

DOI: 10.46340/eujem.2020.6.4.11

**Yurii Matichyn**ORCID ID : <http://orcid.org/0000-0002-7071-4629>*Ivan Franko National University of Lviv, Ukraine*

## INVESTMENT AS AN EFFECTIVE INSTRUMENT FOR THE DEVELOPMENT OF TOURISM AND RECREATION BUSINESS IN UKRAINE

In this article, we discover the role of investment as an effective instrument for business development in the tourism industry. Investment in the tourism industry leads to synergy, which manifests itself in the creation of a tourism product, i.e. accommodation, food, transportation, leisure, etc. At the same time, the investment analysis and its influence on tourism and recreation enterprises may be conducted by studying the business environment and its components like government, consumers, competitors, partners, etc. and their direct impact on business entities. The article also gives an account of investments in KhersON travel company, which serves as an example of a successful investment strategy. This example shows that in the current economic environment the investment in marketing proves to be the most effective market strategy. The company's marketing involves creating and promoting their own tourist image, branding, creating, and advertising an exclusive tourism product, as well as actions related to SEO.

**Keywords:** investments, business, subjects of tourist and recreational business, tourism product, synergy, synergetic effect in tourism, business environment, promotion of tourist product through SEO.

**Purpose.** The vast majority of prominent scientists and market researchers characterize the beginning of the 21st century as an era of gradual transition from the development of the heavy industry to the rapid advancement of the service sector.

The travel and leisure industries are a prime example of this tendency. Over the past 10 years, in terms of revenue growth, the tourism industry has surpassed such economic giants as the oil and engineering industries; in recent years its share in GDP according to the World Tourism Organization has reached about 10.4%.

Speaking of numbers, in 2018 alone the tourism industry brought 8.8 trillion U.S. dollars to the world GDP, and net revenue from tourism amounted to 2.8 trillion U.S. dollars, which exceeded such sectors of the economy as agriculture, banking, automotive industry and mining. It is also a fact that one in ten workers in the world is involved in tourism, and in total it amounts to about 313 million jobs<sup>1</sup>.

Although the current Covid-19 pandemic has shaken the global tourism industry and caused a global crisis in the tourism business, WTO experts are confident in its quick recovery and adaptation to new post-quarantine realities. Such favorable estimates are mostly based on the socio-psychological factors. Most people are tired of limiting their activities during the quarantine and anxious of similar measures in the near future. They will look forward to traveling and getting some new experiences before the break down of another pandemic. In the following conditions, Europe (mostly France, Spain and Italy), followed by North America (USA) and Asia (China)<sup>2</sup> will most likely keep their positions as the most popular tourist destinations. Also, experts predict a significant increase in domestic tourism due to restrictions on border crossings, as well as tourism boost in regions, least affected by the coronavirus disease.

Ukraine has every chance for successful development of the tourism industry, given its rich and diverse tourism potential. However, there are a number of obstacles that prevent Ukraine from becoming one of the top tourist destinations. The primary one is obviously the unfavorable pandemic situation. Secondly, the lack

<sup>1</sup> Укрінформ (2019). *Частка туризму в світовому ВВП торік становила понад 10%*

<<https://www.ukrinform.ua/rubric-tourism/2431133-castka-turizmu-v-svitovomu-vvp-torik-stanovila-ponad-10.html>> (2020, July, 05).

<sup>2</sup> ТСН (2019). *Названо найпопулярніші туристичні країни світу* <<https://tsn.ua/tourism/nazvano-naypopulyarnishi-turistichni-krayini-svitu-1354830.html>> (2020, July, 05).

of funding for the tourism industry, in particular, due to the redirection of state founding from tourism to the medical sector. In such circumstances, the tourism industry in Ukraine can rely only on its own sources of funding, as well as on foreign investment, and the impact of later can hardly be overestimated.

**Analysis of recent research and publications.** Many Ukrainian and foreign researchers explore the issues of conceptual and categorical apparatus and the problems of attracting investment in entrepreneurship: O. Akimenko, I. Andrushkiv, I. Ansoff, A. Asaul, I. Blank, V. Bocharov, T. Vasylytsiv, O. Vovchak, B. Danylyshyn, O. Kyrychenko, V. Koyuda, O. Kuzmin, T. Lepeyko, L. Chernyuk, and others.

At the same time, the issues of attracting investment in the tourism industry are widely studied in the works of O. Beidyk, V. Bessonova, V. Gerasimenko, L. Gontarzhevska, V. Kifyak, T. Luzhanska, O. Lyubitseva, M. Malska, V. Tsybukh, G. Harris, V. Khudo and others.

However, at this stage, the issues of investment as an effective tool for the development of tourism and recreational entrepreneurship are studied only sporadically and require further research.

**Presentation of the basic research material.** The term "investment" comes from the Latin word "investire" which means "to invest".

According to the Law of Ukraine on Investment Activity (18/09/1991), investments are defined as all types of financial or intellectual activities which involve investment in entrepreneurial or any other activities resulting in profit (income) and / or positive social and environmental effect<sup>1</sup>.

Investments in the tourism industry may cause the so-called synergetic effect, that is a kind of chain reaction, when the development of one industry, in this case, tourism, leads to the development of other related industries (transport, hotel and restaurant business, leisure, etc.), making them raise their standards, thereby increasing the efficiency and profitability of these industries. The term "synergetic effect in tourism" was first used in a scientific context by the world-famous scientist I. Ansoff in 1963<sup>2</sup>.

Synergism in the tourism business can also be defined as a process that reduces costs, motivates innovation, stimulates infrastructure development, rises sales and increases productivity. In Ukraine, one of the first researchers to study synergetic effect in tourism was T. Luzhanska.

Synergism in the tourism business, according to Luzhanska, can be defined as a favorable combination of resources, coordinated behavior, relationships, partnership policy between all participants in the creation and implementation of tourism products<sup>3</sup>.

Researches of synergy led to the discovery of the synergetic method. This method, among other applications, can be used to assess the effectiveness of investment as an instrument for the development of tourism and recreation business.

The synergetic method enables the analysis of different types of businesses that can attract internal or external investment, providing the following data:

- a generalized image of a certain type of tourism business;
- social requirements for these tourism businesses;
- requirements for each specific tourist and recreational enterprise from the studied group, its goods or services, which are put forward by consumers of target markets;
- the attitude of consumers to the specific features of tourism enterprises, declared by the companies themselves;
- perception of the tourist enterprise by its social environment, employees, administration, competitors, etc.

This data can be used by an expert or a potential investor to assess several factors, like the efficiency of investments in tourism and recreation companies, their investment attractiveness and the importance of their activities for the development of other sectors of the economy in the study area.

Researchers might have an easier time doing their analysis, had the government agencies provided the full investment statistics for all economic sectors. Unfortunately, tourism is still missing as a separate item of the government statistics on capital investment, but we still have statistics on industries that are related to it – table. 1.

<sup>1</sup> Закон про інвестиційну діяльність, 1991 (Верховна Рада України). Офіційний сайт Верховної Ради України <<https://zakon.rada.gov.ua/laws/show/1560-12>> (2020, June, 08).

<sup>2</sup> Колесников, А. А. (2004). *Синергетика и научное знание*. Москва: ФИЗМАТЛИТ, 379-396.

<sup>3</sup> Лужанська, Т., Довгінка, М. (2018). Синергетичний ефект в туризмі. *Туризм і рекреація: наука, освіта, практика: матеріали Всеукраїнської науково-практичної конференції (м. Мукачево, 18-19 вересня 2018 р.)*, 154-157. <<http://dspace.msu.edu.ua:8080/jspui/handle/123456789/2450>> (2020, June, 11).

Table 1

**Capital investment by types of economic activity, UAH mln.**

Type of economic activity	2015	2016	2017	2018	2019
Hospitality	890,2	756,1	1380,0	1473,0	968,7
Restaurant Industry	502,9	721,8	753,5	1202,1	1787,8
Commercial Airlines	647,8	616,1	1302,5	1527,7	1774,0
Art, Sports, Entertainment, Recreation	1044,3	969,9	1649,2	3663,2	3958,7
Research and development, including in the field of tourism, recreation and health	518,2	758,3	1110,2	1511,4	2127,3

Source: created by the author, based on <sup>1</sup>

According to table 1 over the period 2015 – 2019 the largest share of capital investment went to category Art, Sports, Entertainment, Recreation, which is a positive tendency, since more enjoyable ways to spend free time attract a large number of travelers.

However, the biggest problem is the lack of proper statistics on tourism and transport infrastructure. Which is a shame, as the infrastructure is the main factor of successful tourism and recreational business. Infrastructure development has to be prioritized since it forms the basis for the tourism product; entertainment is the second concern in travel planning after transportation.

Currently, foreign investments account for a small share due to general political and economic instability and insufficient state guarantees in case of a force majeure, and, again, the lack of proper statistical representation by different industries as can be seen in table 2.

Table 2

**Capital investments by the source of funding, UAH mln.**

Source of founding	2015	2016	2017	2018	2019
All sources	273116,4	359216,1	448461,5	578726,4	584448,6
Foreign investments	8185,4	9831,4	6206,4	1795,5	3541,4

Source: created by the author, based on <sup>2</sup>

Table 2 makes it evident that foreign investments account for a small fraction of funding in Ukraine's economy, therefore most of the funding comes from companies and organizations, as well as bank loans and local and state budgets.

Investments play a key role in the development of tourism and recreational businesses as they stimulate the development of the industry. However, the effectiveness of those investments will depend on various influences on business environment, which can be grouped as following: manageable factors (quality and use of resources); unmanageable factors (force majeure situations); internal factors (organizational structure and culture, goals and objectives of the company, team spirit); known factors (resource base, the market image of the company); unexpected factors (behavior of competitors and consumers)<sup>3</sup>.

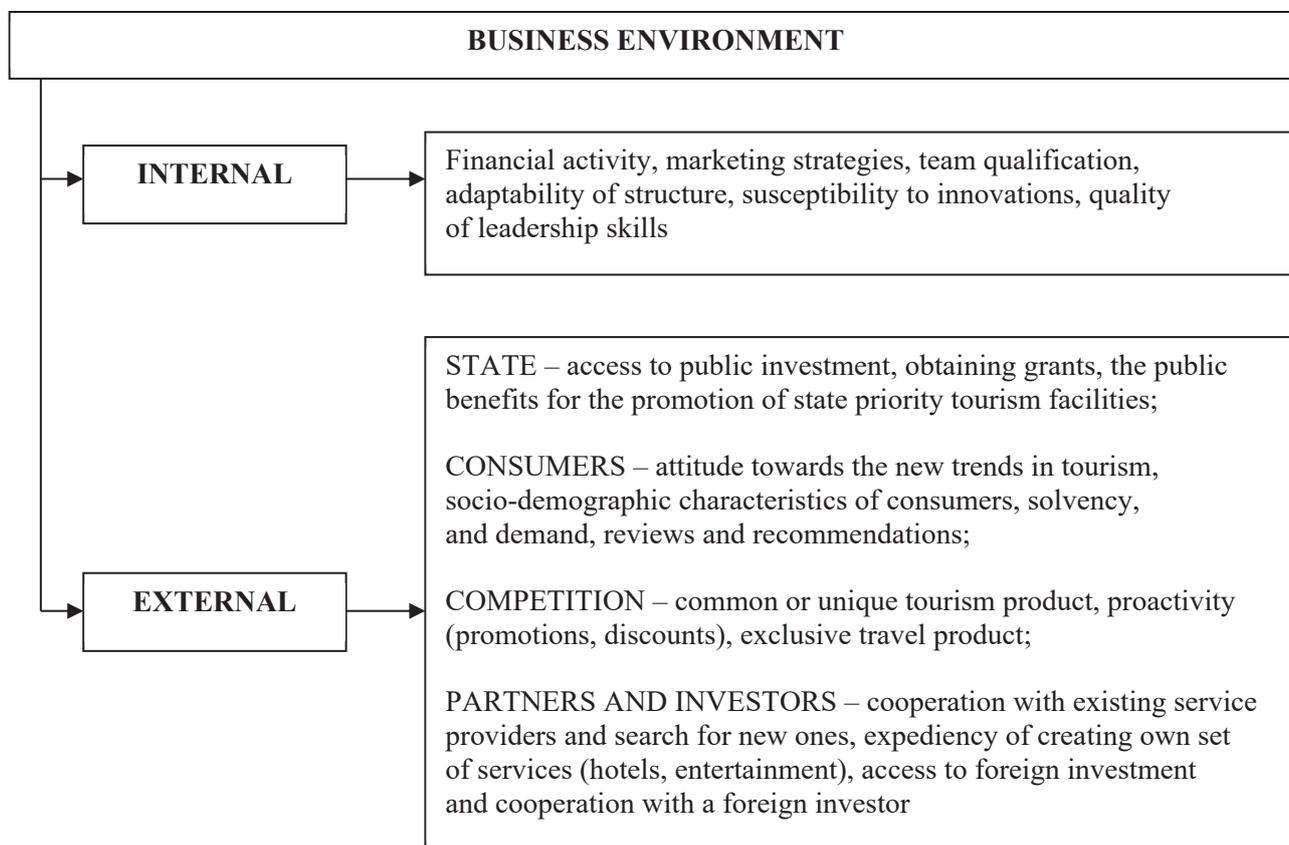
Businesses can interact and influence most factors of the business environment, but some factors can just be adapted to. Investments can be an effective instrument for business development in the tourism industry, provided the leadership keeps a rational focus on specific factors of the business environment as can be seen in picture 1.

<sup>1</sup>Офіційний сайт Державної Служби статистики України (2020). *Капітальні інвестиції за видами економічної діяльності* <[https://ukrstat.org/uk/operativ/menu/menu\\_u/ioz.htm](https://ukrstat.org/uk/operativ/menu/menu_u/ioz.htm)> (2020, June, 15).

<sup>2</sup> Ibid.

<sup>3</sup> Шаповал, В. М., Герасименко, Т. В. (2016). Фактори та принципи підвищення ефективності діяльності підприємств туристичного комплексу. *Економічний вісник*. <[https://ev.nmu.org.ua/docs/2016/3/EV20163\\_079-086.pdf](https://ev.nmu.org.ua/docs/2016/3/EV20163_079-086.pdf)> (2020, June, 18).

Picture 1 shows the internal and external influences of the business environment on the tourism industry. Effective or ineffective leadership can increase or decrease its effectiveness. KhersON travel company from the city of Kherson, Ukraine can serve as an example of a successful investment strategy. Their success story proves that investment is an effective instrument for business development in the tourism industry. Led by two brothers, KhersON found no support from the local authorities and had to rely on own resources, investments, and creative solutions.



**Fig. 1. Influences of the business environment which determine the effectiveness of investment.**

*Source: created by the author*

The main constrains of the tourism industry in Ukraine, according to them are:

- the policymakers would not provide any support or guidance. Local authorities failed to recognize the tourism among priority industries and realize, that the tourism industry can be profitable all year round;
- very slow development and renewal of infrastructure. Ukrainian tourism industry requires replacement of remnants of Soviet recreation centers with comfortable modern accommodation;
- ineffective local tourism and small business policy;
- no coordination or cooperation between travel business, government institutions, and the community.

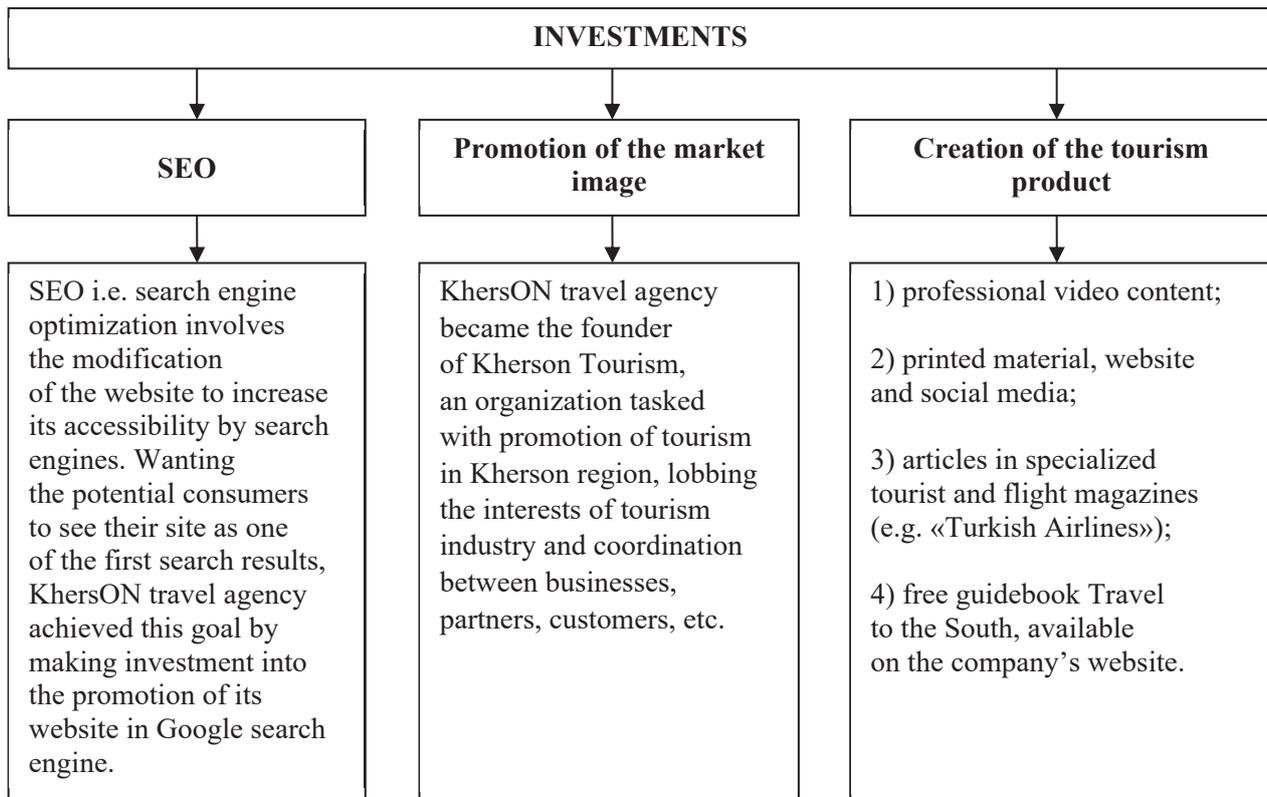
The priority was to establish the two full-fledged divisions:

1) the travel agency itself, engaged in the development of tourism product with an emphasis on interesting historical and architectural monuments and unique natural landmarks. Kherson region is rich in notable natural sites (the biological reserve "Askania Nova", Oleshky sands, Dzharylghach Island, Kinburg Spit, Kherson Mountains – all favorable for the popular eco-tourism);

2) a tourist café intended not just to serve food, but also to be a kind of meeting place with famous people, holding masterclasses, themed evenings, historical lectures, etc <sup>1</sup>.

<sup>1</sup> Херсон – туристична агенція (2020). Головна сторінка <<https://khers-on.com/ua/>> (2020, July, 07).

From October 2016 to March 2019, two brothers invested in the company fifteen thousand US dollars to promote the company in the tourism market of Ukraine and Europe as can be seen in picture 2.



**Fig. 2. Investments of KhersON travel company**

*Source: created by the author*

In picture 2 you can see that KhersON chose the three most important vectors of capital investment, which shows great professional savvy and knowledge of modern trends. Moreover, decisions prove that they are interested not only in the success of their company, but the tourism industry in general.

**Conclusions.** In practice, investments are one of the most important instruments for effective development of the travel industry. Investments can increase the effectiveness of tourism businesses as well as sectors related to tourism, such as hospitality, transportation, restaurants, cultural centers, entertainment and leisure centers. Investment may lead to the synergetic effect in tourism. This effect, among other results, may fight the unemployment in lesser economically developed regions. Also, after the introduction of decentralization, the tax revenue received from the tourism industry may be spent on different local projects like development of roads and other infrastructure, restoration of the famous historical and architectural monuments, improvement of housing, creation of the new tourism products, which in turn, will increase the tourist flow and, consequently, profits from the industry.

In conclusion, investment in the tourism industry can increase the efficiency of several other key industries and bring the economy of the region, and in the future, the whole country to the next level.

**References:**

1. Ukrinform (2018). *Chastka turyzmu v svitovomu VVP torik stanovyla ponad 10%* [The share of tourism in world GDP last year was over 10%]. <<https://www.ukrinform.ua/rubric-tourism/2431133-castka-turizmu-v-svitovomu-vvp-torik-stanovila-ponad-10.html>> (2020, July, 05) [in Ukrainian].
2. TSN (2019). *Nazvano nayspopuliarnishi turystychni krayiny svitu* [Named the most popular tourist countries in the world]. <<https://tsn.ua/tourism/nazvano-nayspopulyarnishi-turystichni-krayini-svitu-1354830.html>> (2020, July, 05) [in Ukrainian].

3. *Zakon pro investycijnju dijalnist, 1991* (Verkhovna Rada Ukrayiny). [Law on Investment Activity, 1991 (Verkhovna Rada of Ukraine)]. *Oficijnyj sajt Verkhovnoyi Rady Ukrayiny*. [Official website of the Verkhovna Rada of Ukraine]. <<https://zakon.rada.gov.ua/laws/show/1560-12>> (2020, June, 08) [in Ukrainian].
4. Kolyesnikov, A. A. (2004). *Sinyerhetika i nauchnoye znaniye* [Synergetics and scientific knowledge]. Moscow: FIZMATLIT. [in Russian].
5. Luzhanska, T., Dovhinka, M. (2018). Synerhetychnyi efekt v turyzmi [Synergistic effect in tourism]. *Turyzm i rekreaciya: nauka, osvita, praktyka: materialy Vseukrayinskoyi naukovo-praktychnoi konferencii (m. Mukachevo, 18-19 veresnya 2018)* [Tourism and recreation: science, education, practice: materials of the All-Ukrainian scientific-practical conference (Mukachevo, September 18-19, 2018)], 154-157. <<http://dspace.msu.edu.ua:8080/jspui/handle/123456789/2450>> (2020, June, 11) [in Ukrainian].
6. *Kapitalni investyciyi za vydamy ekonomichnoyi diyalnosti, 2020* (Derzhavna Sluzhba Statystyky Ukrayiny). [Capital investment by type of economic activity (State Statistics Service of Ukraine)]. *Oficijnyj sajt Derzhavnoyi Sluzhby Statystyky Ukrayiny*. [Official website of the State Statistics Service of Ukraine]. <[https://ukrstat.org/uk/operativ/menu/menu\\_u/ioz.htm](https://ukrstat.org/uk/operativ/menu/menu_u/ioz.htm)> (2020, June, 15) [in Ukrainian].
7. *Kapitalni investyciyi za dzherelamy finansuvannya, 2020* (Derzhavna Sluzhba Statystyky Ukrayiny). [Capital investments by sources of financing]. *Oficijnyj sajt Derzhavnoyi Sluzhby Statystyky Ukrayiny*. [Official website of the State Statistics Service of Ukraine]. <[https://ukrstat.org/uk/operativ/menu/menu\\_u/ioz.htm](https://ukrstat.org/uk/operativ/menu/menu_u/ioz.htm)> (2020, June, 15) [in Ukrainian].
8. Shapoval, V. M., Herasymenko, T. V., (2016). Faktory ta pryncypy pidvyshchennya efektyvnosti diyalnosti pidpryjemstv turystychnoho kompleksu [Factors and principles of increasing the efficiency of companies of the tourist complex]. *Ekonomichnyj visnyk* [Economic Bulletin], 3, 79-86. <[https://ev.nmu.org.ua/docs/2016/3/EV20163\\_079-086.pdf](https://ev.nmu.org.ua/docs/2016/3/EV20163_079-086.pdf)> (2020, June, 18) [in Ukrainian].
9. KhersON – turystychna ahenciya (2020) [KhersON – the travel agency (2020)]. *Holovna storinka* [Homepage]. <<https://khers-on.com/ua/>> (2020, July, 07) [in Ukrainian].