

# INVESTIGATION OF THE DYNAMICS OF INVESTMENT PROCESSES IN UKRAINE IN THE CONTEXT OF ENSURING COMPETENCE OF ORGANIZATIONS ON THE EUROPEAN MARKET

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**Abstract.** *The article is devoted to the study of the state and dynamics of investment processes (IP) in Ukraine, which is a prerequisite for organizations to acquire competence in the European market. The noted low level of foreign direct investment in Ukraine, the downward trend in investment income and their meager share in GDP (within 5%), which indicates the country's weak integration into the international investment market, cause dubious prospects of achieving a level of competence sufficient for successful activity. Disproportions in the sectoral distribution of investments, their gravitation to industry (33,43% of the total), uneven regional distribution, their concentration in five regions (50%), deprive individual organizations of the opportunity to develop and increase their level of competence. The active participation of EU countries in the supply of investments to Ukraine (over 60%) indicates their interest in cooperation, but the instability of investment trends restrains the renewal of production, the implementation of scientific achievements, and the acquisition of competitive advantages by organizations.*

*The peculiarity of the research is the focus on studying the intensity of IP in the context of the impact on the development of organizations by expanding the possibilities of implementing the latest scientific and technical achievements, attracting world experience in the implementation of activities. The results are useful for managers, who, taking into account the main patterns of IP in Ukraine, will be able to assess the prospects of an organization to achieve a level of competence sufficient for successful activity on the European market.*

**Introduction.** The exclusive role of organizations in ensuring the sustainable economic development in the context of active European integration processes actualizes the need to research the prerequisites for ensuring their competence in the market. Scientific research on this topic is relevant, which is confirmed by its active discussion by representatives of the international scientific community. The results of the evaluation of the innovative activity of Ukrainian organizations, as a component of competence, indicate the need to rebuild the national economy in the direction of forming a favorable operating environment, which requires significant financial resources. It is critically important to attract additional investments, which contributes to the introduction of advanced methods of production of unified high-quality products with the possibility of their implementation regardless of geographical, national or other features (Kukharska et al., 2020). This increases the level of competence and competitiveness of Ukrainian producers on the European market (Morhulets, 2015).

The limited participation of Ukrainian organizations in the international movement of capital, causing a shortage of working capital, leads to one-sided dependence on external sources of investment and dubious prospects for functioning and development (Zabarna et al., 2019). The results of the study of the state and dynamics of IP, in particular, the volume of investment resources in

Ukraine, sources of their financing, are needed in practice. This will allow us to understand possible problems, outline the prerequisites for the effective activity of Ukrainian organizations through their restructuring with an emphasis on increasing attractiveness for potential investors, and determine the prospects for acquiring the necessary level of competence in the European economic space.

**Literature Review.** Researching Ukraine's chances for EU membership, scientists (Boldovska, 2018) considered revitalization of IP by attracting foreign investments, in particular, for the renewal of organizations, to be a necessary condition. Developing this direction, I. Bezzub created a list of benefits from the intensification of IP (Bezzub, 2016), highlighting the activation of the transfer of the latest technologies and know-how, the development of export potential, and an increase in the level of employment. However, the authors, determining the benefits of Ukraine's accession to the European space and forming priority state tasks, ignored the new requirements for organizations and related problems. Other scientists (Huk et al., 2021) focused on solving the problem of technological renewal of organizations, considering foreign investment as a carrier of potential for increasing technology imports and improving practical management skills. Scientists in (Manayenko et al., 2018) focused on the search for ways to ensure the economic development of Ukraine, justifying the need to improve the quality of products on the needs of consumers and the requirement of standards by replacing equipment with innovative ones.

Representatives of the scientific community of other countries did not ignore the problem of investment. The work of Shubita M. F. (Shubita, 2023), which substantiates the feasibility of investing in the development of organizations, deserves attention. However, determining the advantages for investors, the scientist was limited to organizations of the banking sector. The specificity of their activity reduces the level of universality of the recommendations and makes their wide application impossible. The investment experience of Korean organizations is described in (Yoon et al., 2023). Scientists associated the investment inefficiency of organizations with inequality in wages. Shifting attention to the elimination of problems in the organization of labor remuneration means only partial applicability of the recommendations to achieve the goal of the study. Research by experts in (Lestari et al., 2022) dedicated to determining the impact of financial development and corruption on foreign direct investment in developing countries is considered useful. But the limited evidence base ignores the influence of other factors of investment growth as a source of funding for countries.

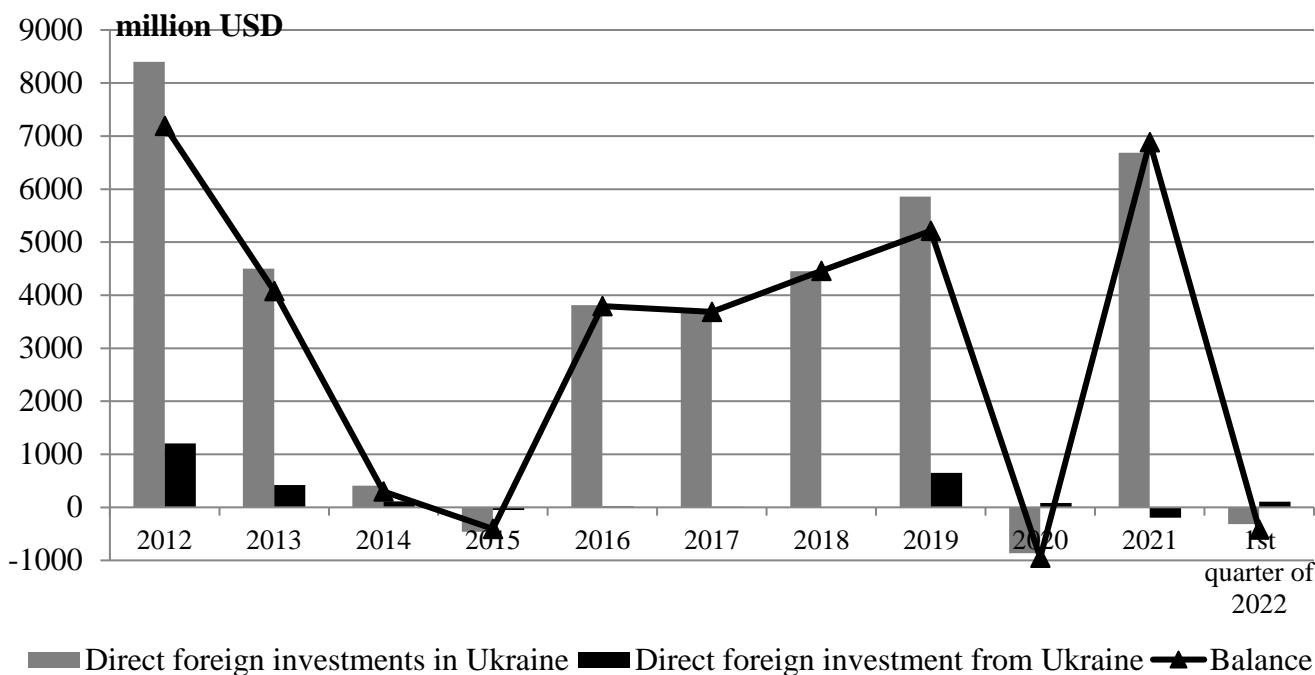
Without diminishing the value of previous studies, it should be noted that some of them focus on the benefits of investments as a prerequisite for Ukraine's successful accession to the EU (Boldovska, 2018; Bezzub, 2016). Others (Huk et al., 2021; Manayenko et al., 2018) study the role of investment in the technical retooling of production. Foreign scientists are quite logically interested in investment problems in their countries (Shubita, 2023) or in limited spheres of organizational activity (Yoon et al., 2023), which is why they cannot always be used in the practice of Ukrainian organizations. Previous studies (Gruzina, 2023) did not reveal developments aimed at substantiating the importance of IP in the formation of a favorable climate for the development of the competence of organizations, their acquisition of competitive advantages and successful integration into the European economic space. Eliminating the noted gaps and stimulating discussion on this topic requires a study of the state and dynamics of IP in Ukraine, determining the direction of their influence on the likelihood of organizations achieving a level of competence sufficient to ensure competitiveness on the European market.

**The aim of the study.** The purpose of the article is to study the state and dynamics of IP in Ukraine, as a factor in ensuring the required level of competence of organizations on the European market, which will make it possible to outline the prospects and possible organizational problems on the way to joining the European economic space.

**Materials and Methods.** The object of the study is the IP in Ukraine. The subject of the study is indicators characterizing the amount of investment resources, sources of their receipt, sectoral and regional distribution, and impact on GDP. The working hypothesis of the study is as follows: the active attraction of investments in Ukraine and their rational distribution is a prerequisite for the acquisition by organizations, regardless of their industry and regional affiliation, of a level of competence sufficient to operate successfully on the European market.

The substantiation of the relationship between the state of IP and the level of competence of organizations was carried out by using the methods of scientific induction and deduction. Generalization of approaches to the analysis of IP, identification of their impact on the ability of organizations to update the production of competitive products and strengthen market positions was carried out using the dialectical method. Methods of content and logical analysis made it possible to form a set of indicators. The methods of system analysis and synthesis have become useful for analyzing the regional distribution of investments, identifying the causes of its imbalance, and the consequences for the successful integration of organizations into the European space. Identification of the dynamics of indicators, comparison of the volumes of investments from different countries in Ukraine was carried out by the methods of grouping and comparative analysis. The explanation of the relationship between the level of indicators and the prospects of Ukrainian organizations on the European market was carried out by the method of descriptive statistics. The substantiation of the conclusions took place by visual presentation of information using a graphic method. Processing and calculation of data for the construction of diagrams and graphs was carried out using a special software and technical tool Microsoft Excel (manufacturer: Microsoft; country of origin: USA).

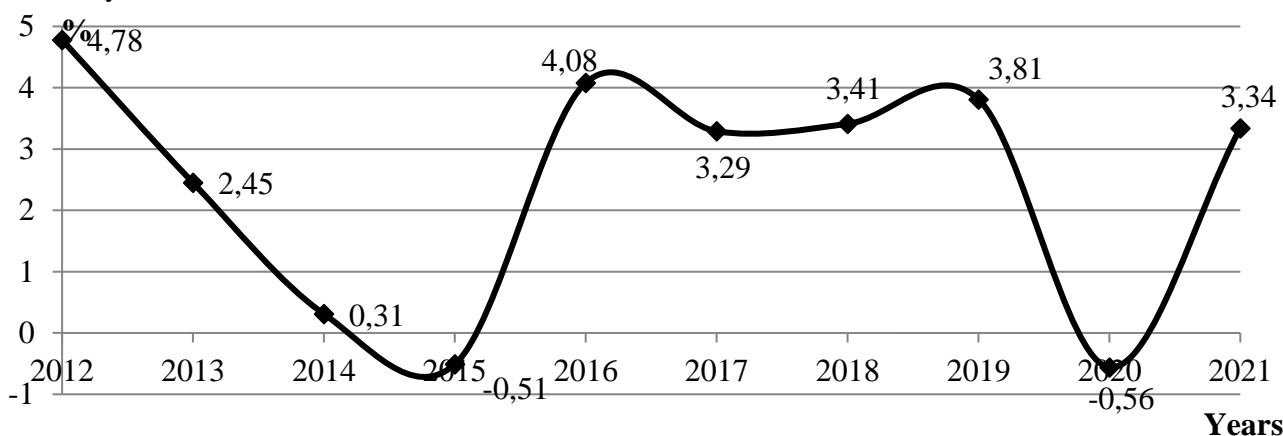
**Results.** Statistical information (Official website of the Ministry of Finance of Ukraine, 2023; Official website of the State Statistics Service of Ukraine, 2023) shows a tendency towards a decrease in the indicator of direct foreign investment in Ukraine, which in 2020 reached the worst value in 10 years. 2021 was the year of an investment breakthrough – the value of the indicator was fixed at the level of 2012, but the military invasion of Russia on the territory of Ukraine prevented its positive level in 2022. The value of income from direct investments was negative throughout the analyzed period, with the exception of 2015 and 2020 (fig. 1). Thus, the volumes and dynamics of attracting foreign direct investments do not meet the requirements of the Ukrainian economy, which significantly hinders the implementation of driver technologies for its transition to a new technological system (Mostipaka, 2018).



**Fig. 1. Dynamics of direct foreign investments in Ukraine**

*Source:* author's development based on (Official website of the Ministry of Finance of Ukraine, 2023; Official website of the State Statistics Service of Ukraine, 2023)

The increase in the volume of investments in absolute terms is most often accompanied by an increase in their share in GDP, which in Ukraine, characterized by chaotic dynamics throughout the analyzed period, remains stably low (within 5%) (fig. 2). This reflects the low level of integration of Ukraine into the international investment market, which is the reason for the inability of capital investments to create a basis for technological modernization and structural changes in the national economy.



**Fig. 2. The share of direct foreign investments in the GDP of Ukraine**

*Source:* author's development based on (Official website of the Ministry of Finance of Ukraine, 2023; Official website of the State Statistics Service of Ukraine, 2023)

The need to determine the prerequisites for the creation of competent Ukrainian organizations, to forecast the prospects of their functioning in the conditions of the intensification of European integration processes, requires an analysis of the sectoral and territorial structure of investments. Investors prefer sectors of the economy with high turnover of capital, territories with natural resource potential and developed infrastructure, unemployed population of working age (Zakarpattia, Ivano-Frankivsk and Chernivtsi regions) (Kukharska et al., 2020; Huk et al., 2021; Kazakova N. A. et al., 2019).

This is explained by the desire for a quick return of capital and obtaining maximum profit at a low level of risk, the availability of the possibility of producing products at low costs with small amounts of investment.

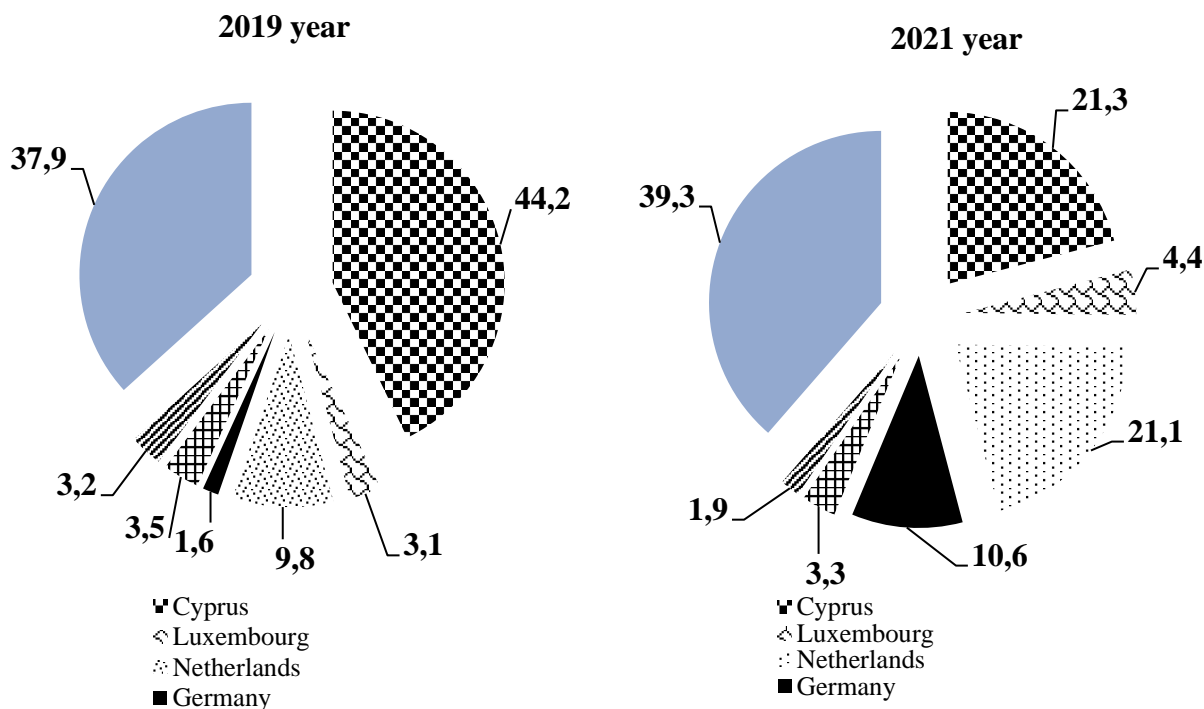
There are serious disproportions in the sectoral distribution of foreign investments in Ukraine. There is an attraction to industry, the share of which in the total volume of investments grew from 33,43% in 2019 to 57,43% in 2021. Agriculture, forestry and fisheries are less attractive for investors – 16,23% in 2021. This is followed by financial and insurance activities, wholesale and retail trade, real estate transactions, the shares of which remained significant compared to other industries – 18,82; 14,21; 5,45%, respectively, in 2019, and 8,6; 6,14; 4,62% – in 2021. That is, the rest of the industries account for 22,47% in 2019 and about 7% in 2021, which is an indicator of serious disparities.

The regional distribution of investments is characterized by unevenness. Direct foreign investment in Ukraine is not only minimal, but concentrated in several regions (Huk et al., 2021; Kazakova et al., 2019). From 6017,4 million c.u. investments in 2019, almost 4 million c.u. mastered the organization of Kyiv (60,32%). The five leading regions – Kyiv, Dnipropetrovsk, Poltava, Luhansk and Lviv regions – mastered almost 95% of the all-Ukrainian volume of investments in 2019. In 2021, there was a redistribution of investments and positions in the top five – it included the Mykolaiv, Rivne, Dnipropetrovsk, Chernivtsi and Kirovohrad regions with shares of 17,83; 10,97; and 3,27%. However, the concentration of investments in a limited number of regions remained at the level of 50%, leaving out the rest.

The sources of investment in Ukraine cover 125 countries of the world. Determining the prospects of the organizations' activities in view of Ukraine's chosen course towards EU membership requires an analysis of investments from participating countries to determine the degree of interest in cooperation. The main investor countries in terms of the share of the total volume of investments in 2019 were: Cyprus (44,22%), the Netherlands (9,79%), Poland (3,51%), Hungary (3,17%), Luxembourg (3,08%). In 2021, their composition changed – Hungary gave way to Germany, however, and in 2021 the EU countries remained the main investors of the Ukrainian economy, providing about 61% of the total volume of investments (fig. 3).

The unstable trend of investment flows, both towards growth (Ireland, Malta, the Czech Republic and others) and decline (Denmark, Estonia, France, Sweden and others) is obvious. This is explained by the dependence of investment volumes on the state of the economy, the speed of its recovery, and the probability of stabilization of the military and political situation (Official website of the State Statistics Service of Ukraine, 2023). As for the dynamics of the volumes of Ukrainian investments, they, while showing an insignificant level, maintain a steady downward trend (more than 90%). Foreign investors focus on industries such as the Internet, software development, network organization and extensive service industries (Kukharska et al., 2020). The Ukrainian side is interested in investments in energy-saving technologies, fuel and energy campaigns, agro-industrial

complex, metallurgy, i.e. directions that have the probability of saturation of the domestic market, increase of export potential, promotion of employment of the population.



**Fig. 3. Distribution of direct foreign investments in Ukraine by investor countries, %**

Source: author’s development based on (Official website of the Ministry of Finance of Ukraine, 2023; Official website of the State Statistics Service of Ukraine, 2023)

**Discussion.** The results of the study outlined the problem that prevents the uniform development of Ukrainian organizations, their achievement of the necessary level of competence and successful integration into the European space. We are talking about lagging behind the indicators of the intensity of investment processions from the average European level, deep disproportions in the sectoral and territorial structure of investments. The decrease in the rate of foreign direct investment, the weak activity of Ukraine in the investment market (fig. 1), the excess of investment outflows and inflows limit the access of organizations to modern production and management technologies, inhibit the formation of the national investment market. To determine the depth of the investment crisis in Ukraine, it was useful to analyze the share of investments in GDP, which remained small (fig. 2) compared to the value of the indicator of the EU member states. This confirmed the conclusion about the low level of integration of Ukraine into the international investment market, limited opportunities for technological modernization of production, low chances of organizations acquiring competence in the European market. The effort to understand the reasons for the noted situation led to the identification of factors that significantly complicate it. The uneven regional distribution of investments, their concentration in the five leading regions, creates unequal conditions for the use of investments as a tool for joining the world market by organizations from the rest of the regions. The degree of interest in investment cooperation with Ukraine of the EU member states made it possible



to determine the analysis of the sources of investment income. Despite their significant advantage in the total volume of investments (fig. 3), the low activity of investors and the insufficiency of the volume of attracted direct investments (statistics) were noted. This is a sign of the low level of investment attractiveness of Ukrainian organizations, weak international investment interaction and inhibition of the process of economic integration into the European space (Pokataieva, 2009). Monitoring the level of indicators is important for analyzing the state of the country's economy, which explains their active discussion by scientists. The issues of intensification of investment processes (Bezzub, 2016), solving the problems of technological renewal of production and improving the quality of products (Huk et al., 2021; Manayenko et al., 2018), determining the feasibility of investing in the development of organizations (Shubita, 2023), ensuring the effectiveness of their investment activities (Yoon et al., 2023) are relevant. Previous studies (Gruzina, 2023) did not reveal developments aimed at determining the state and dynamics of IP in the country in the context of the impact on the formation of favorable conditions for the development of organizations, increasing their level of competence with a logical increase in competitiveness and operational efficiency. A feature of the research is the determination of the possibility of using the obtained results to determine the probability of positive changes in the conditions of the functioning of organizations. It is about ensuring the equality of doing business, protecting property rights, improving the structure of investment sources and observing transparent principles for the distribution of investments between organizations. This will contribute to the activation of their activities, innovative development, acceleration of knowledge and experience exchange processes with representatives of the international business environment, and the growth of the level of competence in the European market (Boldovska, 2018).

We cannot ignore the consequences of the crisis state of the Ukrainian economy due to the military invasion of russia, which, on the one hand, provoked the intensification of the European integration processes, and on the other hand, crossed out the possibility of any forecasts due to the inability to objectively assess the extent of business losses and damages. But determining the prerequisites for ensuring the competence of Ukrainian organizations on the European market will be the basis for further scientific research into ways of using it to increase the adaptive capabilities of organizations not only on the European market, but also on the post-war Ukrainian market.

**Conclusions.**1. Foreign direct investment is recognized as an important source of financing Ukraine's investment needs, increasing its chances for sustainable economic development. Contributing to solving the problems of production modernization, the introduction of innovative production and management technologies, ensuring the quality of products in accordance with international standards, they acquire the status of a factor of ensuring the competence of Ukrainian organizations on the European market. This became the reason for the analysis of the dynamics of indicators of the intensity of IP in Ukraine. The critical decrease in the rate of direct foreign investment by more than 20 times during 2012-2014 makes it much lower than the average European level. The lowest value of the indicator in the last 10 years in 2020 (-868 million US dollars) is associated with the COVID-19 pandemic, which provoked an excess of the outflow of foreign investments inflows and a negative balance at the level of -950 million US dollars. Hopes that were based on 2021 – the growth rate of the indicator reached 870% – were crossed out by the military invasion of russia. The investment market reacted by lowering the indicator, which again caused a negative balance (-420 million US dollars). Similar trends led to pessimistic forecasts regarding the possibilities of any development of Ukrainian organizations, the expediency of their modernization

in the conditions of military operations and the temporary occupation of a significant part of the territories. However, the intensification of the European integration processes became the impetus for the improvement of the situation in the 2nd quarter of 2022 (+260 million US dollars of direct foreign investment in Ukraine), and the preservation of this trend in the 3rd quarter of 2022 (growth rate of 53,85%). It was logical to change the sign of the balance indicator – +322 million US dollars in the second quarter. Therefore, the tendency to improve the situation is obvious, the confirmation of which required an additional analysis of the level of Ukraine's integration into the international investment market, the sectoral and territorial structure of investments, and the determination of the degree of interest of EU member states in cooperation with Ukraine.

2. An increase in the volume of investments in absolute terms does not always mean an increase in their share in GDP. In Ukraine, the trends of changing indicators are identical. A decrease in the volume of investments by almost 21% during 2012-2021 was accompanied by a more rapid decline in their share in GDP – by almost 30%. This confirmed the conclusions about the low level of the indicator, therefore, the low level of integration of Ukraine into the international investment market and doubtful prospects for technological modernization of organizations, acquiring a level of competence sufficient for successful activity on the European market.

3. Orientation to determine the perspectives of the functioning of Ukrainian organizations in the conditions of European integration determined the analysis of the industry and territorial structure of investments. This made it possible to assess the probability of ensuring the competence of organizations of various economic spheres and territorial affiliation. Directing investments to industries with high turnover of capital, territories with natural resource potential and developed infrastructure is explained by the desire for a quick return of capital and profit maximization. This creates disproportions in the distribution of indicators. The concentration of investments in industry (57,43%), agriculture, forestry and fisheries (16,23%), financial and insurance activities (8,6%), the development of the vast majority of them (95%) by the five regions of the leaders, leave apart from the organization of other branches and territorial affiliation. Deprived of the opportunity to develop by improving internal properties due to a lack of financial resources, experience, advanced technologies, such organizations demonstrate a low level of their own competence.

4. To assess the level of interaction of Ukraine with the EU member states, to determine the degree of their interest in cooperation, the analysis of the sources of investment in Ukraine helped. The majority of them – more than 60% of the total volume – came to Ukraine from the countries of the European Union. However, the instability of trends, the rapid growth or decline of investment flows, is directly related to the state of the economy, the prospects for its stabilization and recovery, the level of competence of organizations and their investment attractiveness. The insufficient volume of foreign investments, it's not always effective use restrain the accumulation of entrepreneurial potential by organizations, the introduction of progressive technologies, reducing the level of competitiveness. This is the reason for the weak international investment interaction, inhibition of the process of integration of the Ukrainian economy into the international investment market, which determines the direction of further scientific research. It will be focused on solving the outlined range of problems by improving the quality indicators of the national economy at the micro level. This refers to the formation of a methodological basis for the creation of competent organizations and the development of a practical basis for their successful functioning in accordance with the requirements of European standards.



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