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## Risks of the Tourism Industry in Ukraine

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### Abstract:

Tourism industry provides economic growth in all over the world. In the same time Ukrainian tourism industry going through hard times. The purpose of the study is to identify and assess the existing risks of the tourism industry in Ukraine, excluding the East of Ukraine, and explore the preconditions for avoiding or reducing these risks. Being that it is necessary to strengthen the image of Ukraine as a reliable state for travel in the foreign tourist's eyes. The object of a study is the process of managing the risks of the tourism industry at the state level. The main hypothesis of the study is that the growth of the contribution of tourism to the country's GDP depends on the risks of the tourist enterprises and the level of the tourist's risks in Ukraine. The theoretical base of risks in tourism and the dynamics of Ukrainian tourist arrivals and amount of tourist enterprises were considered in the study. The model of risk management in tourism is developed in the paper. The methodological basis were the following scientific methods: analysis and synthesis (for identification and evaluating types of touristic hazards in Ukraine), theoretical search and abstract-logical (for analyzing a risk management approaches), expert method (for identification and assessing an influence of tourism risks); graph method (to describe arrivals number and to forecast amount of enterprises in Ukraine); the method of least squares was used for the forecasting of the number of tourist enterprises in Ukraine; the principal component analysis method for grouping risks in Ukraine. The analysis of the future risks of the tourism industry of Ukraine was conducted. According to the results of the investigation, the recommendations about measures which should be taken by the state to manage and prevent risks were proposed.

**Keywords:** risks; tourist enterprises; forecasting risks; tourist risks; risk assessment; tourism in Ukraine

**JEL Classification:** L83; D81; Z32.

### Introduction

According to the World Tourism and Travel Council of the WTTC 2017, the tourism industry's contribution to world GDP is more than 11%. Every 11th work place on the planet belongs to the tourist industry. According to the forecasts of the WTO by 2020, the volume of tourists will grow to 1.6 billion per year, and their travel costs will reach \$ 2 trillion - that is, \$ 5 billion a day. Tourism will provide economic growth in the 21st century like telecommunications industry and the IT sector. The development of tourism gives to the country the following benefits: increasing of a cash flow, including the influx of foreign currency, and hence the growth of household incomes; growth of the national GNP; replenishment of the budget due to increasing of the tax collection of the host region and other revenues; creation of new jobs, increasing of employment of the population; attraction of capital, including foreign ones. Developing the tourism industry, the country is gradually developing other industries.

However, according to the WTO data, Ukraine ranked 172th in the world in terms of direct contribution to GDP of Ukraine, as the contribution of the tourism industry is only 1.5% of Ukraine's GDP. There are many reasons for this situation. The risk management level of a tourism in Ukraine is quite low. At the same time, the image of Ukraine as a place for recreation has deteriorated due to military actions in the East of the country. For this reason, the priority direction of the activity of tourism enterprises should be the improvement of risk management systems



which should analyze, predict, assess risks of tourists enterprises. The purpose of the study is to identify and assess the existing risks of the tourism industry in Ukraine, excluding the East of Ukraine, and explore the preconditions for avoiding or reducing these risks. Being that it is necessary to strengthen the image of Ukraine as a reliable state for travel in the foreign tourists eyes. The object of a study is the process of managing the risks of the tourism industry at the state level. The main hypothesis of the study is that the growth of the contribution of tourism to the country's GDP depends on the risks of the tourist enterprises and the level of the tourist's risks in Ukraine.

## 1. Literature Review

The level of development of the tourist industry in Ukraine and its contribution to the structure of GDP directly depends on the financial and economic state of Ukrainian tourist enterprises, which in turn depend most on the dynamics of the tourist flow of foreign and domestic tourists. Modern tourist enterprises in the process of their activities are constantly encountered with many economic, political and financial risks. The reason is that all these risks in one way or another negatively affect the tourist flow. The unfavorable economic situation in Ukraine constrains the internal flow of tourists, because of the lack of the funds for travel. Lowering demand for travel services provokes a deterioration in the financial situation of tourism enterprises. In addition, the travel company is surrounded by the risks of introducing new unfavorable laws, increasing tax pressure, the risk of introducing new technologies by competitors, reducing the inflow of foreign tourists due to the political situation and worsening the image of Ukraine in the world. It is important to note that the personal risks of foreign tourists in Ukraine, which are judged by them mostly subjectively and crucial in making a decision on traveling to Ukraine.

All risks in tourism can be divided into two groups: the risks of tourism enterprises and the risks of tourists. In Ukraine, 95% of tourist enterprises are small, as their number of employees is less than 50 people. According to (Bera A. 2009) main categories of risks for small enterprises are: 1. Personal risks of the owner 2. Mistakes made by workers, deliberate, risk of taking over the idea for business activity and customers. 3. Financial which contain credit and liquidity risks. 4. Accidents (fire, explosion, theft devastation, failure of machines and appliances, etc.). 5. Innovation failure risks. 6. Product risk (a bad quality service) 7. Mistakes in accounting. 8. Loss of reputation. 9. Market risks (fluctuations of sales income, actions undertaken by enterprises that offer substitutes, variable exchange rates, interest rates, fluctuations of basic and derivative prices of financial instruments (insurance, factoring, letters of credit, options, contracts with fixed time limit. 10. Legal risks (Contracts defectiveness, trials in court, legal ignorance) 11. Political (new laws, terrorism). 12. A risk of a business cycle: change of business conditions due to recession or crisis (Keller 2002, 26 – 31). 12. Ecological risks (risks of natural environment: polluted air, garbage, out-of-town traffic, dirty water, radioactive radiation).

In study by (Keller 2002) risks are also interethnic and religious conflicts, which arise from the difference of beliefs. But the most considerable treat for Ukrainian touristic enterprises is the growth of amount of online tourists services. Thus soon there will be no need for tourist to go to travel agency because a huge amount of services is available online without any intermediaries. The reason is that worldwide the online tourism sales value was of 590 billion USD, which is equivalent to 27% of total sales in tourism.

In a recent study by (Firoiu and Croitoru 2015) pointed that tourists seek new, unusual experiences, so that practiced forms of tourism are increasingly diversified. So the lack of new much diversified tourism ideas can be the other specific risk for enterprises. In recent study by (Chiao and Nair 2014) the emotional chains to risk perception is considered. Thus success of tourist enterprise and industry in general depends on emotional tourist attitude to trip and to information about risks in the country. The same point have Chew and Jahari (2014). Huamin Li (2016) revised a model of factors of leisure tourism intention. It includes perceived behavior control, attitude, subjective norms and a destination image of a country. Rajesh (2013) points that tourist intentions to visit country depends on destination image and satisfactions of tourist. The satisfaction measured by attractions, quality of accommodation, travel entertainments program and expectations. Porter's (1980) 'five forces' model can be used to analyze the competitive environment. The five forces proposed by Porter are: (Pender 2004, 122): the threat of new entrants; the power of buyers; the power of suppliers; the threat of substitutes; the degree of rivalry between competitors.

Nowadays considerable treat for Ukrainian touristic enterprises is the growth of amount of online travel services. Thus soon there will be no need for tourist to go to travel agency because a huge amount of services is available online without any intermediaries. The reason is that worldwide the online tourism sales value was of 590 billion USD, which is equivalent to 27% of total sales in tourism. Firoiu and Croitoru (2015) aptly pointed that tourists seek new, unusual experiences, so that practiced forms of tourism are increasingly diversified. So the lack of new diversified tourism ideas can be the other specific risk for enterprises.

In latest investigation by (Santana-Gallego *et al.* 2016, Korstanje *et al.* 2018) pointed that the effect of terrorism, crime and corruption on tourist industry for 171 countries for the period 1995–2013 and found out that terrorism and crime extremely affected tourist arrivals. They pointed that 1% increase in the ratio of terrorist attacks per 10,000 inhabitants reduces tourist arrivals by 2.3%. In the same time, a 1% increase in the number of homicides per 10,000 inhabitants reduces tourist arrivals by 0.06%.

In study by (Monomet 2012) the negative factors of the market development of tourist services include:

- tension in international relations;
- instability of politics and the closedness of the economy;
- stagnation of the economy and the decline of the welfare of the population;
- disorderly tourism resources;
- underdevelopment of the tourism industry;
- irrational use of cultural - historical and religious heritage and the environment;
- low incomes and lack of free time;
- environmental pollution and environmental hazards;
- underestimation of the role of tourism in the intellectualization of society;
- lack of effective incentives to invest in the development of the tourism industry in line with world standards;
- underestimation of the role of tourism business in filling the budget.

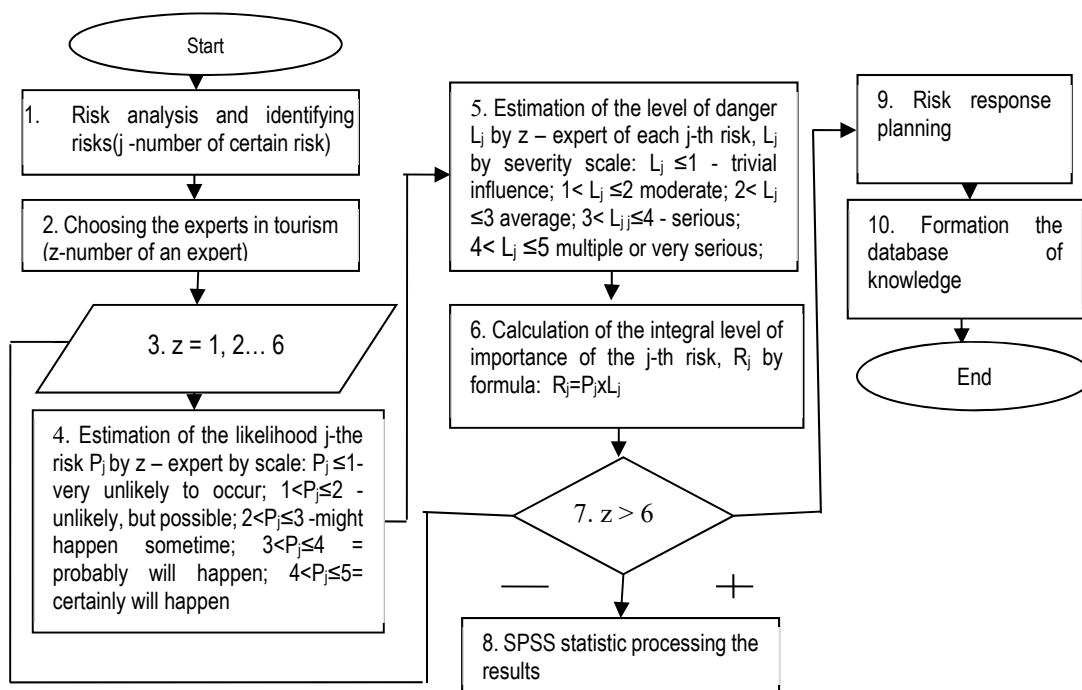
To overcome tourism industry hazard a concept of risk management should be used. There are huge numbers of studies about risk management (Simpson and Siguaw 2008, Cox, L.A., Jr. 2002). Risk and Crisis management of tourism industry is an integral system which aims to identify assess control and avoid or reducing risks. The most effective risk management system now is proactive, which includes prediction or forecast of future risks. Contemporary system of management should contain continuous monitoring of all possible risks. And the other important part of a tourist risk management is anti-crisis decision making. According to recent study by Mert (2016) tourism companies have such goals: to maximize the value of the company, ensure sufficient liquidity, and solvency. For these primary reasons the company should have a risk management program of three broad strategies: loss control, loss financing, and risk reduction (Banks 2005, 74-80): First one is a loss control strategy which includes avoidance and resistance; second is the loss of financing (includes risk prevention and transfer). The third is Risk reduction; a third general risk management strategy could use such steps like withdrawal and diversification (Mert 2016, 69).

For evaluating the Ukrainian level of risks for tourism it is necessary to use a risk management concept. Risk management is an effective management system, aimed at identifying, assessing and analyzing the factors that have an impact on the enterprise. This system also includes a set of methods for reducing risks and preventing them. One of the main tasks of risk management is the selection of risks for further evaluation and analysis. The basic risk - management system contains steps: identifying the risk, analyzing, evaluation or ranking, risk response planning, monitoring and reviewing risks.

## 2. Methodology

In order to identify and evaluate risks in tourism the model of process of the risk-management has been proposed (figure 1.)

Figure 1. The risk management model



Source: developed by the author

The risk management model is based on expert method. For making the risk estimation, the appropriate approach of risk estimation which can be based on expert method. Peculiarities of expert estimation methods were discovered in a recent study by (Tikhomirova and Matrosova 2016). All risk evaluation methods have advantages and disadvantages. Some of them rely on subjective weighting (Guo *et al.* 2010). At the same time, experts could make the wrong choice (Peng, Zan and Yi 2011).

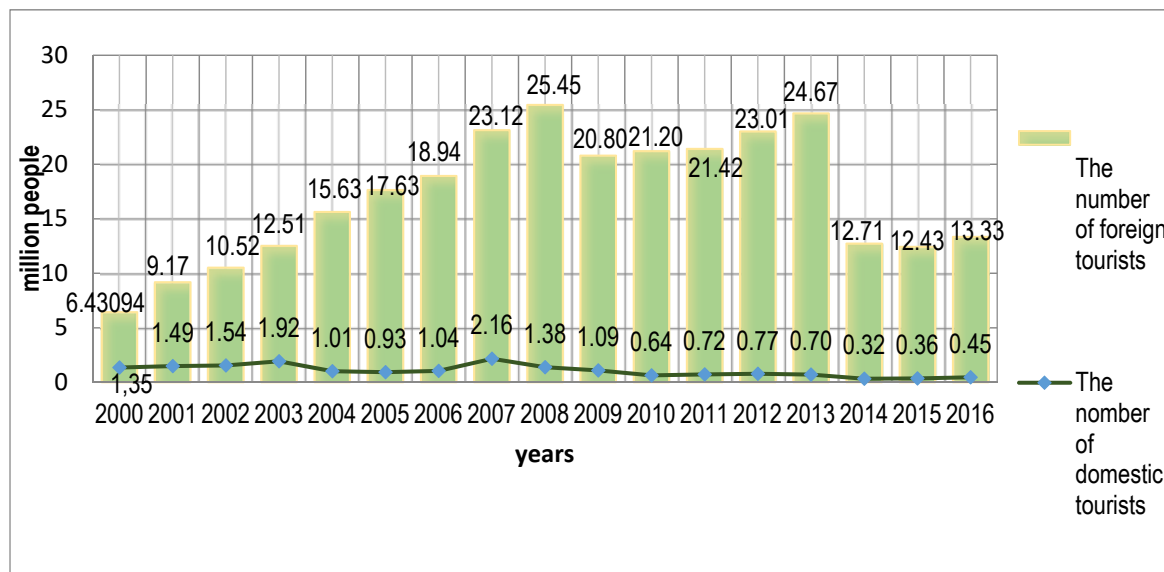
The methodological basis are the following scientific methods: analysis and synthesis (for identification and evaluating types of touristic hazards in Ukraine), theoretical search and abstract-logical (for analyzing a risk management approaches), expert method (for identification and assessing an influence of tourism risks.) Graph method (to describe arrivals number and to forecast amount of enterprises in Ukraine). The method of least squares was used in forecasting the number of tourist enterprises.

## 2. Results and discussion

To analyze situation in Ukraine and to evaluate the general level of tourism industry danger it is necessary to analyze the dynamic of tourist arrivals. The number of tourists is a main indicator of tourism industry dangers. According to the dynamics of tourist flows to Ukraine in 2000-2016, it is obvious that it significantly deteriorated (Figure 2).



Figure 2. The dynamics of the number of the foreign and domestic tourists who visited Ukraine during 2000-2016



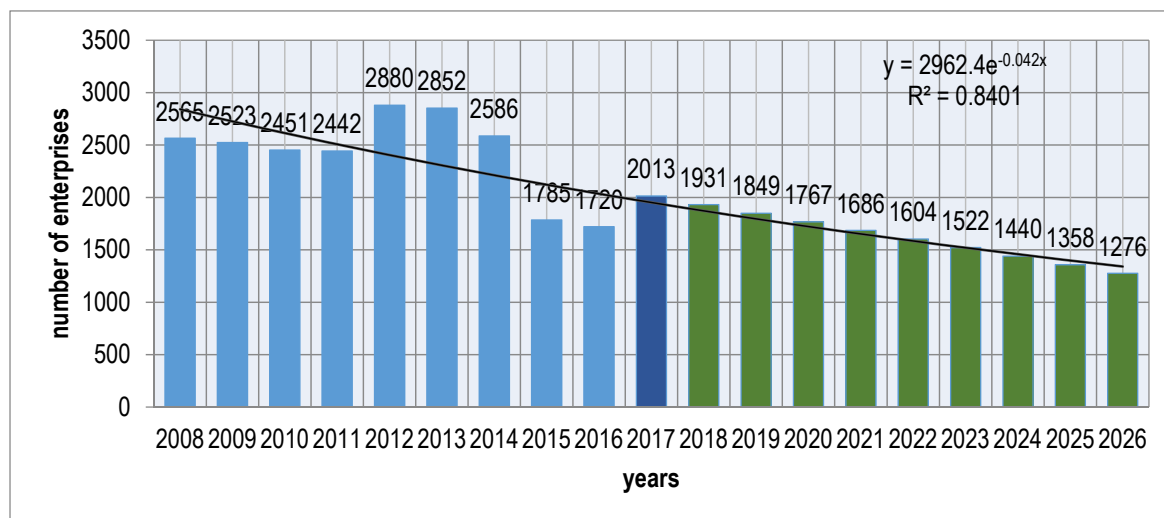
Source: developed by the author based on the national state statistical committee data (2016)

For comparison, in 2008 25.45 million people visited Ukraine, then since 2014, the number of foreign tourists has decreased to 12.71 million. A slight improvement occurred only in 2016, when 13.33 million foreign citizens arrived to Ukraine. Domestic tourism has also undergone major changes since 2014, as the number of tourists in recent years has decreased more than fourfold compared with 2.16 million people traveled in 2007, 0.32 in 2014, 0.36 million people in 2015, and in 2016 the number of tourists was only 0.45 million people. The indicators of tourism began to decline after 2014 due to changes in the political situation in Ukraine

The other important indicator of a tourism industry in Ukraine which shows level of negative impact of tourism risks in Ukraine is the number of tourist enterprises. The forecast of the number of tourist enterprises has been developed (figure3). It was based on the method of least squares to find a line that best fits the points. The R-squared value equals 0.8401, which is a good fit. The closer to 1, the better the line fits the data.

According to the data the the highest number of tourist enterprises was in 2012 – 2880 enterprises, in 2013- 2852. The number began decline from 2014. In 2014 Ukraine lost 9.3% of enterprises, the total number was 2586. The catastrophic changes have taken place in 2015 -2016. In comparison to 2013, the decline in 2015 was 38%, and 40% in 2016. 38-40% enterprises became bankrupt or closed business during 2015-2016. According to a forecast a negative trend is expected in Ukraine in 2018-2026 years. Therefore it is necessarily to evaluate negative hazards which influence on tourism in Ukraine.

Figure 3. The forecast of the number of tourist enterprises in Ukraine



Source: developed by the author based on the national state statistical committee data (2016)

In order to confirm the tourism risk management model the investigation was conducted. The experimental

conditions of the investigation were artificial, multifactorial. The purpose of the research was forecasting the future hazards for tourism industry in Ukraine in autumn 2018. The investigation was sufficient.

For experimental implementation of the model, special software was developed in the "MS Excel" and SPSS program environments. All further calculations were made by using them. The statistical information about threats in Ukraine was gathered.

According to block 1 the common hazards which could happen in autumn 2018 in Ukraine were determined for the forecasting. Identified risks were:  $A_1$  – political risks (war, terrorism);  $A_2$  – medical risks for tourists (trauma, infections, flu, disease, plagues);  $A_3$  – financial problems in country (overpayment for a tour, currency risk, risk of additional costs);  $A_4$  – Accidents (fire, explosion, bag snatching, credit card fraud, theft, car accidents);  $A_5$ – ecological (radiation, polluted air);  $A_6$ – Cultural or religious differences and conflicts (hate crimes);  $A_7$ –Product risk (a bad quality service);  $A_8$  – the growth of amount of online tourists services of competitors;  $A_9$  – stagnation of the economy,  $A_{10}$  – the decline of the welfare of the population( emigration to another countries);  $A_{11}$  – low incomes and lack of free time for tourists to attend tourist places in Ukraine;  $A_{12}$  – deterioration of the image of Ukraine due to negative information in the network (organizational problems occurring during travel or at destination)

For the implementation the block 2 of the tourism risk management model, 6 experts in tourism were chosen: all of them are scientists in tourism with phd degree. They agreed to work for free.

At the stage of the expert evaluation (blocks 3-6), 6 experts estimated the likelihood and severity of each risk, than the indicators of the integral level of importance of risks ( $R_j$ ) were calculated. The result table s was constructed (table 1).

Table 1. The results of an expert evaluation

Number of expert, $Z_i$	$R_j$ the integral level of importance of risks											
	R1	R2	R3	R4	R5	R6	R7	R8	R9	R10	R11	R12
Z1	20	9	3	9	1	1	20	25	25	5	12	20
Z2	12	6	3	16	1	1	10	25	25	5	6	16
Z3	5	12	4	9	2	2	15	20	20	2	6	20
Z4	4	10	2	8	3	2	8	12	20	25	9	15
Z5	6	6	2	4	5	2	9	25	25	10	6	10
Z6	4	4	4	4	4	2	4	20	25	8	9	5
$R_j$ average	8,50	7,83	3,00	8,33	2,67	1,67	11,00	21,17	23,33	9,17	8,00	14,33

According to expert judgments the most dangerous risks which could occur in Ukraine in autumn 2018 are:  $A_9$  – stagnation of the economy ( $R_j$  average =23.33);  $A_8$  – the growth of amount of online tourists services of competitors ( $R_j$  average =21.7);  $A_{12}$  – deterioration of the image of Ukraine due to negative information in the network (organizational problems occurring during travel or at destination) ( $R_j$  average =14.33) and  $A_7$ – Product risk (a bad quality service), ( $R_j$  average =11). The less probable risk in Ukraine will be:  $A_6$ – Cultural or religious differences and conflicts (hate crimes) ( $R_j$  average =1.67);  $A_5$ – ecological (radiation, polluted air) ( $R_j$  average =2.67);  $A_3$  – financial problems in country (overpayment for a tour, currency risk, risk of additional costs) ( $R_j$  average =3).

For making groups of risks and future decision making, according to block 8 the factor analysis in SPSS statistical program was conducted. The extraction method was: principal component analysis. The Kaiser-Meyer-Olkin criterion indicates that the proportion of variance in all variables might be caused by underlying factors. (Table 2). The value is 0.76 is acceptable for analysis.

Table 2. The Kaiser-Meyer-Olkin criterion indicator

Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO).		,760
Bartlett's test of sphericity	Approx Chi-square	58,246
	df.	6
	Sig.	,000

Source: developed by the author in SPSS statistic

The Rotation Method: Varimax with Kaiser Normalization. Rotation converged in 5 iterations. The rotated component matrix shows the factors (groups) loadings for each variable (Figure 5). Factors which were less than

0.4 were excluded.

Table 3. The rotated component matrix of risks in Ukraine

Number of risk Aj	Number of components(groups)				
	1	2	3	4	5
A1	,979				
A2	,803	-,548			
A5	-,687				-,671
A3	,609		,509	,532	
A6		,915			
A4		,864	,501		
A7		,835			
A12			,964		
A8		-,424	-,843		
A11	-,517		-,790		
A9				,997	
A10					,999

Source: developed by the author in SPSS statistic

Thus, according to the the rotated component matrix there are five major groups of risks in Ukraine, all risks should be divided into 5 groups it depends on how factor is correlated with group. A<sub>1</sub>, A<sub>2</sub>, A<sub>5</sub>, A<sub>3</sub> is most highly correlated with group one. A<sub>7</sub>, A<sub>12</sub> – correlated with group number two; A<sub>6</sub>, A<sub>4</sub> – with group number three. A<sub>11</sub> - group 4. And A<sub>10</sub> correlated with group number five. The results of statistics analysis are very important for decision making in risk management. Fife groups of factors could be managed by different specialists on different level of management.

Block 9. The risk response for Ukraine should be based on risk-management approaches such as: risk avoidance, sharing, acceptance, termination. According to the results of the investigation such measures can be taken by the state to manage risks:

1. It is necessary to stabilize the military conflict in the country, improve security in Ukraine, create prerequisites for the development of tourism enterprises, reduce legislative and tax pressures on the tourism business; it is important to close loss-making state enterprises, cut state expenses, attract external infrastructures into the economy, create fair and transparent conditions for the functioning of foreign investors; to create jobs for people for avoidance of outflow of population from the country and reduce emigration processes;

2. To improve the marketing advertising centers of popularization of Ukraine on the world tourist market. Create a PR centers for the greatest historical and cultural places, create working groups of specialists who would work on external image and advertising of the country;

3. To improve the quality of tourist service in Ukraine, to create centers for personnel training, to update the infrastructure of hotels restaurants, spa centers, recreational facilities and entertainment.

4. To ensure the safety of tourists, it is necessary to improve police control, especially in tourist places and centers to prevent theft. Improve the system of countering cybercrime;

5. To form Ukrainian online travel agencies that could attract tourists from all over the world. This could give an opportunity to increase the share of income from tourism in the country's GDP.

Block 10 provides for the formation of the database of knowledge in the risk management. This step contains analysis of accumulated data about risks in Ukraine and helps to use an experience in future risk management and strategic planning.

## Conclusion

This research investigated the Ukrainian tourist industry situation. Ukrainian tourism has very difficult time. One of the reasons is military conflict in the East of the country. 30-38% of the tourist enterprises were closed because of bankruptcy in 2015-2016. And the tourist arrivals reduced incredibly. The concept of tourism risk management was proposed and the analysis of most wide spread risks for tourism industry was conducted.

According to expert judgments the most dangerous risks which could occur in Ukraine in autumn 2018 are: stagnation of the economy; the growth of amount of online tourists services of competitors; deterioration of the image of Ukraine due to negative information in the network (organizational problems occurring during travel or at destination and product risk (a bad quality service). The less probable risk in Ukraine are: cultural or religious differences and conflicts; ecological (radiation, polluted air); financial problems in country (overpayment for a tour,

currency risk, risk of additional costs). This investigation allowed to make some recommendations to overcome the crisis situation.

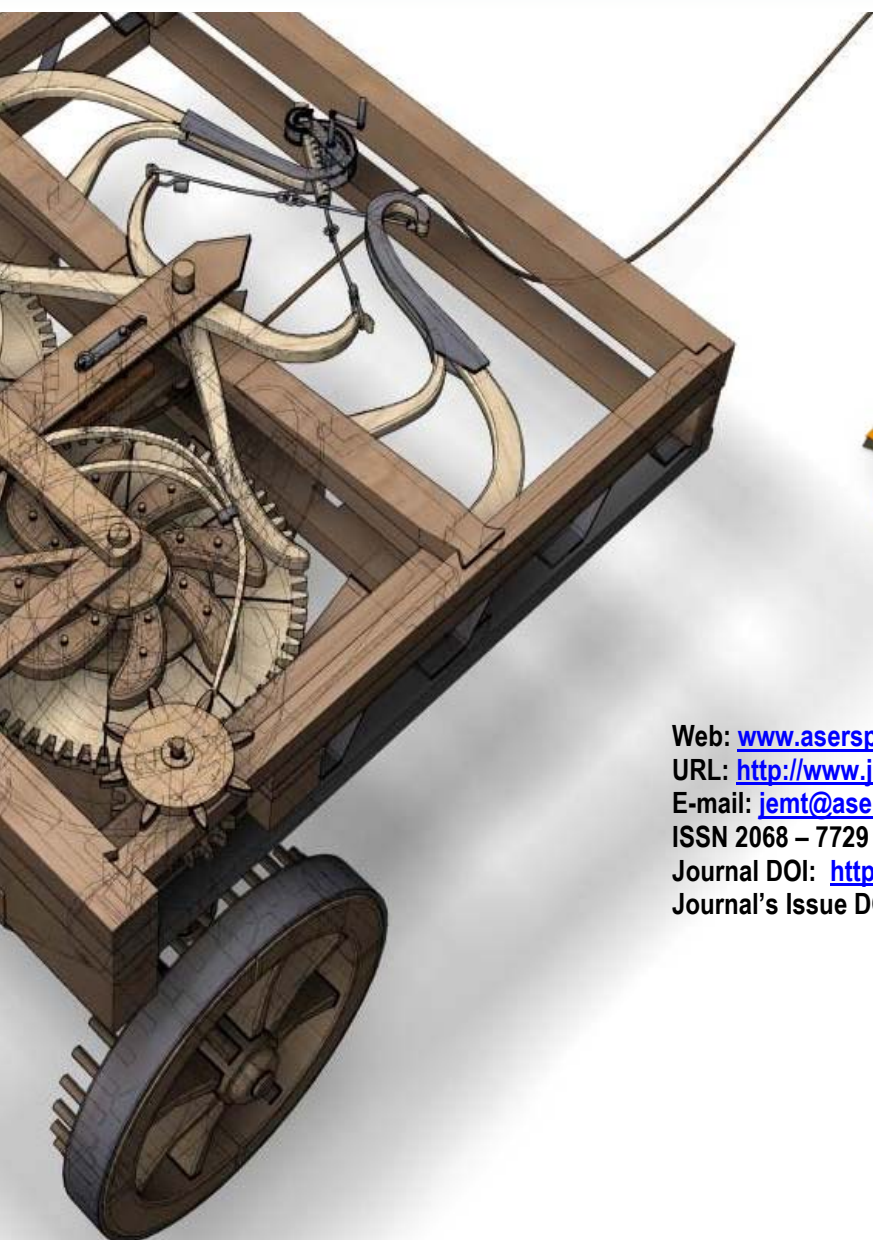
This study has limitations, which should be excluded in a future research. Only 6 experts took part in this investigation. Therefore the results might be subjective. So, further investigation should extend the number of experts and risks.

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