta (2018) and Nepal et al. (2019) investigate the relationship between tourism development, environmental pollution, energy consumption, and capital accumulation. The paper of LV y XU (2016) analyzes the impact of corruption and the development on the tourism industry.

Marakova et al. (2016) assessed the relationship between the competitiveness of the EU Member States and the selected factors that determine the competitiveness of tourism in these states. The work (Bernini y Guizzardi, 2010) investigated the relationship of the level of competitiveness of the Italian hotel industry with the level of efficiency of business corporations. The work (Berbel-Pineda, et al., 2016) is devoted to the analysis of various factors affecting the exportability of the hotel business.

The systematization of the development factors of the tourism industry in Ukraine in the theoretical aspect was carried out by Tsehla (2009) and Malska et al. (2004). Ukrainian researcher Lemets (2013) established the influence of integration processes on the development of international tourism in Ukraine by constructing regression equations of the share of export of tourist services in Ukraine to the CIS and EU countries. The work (Rybchuk y Kvasniy, 2017) assessed the impact of environmental factors on the development of business entities in the hotel business.

Despite the considerable attention to the factors of tourism and hotel and restaurant business development, it is necessary to evaluate the complex impact of various factors on the condition and development of domestic the tourism business and hospitality sphere, which actualizes the necessity for scientific development in this field.

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## 2. Materials and methods

The aim of the article is to assess the current condition and identify the key parameters of tourism business and hospitality sphere development in Ukraine.

The research methods used are systematization and grouping (to identify the main influential factors and their grouping), methods of economic-mathematical statistics and modeling (to build correlation-regression models of the impact of factors on the development of entrepreneurship in tourism business and hospitality sphere), abstract-logical method (to formulate conclusions).

The information base of the research is the works by domestic and foreign scientists, statistical information of the bodies of state statistics in Ukraine.

### 3. Results

The main indicators of business development of any sphere of activity, including the sphere of travel agencies, tourist operators, enterprises providing other booking services and related activities, are the number of business entities, the number of people employed, the volume of products sold.

We will evaluate the dynamics and structure of business entities in the tourism business and hospitality sphere in Ukraine (Table 1).

**Table 1**

The number of business entities depending on their size in the sphere of travel agencies, tour operators, enterprises providing other booking services and related activities<sup>1</sup>

Indicator	2010	2011	2012	2013	2014	2015	2016	2017	2018	Growth rate 2018/2010, %
Total number of business entities	10486	8560	8226	9829	10270	9392	10460	10093	10520	0,32
including - big business entities	-	-	-	-	-	-	1	-	-	-
- medium business entities	49	44	36	33	24	18	43	17	18	-63,27
share, % of total number of entities	0,47	0,51	0,44	0,34	0,23	0,19	0,41	0,17	0,17	-63,83
- small business entities	10437	8516	8190	9796	10246	9374	10416	10076	10502	0,62
share, % of total number of entities	99,53	99,49	99,56	99,66	99,77	99,81	99,58	99,83	98,16	-1,38
of these, microbusiness entities	10182	8271	7968	9578	10063	9213	10184	9911	10327	1,42
share, % of total number of entities	97,10	96,62	96,86	97,45	97,98	98,09	97,36	98,20	98,17	1,10

Source: State Statistics Committee of Ukraine

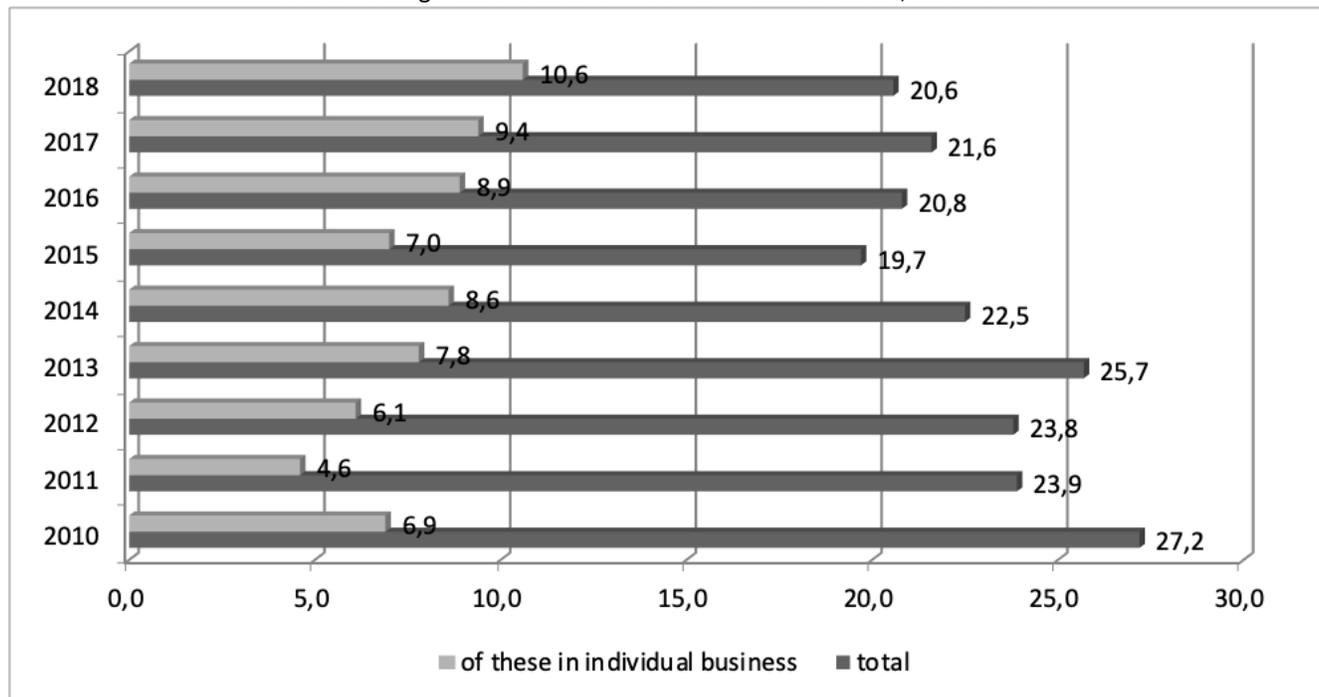
<sup>1</sup>Years 2014-2018 without the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and parts of the temporarily occupied territories in Donetsk and Lugansk

As of 2018, the number of entities is down by 0.32% from the level of 2010. The vast majority of active business entities in the research business sphere are small businesses - their share exceeds 98-99%. However, their number increased by 0.62% during the analyzed period, and the share decreased by 1.38%, and in 2018 it comes to 98.16%. The largest number of small business entities is micro-entities (employing fewer than 10 people), with their volume increasing by 1.42% in 2010-2018 and their share increasing by 1.1%.

The number of employees in the hospitality and tourism sector is shown in Figure 1, it is notice a decreased by 21% in 2010-2018. This is primarily due to the decrease in demand for services in the industry, which is caused by a decrease in tourist activity of the population due to the decline in their purchasing power, tourist attractiveness of the country for foreign visitors through an unstable political and socio-economic environment, etc. The highest employment was recorded in 2010 and the lowest in 2015.

**Figure 1**

The number of employees engaged in business entities in the field of travel agencies, tour operators, enterprises providing other booking services and related activities in 2010-2018, in thousands<sup>1</sup>



Source: State Statistics Committee of Ukraine

<sup>1</sup> Years 2014-2018 without the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and parts of the temporarily occupied territories in Donetsk and Lugansk

As for the dynamics of products sold by business entities in the field of travel agencies, tour operators, enterprises providing other booking services and related activities, it is shown in Table 2.

**Table 2**

The dynamics of products sold by business entities in the field of travel agencies, tour operators, enterprises providing other booking services and related activities, million UAH<sup>1</sup>

Year	Products sold	Growth rate, % to the previous period
2010	4711,8	-
2011	4889	3,76
2012	6080,7	24,38
2013	6269,9	3,11
2014	4509,1	-28,08
2015	5519,8	22,41
2016	7006,8	26,94
2017	8434,5	20,38
2018	11873896,8	40,78

Source: State Statistics Committee of Ukraine

<sup>1</sup> Years 2014-2017 without the temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and parts of the temporarily occupied territories in Donetsk and Lugansk

The estimated volumes of products sold indicate a significant increase in 2010-2013 - by 33%, a further decrease by 12% during 2014-2015 compared to 2013 and again an increase by 52.8% in 2016-2017. The sales growth rates in 2015-2017 exceed 20%. The growth rate of the indicator in 2010-2018 is 152%, which is primarily the result of significant price increases and inflationary processes in the country.

To determine the development prospects in the tourism business and hospitality sphere in Ukraine and identify the key influential factors for its activation, a multifactor correlation-regression analysis was conducted. The selection process took into account the availability of data for analysis and the importance of particular factors for the tourism business and hospitality sphere development.

The volume of sales of all business entities in the industry was selected as the dependent indicator. To exclude the influence of the inflation factor on the volume of sales, the latter was calculated in US dollars.

There were constructed correlation dependences of the products sold by the industry (Y) on the impact of the following indicators: dollar exchange rate to hryvnia (X1), consuming price change index (X2), average monthly salary (X3), unemployed population according to the ILO methodology (X4), investment in tourism ( X5), roads quality index (X6), level of globalization (X7), rule of law index (X8), economic freedom index (X9), Doing Business in Ukraine index (X10), corruption control index (X11), government efficiency index (X12), political stability index (X13), loan interest rate (X14), access to finance (X15), human development index (X16), the number of foreigners entering Ukraine (X17).

The data of the State Statistics Committee of Ukraine and a number of international organizations were used as the information base for forming the sample of baseline indicators. As a result, the following correlation matrix was obtained (Table 3).

**Table 3**  
The correlation matrix of dependence of products sold by tourism and hospitality businesses on macro-environment factors

	Y	X <sub>1</sub>	X <sub>2</sub>	X <sub>3</sub>	X <sub>4</sub>	X <sub>5</sub>	X <sub>6</sub>	X <sub>7</sub>	X <sub>8</sub>	X <sub>9</sub>	X <sub>10</sub>	X <sub>11</sub>	X <sub>12</sub>	X <sub>13</sub>	X <sub>14</sub>	X <sub>15</sub>	X <sub>16</sub>	X <sub>17</sub>
Y	1																	
X <sub>1</sub>	-0,89	1																
X <sub>2</sub>	-0,80	0,62	1															
X <sub>3</sub>	-0,63	0,88	0,26	1														
X <sub>4</sub>	-0,96	0,85	0,67	0,66	1													
X <sub>5</sub>	0,95	-0,89	-0,73	-0,68	-0,92	1												
X <sub>6</sub>	-0,59	0,81	0,47	0,74	0,51	-0,52	1											
X <sub>7</sub>	-0,74	0,90	0,56	0,80	0,64	-0,67	0,95	1										
X <sub>8</sub>	0,34	-0,61	0,07	-0,89	-0,48	0,41	-0,58	-0,55	1									
X <sub>9</sub>	-0,76	0,60	0,55	0,54	0,79	-0,67	0,41	0,56	-0,48	1								
X <sub>10</sub>	0,88	-0,98	-0,59	-0,88	-0,85	0,92	-0,74	-0,87	0,63	-0,67	1							
X <sub>11</sub>	0,78	-0,89	-0,33	-0,89	-0,87	0,82	-0,60	-0,68	0,77	-0,58	0,88	1						
X <sub>12</sub>	-0,63	0,66	0,52	0,63	0,59	-0,56	0,75	0,78	-0,59	0,83	-0,68	-0,50	1					
X <sub>13</sub>	0,88	-0,88	-0,70	-0,73	-0,79	0,84	-0,71	-0,87	0,47	-0,82	0,92	0,68	-0,84	1				
X <sub>14</sub>	-0,52	0,53	0,72	0,19	0,32	-0,41	0,74	0,70	0,10	0,17	-0,45	-0,15	0,47	-0,53	1			
X <sub>15</sub>	0,70	-0,81	-0,34	-0,86	-0,81	0,75	-0,51	-0,56	0,75	-0,49	0,79	0,95	-0,39	0,56	-0,06	1		
X <sub>16</sub>	-0,81	0,88	0,53	0,85	0,79	-0,76	0,78	0,89	-0,69	0,84	-0,90	-0,78	0,88	-0,95	0,40	-0,67	1	
X <sub>17</sub>	0,99	-0,88	-0,80	-0,62	-0,95	0,92	-0,63	-0,77	0,37	-0,81	0,87	0,76	-0,70	0,90	-0,55	0,67	-0,84	1

Source: Created by the authors

The obtained correlation coefficients make it possible to establish a high level of dependence of the products sold by business entities in the sphere of tourism, provision of other booking services and related activities on the following factors:

- the number of foreigners entering Ukraine (X<sub>17</sub>) - correlation coefficient 0.99,
- the unemployed population according to ILO methodology (X<sub>4</sub>) - correlation index -0.96,
- capital investment in tourism (X<sub>5</sub>) - correlation index 0.95,
- dollar exchange rate to hryvnia (X<sub>1</sub>) - correlation coefficient -0.89,
- Ukraine's Doing Business index (X<sub>10</sub>) - correlation 0.88,
- political stability index (X<sub>13</sub>) - correlation coefficient 0.88,
- human development index (X<sub>16</sub>) - correlation coefficient -0.81,
- consuming price change index (X<sub>2</sub>) - correlation coefficient -0.8,
- corruption control index (X<sub>11</sub>) - correlation coefficient 0.78,
- economic freedom index (X<sub>9</sub>) - correlation coefficient -0.76,
- the level of globalization (X<sub>7</sub>) - correlation coefficient -0,74,
- access to finance (X<sub>15</sub>) - correlation coefficient 0.7.

The correlation coefficients for factors X<sub>5</sub>, X<sub>10</sub>, X<sub>11</sub>, X<sub>13</sub>, X<sub>15</sub>, X<sub>17</sub> have a direct relationship with the sales volume, factors X<sub>1</sub>, X<sub>2</sub>, X<sub>4</sub>, X<sub>7</sub>, X<sub>9</sub>, X<sub>16</sub>, - inverse.

The average level of dependence on the performance indicator is shown by the following factors: average monthly salary (X<sub>3</sub>) - correlation coefficient -0,63; government efficiency index (X<sub>12</sub>) - correlation coefficient -0.63; road quality index (X<sub>6</sub>) - correlation coefficient -0.59; loan interest rate (X<sub>14</sub>) - correlation coefficient

-0.52. These factors will have an inverse effect on the sales volume in the studied sphere, which is explained by the negative processes of reduction of all indicators due to the crisis phenomena in the Ukrainian economy.

Factors Y and X6, X8, X14 show a low correlation, so these factors are excluded from further analysis.

Thus, the results of the analysis made it possible to group the most significant factors of the development of businesses in the sphere of tourism and hospitality into the following groups:

**Group 1** - socio-economic status of the population (factors - average monthly salary, the unemployed population according to the International Labor Organization methodology, human development index). These are the factors of material and social situation of the population that determine the demand for products of the industry;

**Group 2** - public administration efficiency (factors - government efficiency index, corruption control index, economic freedom index, Doing Business Index). These are the factors of public policy effectiveness in creating a favorable business environment and supporting entrepreneurship;

**Group 3** - political factors (political stability index) are the factors of stability of domestic and foreign policy;

**Group 4** - the development of transport infrastructure (road quality index). These factors are a prerequisite for the development of the industry market.

**Group 5** - investment and financial support for the development of the industry (factors - investment in tourism, access to finance, loan interest rate). These factors determine the financial capacity of business development;

**Group 6** - inflationary processes (factors - consuming price change index, dollar exchange rate to hryvnia). These factors determine the country's inflationary trends and the stability of the national currency;

**Group 7** - the integration of the country into the world economy (the level of globalization), which determines the level of integration of the economy and prospects for the development of international tourism.

In order to further use the obtained results, there is a need to conduct factors for multicollinearity, and already excluded factors have not been taken into account. Such factors are X1, X2, X3, X4, X5, X7, X9, X10, X11, X13, X16, X17. These factors have a correlation coefficient above 0.7 with dependent factors. Therefore, factors X1, X17, X16, X15, X13, X12, X11, X10, X7, X4 were gradually excluded from the study.

Thus, the following factors were selected as influential: consuming price change index (correspondingly variable X1 in the future regression model), capital investment in tourism (respectively X2), economic freedom index (X3). The following factors were used to construct the regression model, and the results are given in Table 4-6.

Therefore, the obtained regression model is::

$$Y = -2493,55 - 3,53 * X1 + 743,70 * X2 - 42,41 * X3, \quad (1)$$

**Table 4**

The regression statistics for the linear model of the dependence of products sold on the consuming price change index, economic freedom index and capital investments

Indicator	Value
Multiple correlation coefficient R	0,97
Coefficient of Determination R-squared	0,94
Normalized R-squared	0,90
Standard error	74,39
Observation	8

Source: Created by the authors

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**Table 5**

The disperse analysis for the linear model of the dependence of products sold on the consuming price change index, economic freedom index and capital investments

Indicator	df	SS	MS	Fisher F-test	Value of F
Regression	3	369514,882	123171,627	22,254	0,006
Residual	4	22139,561	5534,890		
Total	7	391654,443			

Source: Created by the authors

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**Table 6**

The results of constructing the linear model of the dependence of products sold on the consuming price change index, the index of economic freedom and capital investments

Parameter	Coefficients	Standard error	T-statistics	P-Value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Y-crossing	2493,55	1661,88	1,50	0,21	-2120,56	7107,66	-2120,56	7107,66
VariableX <sub>1</sub>	-3,53	2,87	-1,23	0,29	-11,49	4,42	-11,49	4,42
VariableX <sub>2</sub>	743,70	226,96	3,28	0,03	113,56	1373,84	113,56	1373,84
VariableX <sub>3</sub>	-42,41	34,03	-1,25	0,28	-136,90	52,07	-136,90	52,07

Source: Created by the authors

The results obtained indicate a significant statistical correlation between the change of the volume of tourism business and hospitality sphere products sold and all factors in the aggregate: the correlation coefficient is 0.97 and the determination coefficient is 0.94. The obtained model is statistically significant, the calculated F coefficient= 22,254, which is bigger than Fcritic = 4,19.

Analyzing the significance of each factor individually by Student's t-test (T-Statistic and P-values in the table) we can say that not all factors are statistically significant: at the level of t-critic = 2.36, only the factor X<sub>2</sub> holds the equation  $t > t_{criti}$ . Thus, this model cannot be considered adequate because of the need to exclude variables X<sub>1</sub> and X<sub>3</sub>.

So, after considering factors X<sub>1</sub> and X<sub>3</sub> not significant in the model, we get the following model:

$$Y = -63,97 + 1080,63 * X_1, \quad (2)$$

The indicators of adequacy of the equation are given in Tables 7-9.

**Table 7**

The regression statistics for the linear model of dependence of products sold on capital investments

Indicator	Value
Multiple correlation coefficient R	0,95
Coefficient of Determination R-squared	0,89
Normalized R-squared	0,88
Standard error	82,99
Observation	8

Source: Created by the authors

**Table 8**

The disperse analysis for the linear model of the dependence of products sold on capital investments

Indicator	df	SS	MS	Fisher F-test	Value of F
Regression	1	350329,14	350329,14	50,86	0,0004
Residual	6	41325,30	6887,55		
Total	7	391654,44			

Source: Created by the authors

**Table 9**

The results of constructing of the linear model of the dependence of products sold on capital investments

Parameter	Coefficients	Standard error	T-statistics	P-Value	Lower 95%	Upper 95%	Lower 95,0%	Upper 95,0%
Y-crossing	-63,97	81,24	-0,79	0,46	-262,77	134,83	-262,77	134,83
VariableX1	1080,63	151,52	7,13	0,00	709,87	1451,39	709,87	1451,39

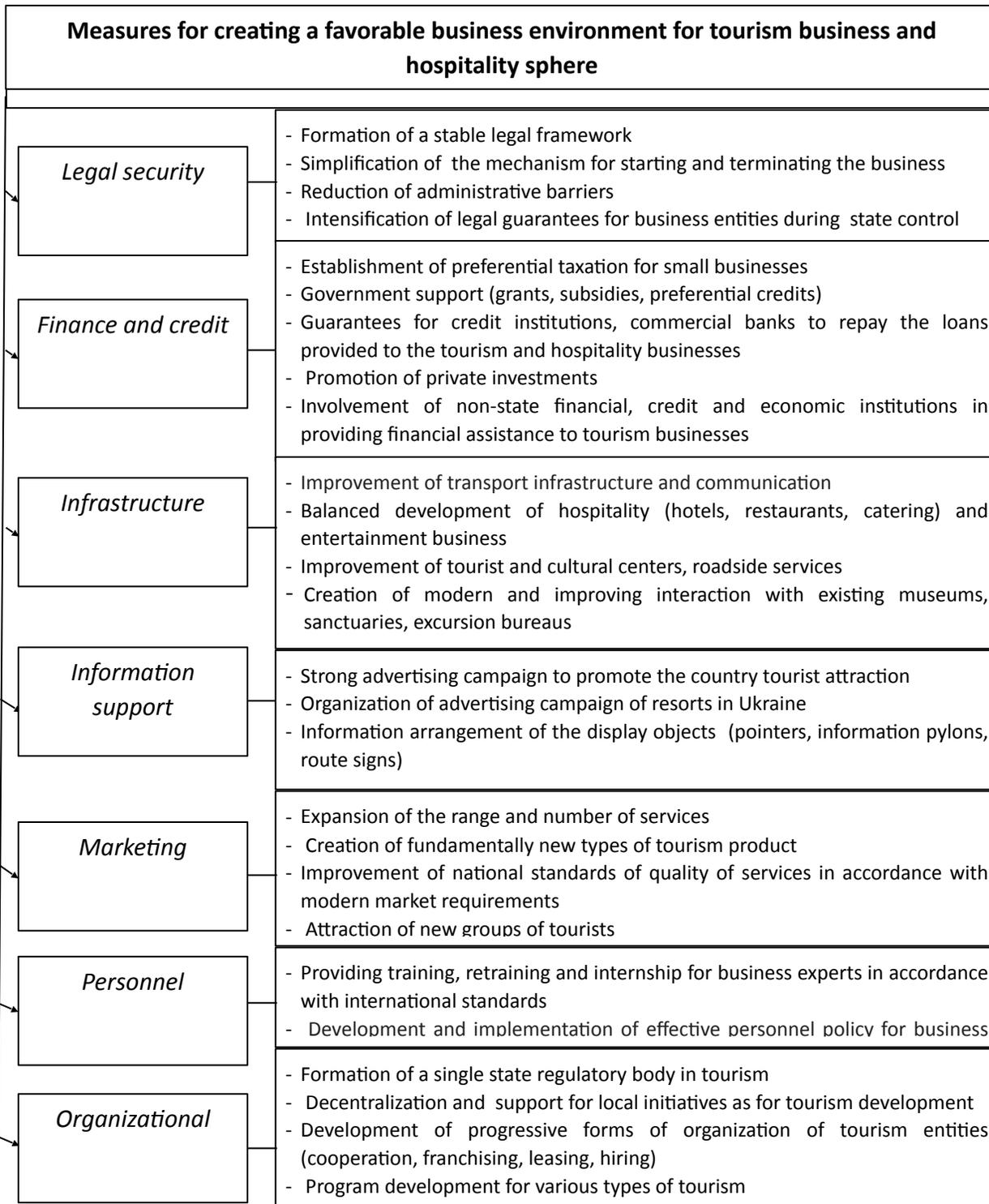
Source: Created by the authors

The results obtained indicate a very high statistical relationship between the score and the impact variable, which is expressed in the high correlation coefficient value of 0.95 and the coefficient of determination - 0.89. The analysis of the significance of the factor only by Student's t-test (T-Statistic and P-values in the table) shows the statistical significance of the variable X1: at the level of  $t_{critic} = 2.36$ , the equality  $t_{fact} > t_{table}$  remains. The statistical validity of the model is confirmed by the calculated coefficient  $F = 50.86$ , which is more than  $F_{critic} = 6.61$ .

The equation (2) can help to conclude as for the positive impact of increased capital investments in tourism on the increase in sales product volume in the tourism business and hospitality sphere. The analysis of elasticity coefficients shows that the increase of investments by 1 USD leads to an increase in sales of industry by 1080.63 USD.

The attention should be drawn to the fact that the factors from the group “Efficiency of public administration” have not found their place in the final equation. This proves the inefficiency of state regulation in the tourism business and hospitality sphere in Ukraine and the profit sensitivity of the industry only to investment support.

**Figure 2**  
Measures to create a favorable business environment in the tourism business and hospitality sphere in Ukraine



Source: Created by the authors

Therefore, the state policy in the tourism business and hospitality sphere in Ukraine needs a change. It should not only create favorable conditions for expansion and support of entrepreneurship in the industry. In this regard, the priority areas for ensuring a favorable business environment and supporting the business should be (Fig. 2): the improvement of legal support governing the activity of entrepreneurship (formation of a stable legal framework, simplification of the mechanism for starting and terminating a business, reducing administrative barriers and strengthening of legal guarantees during state control); strengthening of the financial and credit mechanism of business development (preferential taxation, granting of state maintenance, subsidies, preferential credits, guarantees to credit institutions and banks regarding loan repayment, involvement of non-governmental financial and economic institutions to providing financial assistance to tourism enterprises, etc.); infrastructural changes (the improvement of transport infrastructure, balanced development of hospitality and entertainment facilities, the improvement of tourist and cultural centers, roadside service, the creation of modern and improvement of interaction with existing museums, sanctuaries, excursion bureaus); the improvement of information support (advertising campaign to promote the country tourist attraction; organization of advertising campaign of resorts in Ukraine, participation in the largest international and domestic exhibitions and fairs, information arrangement of the objects of display); marketing activities (expansion of the range and number of services; creation of fundamentally new types of tourism product, the improvement of national standards of quality of services; attraction of new groups of tourists); introduction of a system of personnel measures aimed at improving knowledge, professional skills, professional level in business matters; organizational measures aimed at the formation of a single state regulatory body in tourism, support for local initiatives, the development of progressive forms of organization of tourism business entities, the development and implementation of programs for the development of various types of tourism.

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## 4. Conclusion

The conducted correlation analysis of the volume of products sold and factors of the tourism business and hospitality sphere development allowed us to select the most significant of them and group them into the following way: socio-economic status of the population, efficiency of public administration, political factors, transport infrastructure development, investment and financial support for the development of the industry, inflation processes, integration of the country into the world economy. Further correlation-regression analysis with a probability of 95% made it possible to obtain a regression model of the dependence of the products sold by the industry on the capital investments into the industry, which confirms the necessity for financial support of the industry using different sources of financing. Investment policy in the field of tourism and hospitality in Ukraine should be balanced and aimed at harmonious complementarity of internal investments with external ones, where the national interests of the state, its innovative development will be the determining factor.

The proposed directions for creating a favorable business environment for entrepreneurial activities are aimed at ensuring a steady pace of business development of the domestic tourism and hospitality industry.

The results of this research can be used to formulate macroeconomic programs for tourism and hospitality business development at the national level for taking into account key influential factors.

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