СХІДНО-ЄВРОПЕЙСЬКА СПІЛКА НАУКОВЦІВ

ISSN 3083-6018 (online)

СОЦІАЛЬНИЙ РОЗВИТОК: ЕКОНОМІКО-ПРАВОВІ ПРОБЛЕМИ

SOCIAL DEVELOPMENT: ECONOMIC AND LEGAL ISSUES

№ 12 / No. 12

2025

ISSN 3083-6018 (online)

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Рік заснування: 2024
Мови видання: українська, англійська
Періодичність: 1 раз на місяць
ISSN 3083-6018 (online)
УДК [1+351/.354](051)

Адреса редакції: Україна, 79000, місто Львів, вул. Угорська, буд. 12, кв. 108
Телефон: +380981627500
E-mail: spilkanaukovtsiv@gmail.com
Web: https://www.eu-scientists.com/index.php/sdel

Реєстрація суб'єкта у сфері онлайн-медіа:
Рішення Національної ради України з питань телебачення і радіомовлення № 228 від 23.01.2025 р.
Ідентифікатор медіа – R40-05798.
Видання публікує статті з таких спеціальностей:
С1 Економіка;
D1 Облік і оподаткування;
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Журнал зареєстрований, реферується та індексується у таких наукометричних базах даних, репозиторіях та пошукових системах:
– ISSN International Center;
– Directory of Open Access Scholarly Resources (ROAD);
– The Keepers registry;
– CrossRef (DOJ: 10.70651/3083-6018);
– Google Scholar;
– Open Ukrainian Citation Index (OUCI);
– Scilit;
– research4life;
– WorldCat;
– OpenAlex.

Рекомендовано до публікації рішенням науково-технічної ради ГО «Східно-Європейська спілка науковців» *(протокол № 21 від 24.12.2025)*

FOUNDER:
The NGO “Eastern European Union of Scientists”
PUBLISHER:
Z. M. Burik, private entrepreneur

Year of foundation: 2024
Languages of publication: Ukrainian, English
Frequency: monthly
ISSN 3083-6018 (online)
UDC [1+351/.354](051)
Editorial address: 12, Ugorska St., Lviv, 79000, Ukraine, apartment 108
Tel.: +380981627500
E-mail: spilkanaukovtsiv@gmail.com
Web: https://www.eu-scientists.com/index.php/sdel

Registration: Decision of the National Council of Television and Radio Broadcasting of Ukraine No. 228 of 23.01.2025.
The media identifier is **R40-05798.**
The journal publishes articles in the following specialties:
C1 Economics;
D1 Accounting and Taxation;
D2 Finance, Banking, Insurance, and Stock Market;
D3 Management;
D5 Marketing;
D7 Trade;
J2 Hotel, Restaurant and Catering;
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D8 Law;
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The journal is registered, being reviewed and indexed in the following international scientometric databases, repositories and search engines:
– ISSN International Center;
– Directory of Open Access Scholarly Resources (ROAD);
– The Keepers registry;
– CrossRef (DOJ: 10.70651/3083-6018);
– Google Scholar;
– Open Ukrainian Citation Index (OUCI);
– Scilit;
– research4life;
– WorldCat;
– OpenAlex.

Recommended for publication by the decision of the Scientific and Technical Council of the NGO “Eastern European Union of Scientists”
(protocol No. 21 of 24.12.2025)

CONTENTS

ЗМІСТ

ЕКОНОМІЧНІ ПРОБЛЕМИ СОЦІАЛЬНОГО РОЗВИТКУ

ТУРИЗМ І ГОТЕЛЬНО-РЕСТОРАННА СПРАВА

ПРАВОВІ ПРОБЛЕМИ СОЦІАЛЬНОГО РОЗВИТКУ

e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Ukraine's Export Potential: New Markets and Barriers

Tetiana Zhovkovska [1*] • Volodymyr Pugachov [2] • Mykola Matiukha [3]

[1] *Chortkiv Professional College of Economics and Entrepreneurship of Western Ukrainian National University (Ukraine). Director, Doctor of Science in Economics, Associate Professor.*

[2] *National Scientific Center "Institute of Agrarian Economics" (Ukraine). Senior Researcher at the Food Department, Candidate of Economic Sciences, Associate Professor.*

[3] *Kyiv National University of Technologies and Design (Ukraine). Associate Professor at the Department of Economics, Candidate of Economic Sciences, Associate Professor.*

*** *Corresponding Author,*** e-mail: t.zhovkovska@wunu.edu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.04

Received:
27 October 2025
Accepted:
29 November 2025
Published online:
13 December 2025

ABSTRACT

The relevance of the topic is due to the strengthening of imbalances in Ukraine's foreign trade and the growth of barriers that hinder the realization of its export potential in the context of global economic and security challenges. The purpose of the article is to assess the current state of Ukraine's export activity, identify key barriers to entering new markets, and substantiate directions for increasing the competitiveness of Ukrainian exporters. The research methodology is based on the use of statistical analysis of foreign trade indicators for 2016–2025, comparative analysis of the commodity and geographical structure of exports, structural and logical classification of barriers, content analysis of international analytical reports, as well as economic and analytical methods to assess the impact of global trends on Ukrainian exports. The study found that Ukraine faces significant logistical, energy, institutional, technical, and financial constraints that have deepened as a result of the war, the destruction of infrastructure, and changes in the global economy. A sharp drop in physical export volumes, an aggravation of the negative trade balance, a decrease in supplies of agricultural and mineral products were identified, while segments with growth potential were identified – mechanical engineering, metallurgy, livestock and grain products. The unique result is a comprehensive classification of barriers to entry into foreign markets, covering both internal and external factors, and an integrated analysis of export development prospects in the post-war period. The practical significance of the study lies in the possibility of using the results obtained to form state export policy, develop enterprise support programs, determine priority areas of investment, improve logistics and regulatory infrastructure, and prepare strategies for Ukrainian businesses to enter new markets.

KEYWORDS

economic development, inflation, investments, foreign trade, economic and security challenges, foreign economic activity.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Експортний потенціал України: нові ринки та бар’єри

Тетяна Т. Жовковська [1] * • Володимир М. Пугачов [2] •
Микола М. Матюха [3]

[1] *Відокремлений структурний підрозділ «Чортківський фаховий коледж економіки та підприємництва» Західноукраїнського національного університету (Україна). Директор, д-р екон. наук, доцент.*

[2] *Національний науковий центр «Інститут аграрної економіки» (Україна). Старший науковий співробітник відділу продовольства, канд. екон. наук, доцент.*

[3] *Київський національний університет технологій та дизайну (Україна). Доцент кафедри економіки, канд. екон. наук, доцент.*

*** *Автор-кореспондент,*** e-mail: t.zhovkovska@wunu.edu.ua

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.04

Отримана: 27.10.2025 р.
Прийнята: 29.11.2025 р.
Опублікована: 13.12.2025 р.

АНОТАЦІЯ

Актуальність цієї теми пояснюється тим, що в українській зовнішній торгівлі останніми роками дедалі помітнішими стають дисбаланси. До того ж з’являється все більше бар’єрів, які ускладнюють використання наявного експортного потенціалу, особливо в умовах глобальної нестабільності та безпекових викликів. Мета статті полягає в тому, щоб охарактеризувати теперішній стан українського експорту, окреслити основні перепони для освоєння нових ринків і визначити, які кроки можуть посилити конкурентні позиції українських компаній за кордоном. У дослідженні використано статистику зовнішньої торгівлі за 2016–2025 роки, проведено порівняння товарної та географічної структури експорту, здійснено класифікацію бар’єрів за їх природою та походженням, а також проаналізовано міжнародні аналітичні звіти. Окрему увагу приділено оцінці впливу глобальних економічних тенденцій на український експортний сектор. Під час аналізу з’ясувалося, що на розвиток експорту нині тисне ціла низка факторів: логістичні труднощі, проблеми в енергетичній сфері, інституційні обмеження, технічні бар’єри та нестача фінансових ресурсів. Значна частина цих проблем загострилася через повномасштабну війну, руйнування інфраструктури та зміни на світових ринках. Зафіксовано помітне скорочення фізичних обсягів поставок, погіршення торговельного балансу, зменшення експорту аграрної та мінеральної продукції. Водночас є й сегменти, здатні продемонструвати зростання – зокрема машинобудування, металургія, тваринництво та зерновий сектор. Особливістю роботи є розширена класифікація бар’єрів виходу на зовнішні ринки, яка охоплює і внутрішні, і зовнішні чинники, а також комплексний аналіз можливостей розвитку українського експорту у післявоєнний період. Практичне значення отриманих результатів полягає в тому, що вони можуть стати основою для вдосконалення державної експортної політики, розроблення програм підтримки бізнесу, визначення інвестиційних пріоритетів, модернізації логістичної та регуляторної інфраструктури й підготовки стратегій виходу українських компаній на нові ринки.

КЛЮЧОВІ СЛОВА

економічний розвиток, інфляція, інвестиції, зовнішня торгівля, економічні та безпекові виклики, зовнішньоекономічна діяльність.

1. Introduction

In the current conditions of global economic turbulence, the issue of developing Ukraine's export potential is becoming relevant. Deepening integration into the world market, growing competition in the international arena and transformation of global trade chains are creating new challenges for the national economy. The military aggression of the Russian Federation, the destruction of production and logistics infrastructure, the restriction of access to traditional markets and the change in geo-economic priorities force Ukrainian business to look for alternative opportunities for foreign economic activity. The problem is that, despite its significant resources, industrial and innovation potential, Ukraine faces a number of barriers that hinder the effective use of existing opportunities. We are talking not only about physical and logistical restrictions during the war, but also about non-tariff barriers, technical regulations, insufficient awareness of enterprises about the requirements of new markets, limited access to financing, and a low level of export diversification. As a result, domestic companies cannot fully realize their potential in the international arena. The need for the study is due to the need to form a holistic understanding of how Ukrainian exporters can successfully adapt to the new operating conditions, which markets are the most promising in the short and medium term, and what institutional, regulatory and infrastructural barriers hinder the expansion of export activities.

2. Literature Review

The issue of Ukraine's export potential occupies an important place in the scientific discourse, but the results of previous studies show that despite the expansion of the analytical base, significant gaps remain, especially in terms of a comprehensive assessment of barriers to entry into new markets in the context of war and the transformation of global supply chains. In the works of R. Y. Savluk [17] and I. B. Oleksiv and M. D. Mirzoeva [13], it is emphasized that the export potential is not only the basis of foreign exchange earnings, but also a catalyst for the structural modernization of the economy. The author establishes that the long-term dominance of the raw material model hinders the development of processing industries, and the lack of investment in technological renewal makes the national economy vulnerable to global shocks. The emphasis on the need to switch to the export of products with higher added value points to a strategic vector, but the work does not fully cover the barriers that emerged after the Russian invasion, as well as the specifics of access to new markets in Asia and the Middle East. A. Stavytska and A. Kovalenko [19] focus on the insufficient use of Ukraine's opportunities in the world market, determining that non-compliance with standards and limited diversification of export of products are key factors in the loss of competitive positions. The authors show that the expansion of exports is possible with more active participation in international programs, infrastructure development, and increased state support for exporters. At the same time, their study mainly records pre-war trends and does not take into account the new risks associated with the destruction of logistics and a sharp change in geo-economic priorities.

In the work of M. V. Savchenko [16] and V. Chemerys [3], it is determined that Ukraine's cooperation with the EU countries opens up broad prospects for integration into the internal market of the European Union, but the uneven trade flows and high dependence on raw materials leave Ukraine vulnerable to restrictive measures from partners. The author emphasizes that Ukrainian exports do not realize the potential of participation in the EU value chains, and this, in turn, slows down consolidation in priority market segments. Despite the valuable findings, the study does not reveal the impact of military factors on the transformation of trade cooperation and does not provide an answer to practical adaptation steps. A special place in the scientific field is occupied by studies devoted to sectoral aspects of export potential. Thus, O. Kovbasa [12] demonstrates that the price competitiveness of livestock products in Ukraine is a significant advantage in the European market, since the difference in cost in certain categories reached a two- or three-fold level in favor of Ukrainian producers. At the same time, the author notes that this advantage is easily offset by the growth of logistics costs, certification requirements, currency fluctuations and EU quota restrictions. The study outlines the prospects of the segment, but does not systematize the complex of barriers that form the ultimate competitiveness of the industry.

In the works of T. O. Ostashko [8] and I. M. Mushyn, & I. O. Tarlopov [11], the analysis of grain exports during the war showed that Ukraine retained its status as one of the key food suppliers, despite the blockade of ports and a sharp reduction in maritime logistics. The author establishes that the reorientation to land routes, the launch of "solidarity lanes" and EU support have created a new infrastructure basis for post-war recovery. However, the study pays less attention to the impact of tariff and non-tariff barriers that shape the conditions for access to markets in Asia, Africa and the Middle East. Similar in terms of problems are the conclusions of O. V. Sheremetynska [18] and T. Melnyk [9], who consider Ukraine as a strategic player in the global grain market. The author emphasizes that the challenges of the war have caused not only temporary logistical difficulties but also structural shifts in global supply chains, as Ukraine's role has become decisive for the stability of food balances in many countries. The study shows that even a partial reduction in security risks can automatically activate the demand for Ukrainian grain. However, the work is concentrated mainly on the agricultural sector without a wider coverage of industrial goods and high-tech export segments. In general, the analysis of sources shows that the available studies thoroughly describe certain aspects of export potential – raw material dependence, opportunities for integration with the EU, price advantages of the agricultural sector, or logistical transformations. However, a comprehensive systematic approach to studying the interaction of all groups of barriers (institutional, technical, logistics, tariff, energy and financial) in the context of wartime and the search for new markets is currently lacking. The transition to the production of products with high added value, the potential of Ukraine's participation in global production chains, and practical mechanisms for reducing barriers for exporters have also not been sufficiently studied. It is these gaps that form the scientific niche that this study fills, offering an integral analysis of the state of exports, classification of barriers and outlining the prospects for Ukraine's entry into new international markets.

3. Problem Statement

The article is aimed at a comprehensive identification of the factors that determine the opportunities and limitations of the development of Ukrainian exports in the context of the transformation of world markets. To achieve this goal, the article envisages the following tasks: to analyze the current state and structure of Ukraine's exports, to classify the main barriers that prevent Ukrainian enterprises from entering new markets, and to offer practical recommendations for improving the efficiency of export activities and expanding Ukraine's presence in global markets.

4. Methods and Materials

The study of Ukraine's export potential and barriers to entering new markets was carried out on the basis of a systematic analysis of statistical, analytical and regulatory materials reflecting the dynamics of foreign trade, structural changes in production and features of the global market environment. The materials of the study were official data of the State Statistics Service of Ukraine, the Ministry of Economy of Ukraine, international organizations (European Commission, World Bank), as well as analytical reviews and scientific publications contained in the sources [8; 12; 14–18]. All numerical data used in the text are given in accordance with the information from these sources and summarized in the form of tables and comparative characteristics.

The methodological basis of the study combines a set of analytical approaches. The statistical method was used to assess the dynamics of exports, imports, trade balances, physical volumes of supplies and changes in the commodity and geographical structure of trade, including an in-depth analysis of indicators for 2021–2025. The comparative analysis was used to establish differences between pre-war and war trends, identify key shifts, and compare Ukrainian production and price indicators with European markets (in particular, in the livestock and grain industries). The method of structural and logical generalization made it possible to identify the main barriers to exports – logistics, tariffs, non-tariffs, energy, production and institutional – and to determine their impact on Ukraine's opportunities to enter new markets.

5. Results and Discussion

Ukraine's export potential is formed under the influence of deep integration processes in the world economy. The country's participation in global markets opens up new opportunities – but also exposes the weaknesses of the national economy. GDP dynamics, inflation, unemployment, public debt and the state of foreign trade demonstrate that domestic demand remains a key driver of growth. At the same time, it is net exports that ensure the inflow of currency and strengthen economic stability. However, the structure of exports and imports in recent years indicates a deterioration in the trade balance, especially after the pandemic and the outbreak of war. Imports grew faster than exports, and the negative balance has been hitting new records since 2023. This trend poses threats to the future: pressure on the foreign exchange market, reduced reserves, and increased external borrowing. Without changes in the structure of trade, Ukrainian goods risk losing competitiveness in new and traditional markets [17]. The reasons for the decline in export opportunities are well known: war, destruction of logistics, insufficient state support, weak positions of investment reliability, low level of standardization and certification of goods, dominance of raw material exports, inflationary pressures and insufficient diversification of markets. All this together almost paralyzes the expansion of foreign markets and slows down access to new sales areas.

For example, Ukraine's export potential in 2016–2019 showed steady growth, but the COVID-19 pandemic sharply reduced trade volumes. In 2021, there was a partial recovery: exports increased to USD 68.1 billion. USD, which amounted to 138.4% of 2020, while imports reached USD 72.8 billion. (134%). Despite the positive dynamics, the country ended the year with a negative trade balance of -USD 4.73 billion, which is only slightly better than -USD 5.14 billion. in 2020. The export-import coverage ratio rose from 0.91 to 0.94, but remained below the level necessary for macroeconomic sustainability. In 2021, Ukraine cooperated with 235 countries around the world, which emphasizes the wide geography of its trade ties. The most powerful markets were China, with exports of $8.0 billion. (an increase of 12.7%), Poland from USD 5.23 billion. (+59.7%) and Turkey with USD 4.14 billion. (+70%). The structure of exports remained mainly raw materials: ferrous metals brought USD 13.95 billion. (+81.4%), cereals – USD 12.34 billion. (+31.2%), fats and oils – USD 7.04 billion. (+22,5%). In the commodity structure of 2021, the share of base metals was 23.5%, plant products – 22.8%, mineral products – 12.4%, fats and oils – 10.3%, while other products formed 31%. Exports traditionally provide 35–40% of Ukraine's GDP, and according to the Ministry of Economy, the growth potential reaches 50%. However, currently 75% of exports are raw materials, which form dependence on global prices and limit the opportunities to enter new markets. The strategic goal of the state is to change the proportion to the opposite and reach 75% of exports of finished products and only 25% of raw materials [19].

To restore its export potential and gain a foothold in the promising markets of Asia, the EU, and the Middle East, Ukraine needs profound structural changes. The priority is the transition from the export of raw materials to products with high added value. Public investment should support high-tech industries, the agro-industrial complex, infrastructure and export-oriented small and medium-sized businesses. It is equally important to integrate into global production chains – it is there that sustainable sales markets and capital flows are formed [16, p. 95]. As a result, the transformation of the trade structure is not only an economic task, but also a matter of long-term stability.

Compared to the same period in 2024, in the first half of 2025, Ukraine's foreign trade demonstrates contradictory dynamics (Table 1): trade turnover increased by 7.6% and reached USD 58.3 million. However, the export itself decreased to USD 20 million. (–4%), while imports, on the contrary, increased by 14.8% to USD 38.3 million. USA. This led to a sharp expansion of the negative balance to USD 18.3 million. The United States is one of the largest in modern history. Russia's energy attacks have increased its dependence on imports of gas, coal and electricity, which has sharply increased external purchases and deepened structural deficits. Against the backdrop of these challenges, export results show unevenness: agricultural products decreased by 9.5%, mineral resources by 17.8%, and physical exports as a whole fell by 25.3%. The drop in the supply of energy products (–75.3%) and crops (–37.1%) was especially significant, due to a decrease in the production of corn, wheat, sunflower, and rapeseed. Iron ore exports fell to 16.14 million tons (-11.9%), and prices on world markets decreased by almost 17%. Positive developments were observed in mechanical engineering (+12.8%) and metallurgy (+5.7%), which indicates the potential for the development of exports of products with higher added value. However, technological pressure from the United States in the form of 25% duties on certain metal products has already begun to affect the dynamics of supplies. The structure of imports also changed: machinery, equipment and vehicles became the largest category (38.8%), which is associated with an increase in defense and infrastructure needs. Gas imports increased by 3.6 times, coal by 2.3 times, and electricity by 1.5 times, while purchases of petroleum products decreased by 16.6%. Geographically, the EU remains the main partner, although its share in trade has decreased from 59.5% to 50.8%. Exports to the European Union fell to USD 11.5 million. (–6.1%), especially due to a decrease in purchases of food and industrial materials. China has almost halved imports of Ukrainian goods (–47%), while increasing supplies to Ukraine by 26.8%. Turkey and the United States demonstrate more stable indicators, but they are also accompanied by significant structural imbalances [12, p. 1–5].

Table 1. Key indicators of Ukraine's foreign trade in the first half of 2025, in the context of export potential and barriers to entering new markets

Indicator	Volume/value (I half of 2025)	Dynamics until 2024	Significance for Ukraine's export potential
Trade turnover, million dollars USA	58.3 million	+7,6%	Overall trade growth, but at the expense of imports – the risk of deepening imbalances
Export of goods, million dollars. USA	20 million	–4%	Falling exports narrow opportunities to enter new markets and reduce foreign exchange earnings
Imports of goods, million dollars. USA	38.3 million	+14,8%	Increased dependence on imports (energy, machinery, chemicals) reduces the competitiveness of production
Trade balance	–USD 18.3 million	Deterioration (2024 – 12.5 million)	The largest deficit since independence is a critical obstacle to exports
Physical trading volumes	–18,1%	–	Indicates a systemic drop in production and logistical barriers
Physical Exports	–25,3%	–	The deepest drop among the war years: yields ↓ (corn, wheat, rapeseed, sunflower), destruction of logistics
Export of food and the agro-industrial complex	56.1% of the structure	–3.4%	Slow diversification; Harvest decline is a threat to export stability
Export of mineral products	–17,8%	–	Fall in world prices for iron ore (-16.6%) and a decrease in supplies to China (-1.9%)
Export of mechanical engineering	+12,8%	+	The only fast-growing "non-commodity" export wing – the potential for new EU/Asian markets
Export of metals	+5,7%	+	Despite the growth, the United States imposed a 25% tariff, and the threat of market loss
Physical export of ER (fuel and energy resources)	–75,3%	–	Inability to export due to internal shortage and attacks on the energy system
Import of energy resources	Gas ×3.6; Coal ×2.3; E/energy ×1.5	+14.6% overall	Critical energy dependence constrains domestic production and exports
Import of mechanical engineering	+30.1% (value), +14.8% physically	+	The growth in demand of the defense industry is the strengthening of the technology sector.
The EU's share of trade	50.8% (exports – 57.5%, imports – 47.3%)	↓ from 59.5%	A decrease in the volume of trade with the EU despite autonomous trade preferences.
Exports to the EU	USD 11.5 million.	–6,1%	A drop in food (-15.7%) and industrial materials (-4.1%) means a smaller presence in the key market.
Imports from the EU	USD 18.1 million.	–9,3%	The negative balance with the EU decreased to -USD 6.6 million. (due to a drop in imports).
Trade with China	Turnover 9 million dollars; exports – 847 million; imports – 8.1 million	Exports – 47%; imports +26.8%	Negative balance – 7.3 million; China ceases to be a growing market.
Trade with Turkey	Turnover 7.3% of total	–	Exports 859 million (corn), imports 2.5 million; Turkey is strengthening its position as a supplier.
Trade with the United States	Imports 2.3 million; exports 0.5 million	Exports +33%	II quarter – a drop in exports due to a 25% duty on metals; sensitive direction.

Source: Compiled based on [3; 7; 9; 11-13].

The data presented in Table 1 show that Ukraine's export potential faces serious barriers – from energy and logistical instability to trade restrictions of key partners and lower prices on global markets (Table 2). At the same time, there are also points of growth: expansion of supplies of machine-building products, development of exports of metals and gradual diversification of the commodity structure. It is these segments that can become the basis for entering new markets and reducing dependence on raw material exports. The decline in exports most affected agricultural products, mineral raw materials and light industry goods, while imports grew rapidly in food groups, chemical products, metallurgy and mechanical engineering.

Table 2. Classification of the main barriers to Ukraine's entry into new markets

The essence of the barrier	Events	Export implications
Institutional		
Insufficient consistency of legislation with EU standards; slowness of procedures; weak support mechanisms	Lack of full industrial visa-free travel; undeveloped systems of state support for exporters; non-compliance of sanitary and phytosanitary standards with international requirements	Difficult access to EU and OECD markets; growth in transaction costs; delay in certification and registration of products
Technical		
Non-compliance of some Ukrainian goods with international technical regulations and standards	The need for modernization of production, the insufficiency of laboratories for certification, and the high cost of transition to EU standards	Limited access to high-tech markets; loss of competitiveness; reduction in exports of finished products
Logistics		
Destruction of transport infrastructure, rising logistics costs, unstable routes	Port blocking, high cost of rail and road transportation, and limited capacity of borders with the EU	Increase in the final price of goods; loss of contracts; decrease in physical export volumes
Financial		
Limited access of businesses to lending and investments, currency risks	High interest rates on loans, shortage of working capital, fluctuations in exchange rates	Non-fulfillment of export contracts; high cost of production; loss of share in competitive markets

Source: Based on [1; 2; 4-6].

The export of animal products from Ukraine has significant potential. The main competitive advantage of Ukrainian manufacturers is lower cost, which leads to lower final prices. For example, in December 2024, the price of bulls in Ukraine was EUR 1.45/kg, while in the EU countries it was EUR 4.34/kg, that is, 3 times more expensive. Similarly, heifers cost EUR 1.35/kg against EUR 3.37/kg in the EU (a difference of 2.5 times). Class R pork – EUR 1.95/kg in Ukraine versus EUR 2.69/kg in the EU. Even milk, one of the least profitable in Ukraine, shows a significant difference: 0.23 euros/l versus 0.55 euros/l in the EU. The price advantage, however, is significantly offset by a number of barriers. Producers are facing rising costs for feed, energy, and logistics, which can account for up to 30–40% of the final export price. Additional costs are created by the need to transition to European quality and safety standards, which require investments in modernization and certification. Currency fluctuations also affect contract stability and margins. An important deterrent is the EU customs quotas, which limit the supply of meat and dairy products from Ukraine. At the same time, the European market is also creating new opportunities. In 2024, there was a steady increase in prices for livestock products in the EU: bulls by +1.00 euros/kg, heifers by +0.60 euros/kg, pork by +0.16 euros/kg, milk by +0.08 euros/l. A separate perspective is the European segment of organic and environmentally friendly products, where prices are higher by 20–40%, which opens the way for premium positioning [8, p. 25]. Thus, Ukrainian livestock products retain a strong export potential due to price competitiveness, but investments in standardization, logistics, digital traceability systems and in-depth processing are needed to truly expand their presence in EU markets. It is these tools that will turn a price advantage into sustainable competitiveness and expand access to European markets despite existing barriers.

The launch of the EU's "solidarity lanes" in May 2022 was a turning point, which not only made it possible to export 18.5 million tons of Ukrainian agricultural products but also created a long-term infrastructure base for a new format of cooperation between Ukraine and the EU countries. The European Commission's investment of EUR 250 million, as well as an additional mobilization plan of EUR 50 million, indicates that these routes will be maintained after the war. The ports of Gdansk, Gdynia and Klaipeda have already shown the ability to work with large batches of Ukrainian grain, and Romanian Constanta has actually turned into a parallel Black Sea hub. Such multi-vector logistics reduces dependence on the Black Sea and forms the basis for sustainable and predictable exports in the future. The results of the Black Sea Grain Initiative have proven that global demand for grain from Ukraine remains extremely high. In nine months, 925 ships left the humanitarian corridor, delivering 29.2 million tons of food, of which 14.8 million tons were corn, 8 million tons of wheat and 1.1 million tons of barley. China purchased 4.9 million tons of Ukrainian corn, Spain – 2.7 million tons, and the countries of Africa and Asia received 65 % of wheat volumes [14, p.33-35]. These are not random indicators, but confirmation that Ukrainian grain is integrated into the food balances of dozens of countries and remains an uncontested resource for the stability of their markets. As soon as the logistical risks are reduced, these channels will automatically resume the full volume of purchases.

A change in the structure of transport flows is another factor that shapes the prospects for the recovery of exports. If before the war, 99.1% of grain was transported by sea, then in 2022–2023, the share of sea transportation decreased to 76%, while rail increased to 19%, and road transportation increased to 5%. This diversification has become a forced decision, but in the long run, it turns into a competitive advantage: Ukraine is integrated into the European transport space, and regional hubs in the Baltic States and Central Europe become part of the long-term export architecture. The global economy is also creating favorable conditions for the further growth of Ukrainian exports. Before the war, Ukraine provided 15% of the world's exports of corn and barley and 10% of wheat. When Ukrainian volumes fell sharply, the price of wheat increased by 33.5% and corn by 14.7%. This shows that the global market cannot maintain stable prices without Ukrainian volumes. Even a partial resumption of supplies has led to price stabilization and a decrease in food tensions. Therefore, in the medium term (5–10 years), Ukrainian grain will remain a key element of global food systems. Even in the most difficult conditions, Ukrainian agricultural producers managed to maintain significant export volumes: 25.2 million tons of corn and 11.2 million tons of wheat in 2022. After the war, it is predicted that yields will increase by 15–25%, restore sown areas by 1.5-2 million hectares, modernize logistics facilities with the participation of the EU, EBRD and the World Bank, which will bring annual exports to 60-70 million tons and return Ukraine to the status of one of the three largest grain exporters in the world [15; 18].

The prospects for expanding Ukraine's export potential directly depend on the transition from a raw material model to deep integration into European value chains. It is about the production of more complex products in cooperation with EU companies, gaining access to modern management systems, technologies and standards. Important steps towards removing barriers are industrial visa-free travel, mutual recognition of sanitary and phytosanitary requirements, simplification of transit and customs procedures, and the opening of public procurement markets. The liberalization of transport – road, rail and water – can also significantly expand the access of Ukrainian goods to EU markets. Even though the EU's share in Ukrainian exports and imports has increased significantly after the reorientation from the markets of Russia and the CIS, this process is also accompanied by negative effects: competition of European manufacturers is tougher, and requirements for standards are higher. In such conditions, the key task of Ukraine is to move from the role of a supplier of raw materials to a full-fledged participant in the EU technological chains, which will not only reduce barriers but also significantly strengthen its own export potential in new markets.

6. Conclusions

An analysis of the current state and structure of Ukrainian exports showed that imbalances in foreign trade are deepening. In 2024–2025, exports develop unevenly: physical volumes of sales abroad are decreasing, while imports are growing rapidly, resulting in a historically large trade deficit. Despite some positive trends in mechanical engineering and metallurgy, the export structure is still mainly based on raw materials, which makes the country vulnerable to changes in world prices. The largest reduction is observed in the agricultural sector, mineral and energy products, which indicates the high dependence of the economy on logistics, climatic and security factors. The classification of barriers to entry into new markets has shown that obstacles are complex. The most significant are institutional, technical, logistical, financial and energy constraints, which are complemented by tariff and non-tariff requirements from other countries. The war, the destruction of infrastructure, the instability of legislation, the high cost of production and difficulties in accessing the regulatory systems of foreign countries create a set of systemic challenges for exporters. At the same time, areas with potential for development have been identified: mechanical engineering, processing industries, production of products with high added value, as well as livestock and grain, where demand on world markets remains stable. The identified obstacles confirm the need for a deep renewal of the structure of the economy and the export model of Ukraine. Focus on raw materials reduces the country's competitive position and limits its presence in high-margin segments of the global market. Significant logistical and energy challenges require long-term investments in infrastructure reconstruction, diversification of export routes and strengthening energy independence. At the same time, it is important to accelerate the harmonization of technical standards and expand the tools of state support for exporters, especially in innovative and processing industries. In general, the results of the study prove that with the comprehensive elimination of barriers, modernization of the economy and reorientation to products with high added value, Ukraine can significantly strengthen its position in new markets and ensure sustainable long-term economic growth.

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Artificial Intelligence in Banking: Modern Models and Implementation Challenges

Oksana Onyshchenko [1 *] ● Valeriia Ternovska [2] ● Volodymyr Kovalov [3]

[1] *Kremenchuk Mykhailo Ostrohradsky National University (Ukraine). Associate Professor at the Department of Accounting and Finance, Candidate of Economic Sciences, Associate Professor.*

[2] *Kremenchuk Mykhailo Ostrohradsky National University (Ukraine). Master's Student at the Department of Accounting and Finance.*

[3] *Kremenchuk Mykhailo Ostrohradskyi National University (Ukraine). Master's Student at the Department of Management and Marketing.*

* ***Corresponding Author,*** e-mail: oksanakremenchug@gmail.com

ARTICLE INFO

Research Article

DOI: **10.70651/3083-6018/2025.12.05**

Received: 29 October 2025
Accepted: 30 November 2025
Published online: 14 December 2025

ABSTRACT

The article substantiates the relevance of the use of artificial intelligence in the banking sector in the context of rapid digitalization, the growth of online transactions and the strengthening of cyber threats. The purpose of the study is to analyze modern AI models used to detect fraud, manage risks and improve the security of financial transactions, as well as to compare the practices of their implementation in the USA, Great Britain, EU countries and Ukraine. The theoretical basis is provided by machine learning methods, deep neural networks, ensemble algorithms and hybrid AI architectures, capable of analyzing large data sets in real time and detecting complex behavioral patterns. The results obtained demonstrate significant differences in the level of technological maturity of banking systems in different countries. The USA and Great Britain are actively implementing hybrid models and graph neural networks to detect complex fraudulent schemes, while EU countries focus on Explainable AI, ensuring compliance with regulatory requirements. Ukraine focuses on the development of transaction monitoring, classification algorithms and anomaly detection models, which allows for increasing the accuracy of risk assessment of operations. It is shown that the use of AI contributes to reducing the number of fraudulent transactions, accelerating data analysis, optimizing internal processes, reducing operating costs and improving the customer experience. At the same time, key barriers to implementation were identified: insufficient explainability of models, high requirements for IT infrastructure, a shortage of specialists and the need to harmonize regulatory standards. The conclusions emphasize that the effective development of intelligent banking systems is possible if technical modernization, increased regulatory support and the implementation of transparent self-learning models are combined. This will ensure increased financial security, resistance to modern fraudulent schemes and the formation of a competitive digital banking environment compatible with international standards.

KEYWORDS

Artificial Intelligence, banking sector, AI applications, fraud, risks, banking operations, approaches to the application of AI.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Штучний інтелект у банківській сфері: сучасні моделі та виклики впровадження

Оксана В. Онищенко [1]* ● Валерія С. Терновська [2] ●
Володимир В. Ковальов [3]

[1] *Кременчуцький національний університет імені Михайла Остроградського (Україна). Доцент кафедри обліку і фінансів, канд. екон. наук., доцент.*

[2] *Кременчуцький національний університет імені Михайла Остроградського (Україна). Магістрантка кафедри обліку і фінансів.*

[3] *Кременчуцький національний університет імені Михайла Остроградського (Україна). Магістрант кафедри менеджменту і маркетингу.*

***Автор-кореспондент,** e-mail: oksanakremenchug@gmail.com

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.05

Отримана: 29.10.2025 р.
Прийнята: 30.11.2025 р.
Опублікована: 14.12.2025 р.

АНОТАЦІЯ

У статті обґрунтовано актуальність застосування штучного інтелекту у банківській сфері в умовах стрімкої цифровізації, зростання обсягів онлайн-транзакцій та посилення кіберзагроз. Метою дослідження є аналіз сучасних моделей ШІ, що використовуються для виявлення шахрайства, управління ризиками та підвищення безпеки фінансових операцій, а також порівняння практик їх упровадження у США, Великій Британії, країнах ЄС та Україні. Теоретичну основу становлять методи машинного навчання, глибинні нейронні мережі, ансамблеві алгоритми та гібридні AI-архітектури, здатні аналізувати великі масиви даних у режимі реального часу та виявляти складні поведінкові патерни. Отримані результати демонструють суттєві відмінності у рівні технологічної зрілості банківських систем різних країн. США та Велика Британія активно впроваджують гібридні моделі та графові нейронні мережі для детектування складних шахрайських схем, тоді як країни ЄС роблять акцент на Explainable AI, забезпечуючи відповідність регуляторним вимогам. Україна зосереджується на розвитку транзакційного моніторингу, алгоритмів класифікації та моделей виявлення аномалій, що дозволяє підвищувати точність оцінки ризиковості операцій. Показано, що використання ШІ сприяє зменшенню кількості шахрайських транзакцій, прискоренню аналізу даних, оптимізації внутрішніх процесів, зниженню операційних витрат та покращенню клієнтського досвіду. Водночас виявлено ключові бар'єри впровадження: недостатню пояснюваність моделей, високі вимоги до IT-інфраструктури, дефіцит фахівців та потребу у гармонізації нормативних стандартів. У висновках підкреслено, що ефективний розвиток інтелектуальних банківських систем можливий за умови поєднання технічної модернізації, посилення регуляторної підтримки та впровадження прозорих самонавчальних моделей. Це забезпечить підвищення фінансової безпеки, стійкість до сучасних шахрайських схем і формування конкурентоспроможного цифрового банківського середовища, сумісного з міжнародними стандартами.

КЛЮЧОВІ СЛОВА

штучний інтелект, банківська сфера, застосування ШІ, шахрайство, ризики, банківські операції, підходи до застосування ШІ.

1. Introduction

The purpose of this article is to study modern methods of applying artificial intelligence in the banking sector, in particular in the direction of fraud detection, risk management and improving the security of financial transactions [1; 2; 17]. The relevance of the study is determined by the rapid development of digital technologies and the need for banks to ensure a high level of reliability in the face of growing cyber threats and an increase in the number of online transactions [12].

Theoretically, the application of artificial intelligence in the banking sector is based on the use of machine learning, deep neural networks, classification and forecasting models, which makes it possible to automatically analyze significant data sets [2; 10]. These technologies recognize complex behavioral patterns of customers, provide credit risk assessment, and make it possible to monitor transactions in real time [7; 9]. An important characteristic of modern AI systems is the ability to self-learn, which determines their adaptability and increased accuracy of decisions in the process of data accumulation [10; 15].

The rapid digitalization of the financial sector has led to a sharp increase in the volume of online transactions, which, in turn, has increased the level of financial and cyber risks [12; 23]. Traditional approaches to threat detection have shown a limited ability to provide adequate speed and accuracy of response in a situation where transactions are executed instantaneously, and the amount of data increases. That is why artificial intelligence has become a key tool for strengthening financial security: it allows you to identify the slightest anomalies and block suspicious transactions even before damage is caused [7; 10].

Within the framework of this goal, it is important to comprehensively study how modern artificial intelligence methods are used in the banking sector, in particular for fraud detection, risk management and improving the security of financial transactions, as well as which approaches demonstrate the highest effectiveness in different countries. In 2023–2025, the most common were machine learning models for scoring, deep neural networks for anomaly detection, and combined AI architectures combining fraud detection, risk forecasting, and behavioral analytics [1; 10]. The development of these technologies is uneven: countries with a high level of digital maturity demonstrate more active implementation of automated solutions, while financial institutions in Ukraine focus mainly on improving the accuracy of transaction monitoring systems and integrating anomaly models into cyber defense systems [7; 23].

2. Literature Review

Today, one of the key areas in the Ukrainian scientific discourse is the study of modern methods of applying artificial intelligence in the banking sector, in particular in the direction of fraud detection, risk management and improving the security of financial transactions. The increased digitalization of the financial sector has led to a sharp increase in the volume of online transactions, which, in turn, has increased the level of financial and cyber risks. In the modern scientific literature, the issue of the use of artificial intelligence in the banking sector is considered in the works of such researchers as M. Alhaddad [2], R. Abbasov [1], authors of financial and technical studies in the field of credit scoring and anti-fraud systems [7; 9; 10; 23], as well as scientists who analyze trends in the development of digital technologies and their impact on risk management of banking institutions [12; 17]. Researchers highlight the growing role of machine learning, deep neural networks, predictive models, and hybrid AI architectures in fraud detection, credit risk assessment, and increasing the cyber resilience of financial infrastructure. At the same time, despite a significant array of works, comprehensive studies that would simultaneously cover the development of artificial intelligence methods, their effectiveness in 2023–2025. and implementation challenges in different countries are still lacking. This determines the need for an in-depth analysis of modern approaches and practices that form the basis for the effective and safe use of AI in the banking sector [17; 18; 25].

3. Problem Statement

Despite the rapid spread of artificial intelligence technologies in the banking sector, there are still a number of unresolved issues that limit the effectiveness of their application. First of all, we are talking about the lack of transparency and explainability of algorithms, which complicates their use in the field of credit scoring and risk management. A significant problem is also the growth of cyber threats, which require adaptive models capable of quickly detecting complex fraudulent patterns in the face of a large number of transactions. In addition, there is an uneven level of technological maturity in different countries, which affects the pace of implementation of AI solutions and the quality of cyber defense. Limited opportunities for scaling intelligent systems, a shortage of specialists, the need to modernize IT infrastructure and harmonize algorithms with regulatory requirements remain relevant for Ukraine. Together, this creates a need for a comprehensive analysis of modern AI methods, assessment of their effectiveness and determination of directions for further development in the financial sector.

4. Methods and Materials

The methodology of research on the use of artificial intelligence in the banking sector is based on a combination of quantitative and qualitative methods of analysis, which provides a comprehensive disclosure of the problem. In the course of the work, a systematic and critical review of scientific publications, analytical reports of international financial organizations, regulatory documents and the results of modern empirical research on fraud detection, risk management and financial security using AI technologies was systematized and critically reviewed. This approach allows us to cover both general theoretical aspects of the functioning of intelligent systems and practical cases of their use in the world's leading banking institutions.

Particular attention is paid to the analysis of algorithmic approaches used in financial institutions: machine learning, deep neural networks, combined architectures, and Explainable AI. Quantitative methods are used to compare the performance of different groups of models, evaluate accuracy, data processing speed, and the ability of algorithms to detect anomalies in transactional flows. The qualitative analysis covers the assessment of the practices of implementing intelligent systems in different countries, their compliance with regulatory requirements and the peculiarities of integration into the internal processes of banks.

The methodical approach is complemented by an analysis of international cybersecurity standards, current trends in financial digitalization, and banks' adaptation practices to growing cyber threats. The combination of analytical, comparative and predictive methods provides an opportunity to comprehensively assess the potential of AI, identify key risks of its application and form scientifically based recommendations to improve the security and efficiency of banking operations.

5. Results and Discussion

Comparison of approaches allows us to highlight common and distinctive features of the introduction of AI in the banking sector (Table 1). In the US and UK, hybrid models combining machine learning and graph neural networks are actively used to detect complex financial fraud schemes, while EU countries are focusing on Explainable AI models to ensure compliance with regulatory requirements [9; 17]. Ukraine demonstrates an increase in the use of transaction classification algorithms and behavioral models that allow for automatic assessment of the riskiness of client transactions in real time [7; 15].

Table 2 shows that the level of development of artificial intelligence technologies in the banking sector differs significantly between the studied countries, which is due to both the technological maturity of financial systems and regulatory requirements. The data shows that the US and UK demonstrate the highest level of integration of deep neural models and hybrid architectures aimed at detecting complex fraudulent patterns and improving behavioral analytics. The countries of the European Union pay more attention to the interpretation of algorithms and compliance with regulatory norms, which affects the choice of models and the pace of implementation. Ukraine occupies an intermediate position: the implemented solutions effectively provide real-time monitoring of transactions, but the level of scalability and technological complexity of the models is still inferior to the leading financial systems. This means that the further development of the Ukrainian banking sector requires strengthening the infrastructure for working with big data, expanding the use of hybrid models and deepening the use of self-learning algorithms, which will increase resilience to modern fraudulent schemes and form a level of security comparable to international standards.

Table 1. Comparison of the use of AI methods in banking systems of different countries in 2023–2025

Country	Main applications of AI	Types of models	Implementation Rate	Features of development
Ukraine	fraudulent transaction detection, risk management, cybersecurity	ML classification, anomaly models	medium	focus on transactional monitoring and adaptive systems.
USA	fraud-detection, credit scoring, anti-fraud monitoring of big data	deep networks, graph neural networks	high	emphasis on high-precision hybrid models.
United Kingdom	AML control, risk forecasting, automated scoring	explainable AI, ensemble-models	very high	priority of regulatory compliance and transparency of algorithms.
EU countries(total)	creditworthiness assessment, transaction monitoring	XAI models, ML regressions	medium-high	strict regulations, interpretation requirements.

Source: Compiled by the authors based on [1; 9; 12; 7; 15; 17].

In addition to countering fraud, AI plays a crucial role in the comprehensive management of credit, operational, and cyber risks [1; 2; 9]. Machine learning algorithms in credit scoring use a wider set of parameters than traditional methods, which increases the accuracy of predicting default [9; 19]. In the field of operational risks, AI constantly monitors internal processes and detects system errors. In cybersecurity, intelligent systems form multi-level protection, which makes it possible to respond to threats before they are implemented [12; 23]. In the Ukrainian banking sector, these technologies are also widely used, which indicates the market's focus on the modernization of risk management and compliance with international standards [13; 19; 20].

Table 2. Key benefits and expected effects

Advantage	Description / expected effect
Reduction of fraudulent transactions	AI algorithms detect anomalous transactions and fraudulent schemes in real-time
Increase the speed of transaction analysis	Automatic analysis of large data sets allows you to respond to threats instantly
Ability to work with large amounts of data	AI processes historical and current data, ensuring the accuracy of predictions
Reducing operating costs	Automation of routine processes reduces the need for manual labor and resource-intensive checks
Improving customer experience	Customized solutions and quick response increase customer satisfaction
Improve system reliability and stability	Predictive models allow you to prevent risks and optimize management processes

Source: Compiled by the authors based on [7; 9; 10].

Table 3 shows that the use of artificial intelligence in banking institutions provides a simultaneous increase in security, transaction processing speed, forecast accuracy, and efficiency of internal processes. This means that the implementation of machine learning algorithms and self-learning models allows banks not only to quickly detect fraudulent transactions and minimize financial risks, but also to optimize resources, increase the stability of systems, and improve the quality of customer service. Thus, the key benefits of AI together form the basis for more reliable, faster and predictable operations of financial institutions, which is critically important in today's digital environment [7; 9; 10].

Table 3. Comparison of key trends

Country/Region	Level of application of AI	Key tools	Key results
USA	high	Explainable AI, deep learning, centralized anti-fraud platforms	Maximum accuracy of models, minimization of fraud
United Kingdom	high	Predictive analytics, ML Risk Management	Risk forecasting and approval automation
EU	Medium-high	Regulatory Focus on Explainable AI, Cyber Defense	Increase system resilience and solution transparency
Ukraine	medium, with an upward trend	ML models in transactional monitoring, automated scoring	Improving the efficiency of operations and adapting to international standards

Source: Compiled by the authors based on [12; 17; 19; 20; 23].

The analysis of global trends indicates the active digital transformation of financial institutions in countries with a high level of technological maturity, primarily in the United States, Great Britain, and the EU countries. In these countries, the key ones are the deployment of Explainable AI, the use of centralized platforms for exchanging information about fraud, as well as the widespread use of predictive models in credit scoring [12; 23].

Ukraine, despite the war and the complexity of economic conditions, is demonstrating a dynamic movement towards the modernization of banking technologies. NBBs are actively implementing automated transactional monitoring platforms, using deep learning elements in risk analysis systems, and gradually integrating model transparency requirements in line with European standards [19; 20]. At the same time, the level of digital infrastructure and investment is inferior to the leading countries, which necessitates further reforms (Table 4).

Table 4. Comparative Performance of AI Algorithms for Banking (2023–2025)

Algorithmic group	Characteristics	Strengths	Limitations
Logistic Regression, Decision Trees	Linear and basic ML methods	High transparency, auditability, speed	Lower accuracy for complex anomalies
Random Forest, Gradient Boosting	Multifactor ensemble methods	High accuracy and stability, noisy data handling	Not always suitable for real-time
ANN, LSTM, CNN	Deep Learning	Highest accuracy, detection of complex patterns, work with big data	High cost, low explainability
Hybrid models (SEM+ANN, ML+rule-based)	Integration of multiple approaches	Maximizing accuracy, adaptability	Complexity of implementation and maintenance

Source: Compiled by the authors based on [1; 7; 9; 10; 15].

The data in Table 4 demonstrate that different algorithmic approaches to applying artificial intelligence in the banking sector have their own advantages and limitations. This means that the choice of a specific model depends on the tasks and priorities of the banking institution: basic ML methods provide transparency and speed, but are inferior in accuracy in complex anomalies; ensemble methods increase the accuracy and stability of data processing, but are not always suitable for real-time work; deep learning allows you to identify complex behavioral patterns and process large amounts of data, but requires significant resources and has low explainability; Hybrid models combine the advantages of different approaches, providing maximum accuracy and adaptability, but make implementation and maintenance difficult. Thus, in order to achieve efficiency in fraud detection, risk management and ensuring the security of financial transactions, it is advisable to apply a combination of methods adapted to the specific context of the bank [1; 7; 9; 10; 15].

Our latest survey shows that a higher proportion of respondents report the use of AI by their organizations, even though the majority have not yet scaled the technology. The proportion of respondents who say their organizations use AI in at least one business function has increased since our research last year, with 88 percent reporting regular use of AI in at least one business function, up from 78 percent a year ago. But at the enterprise level, the majority are still in the experimentation or piloting phase (Figure 1), with about a third reporting that their companies have begun scaling their AI applications.

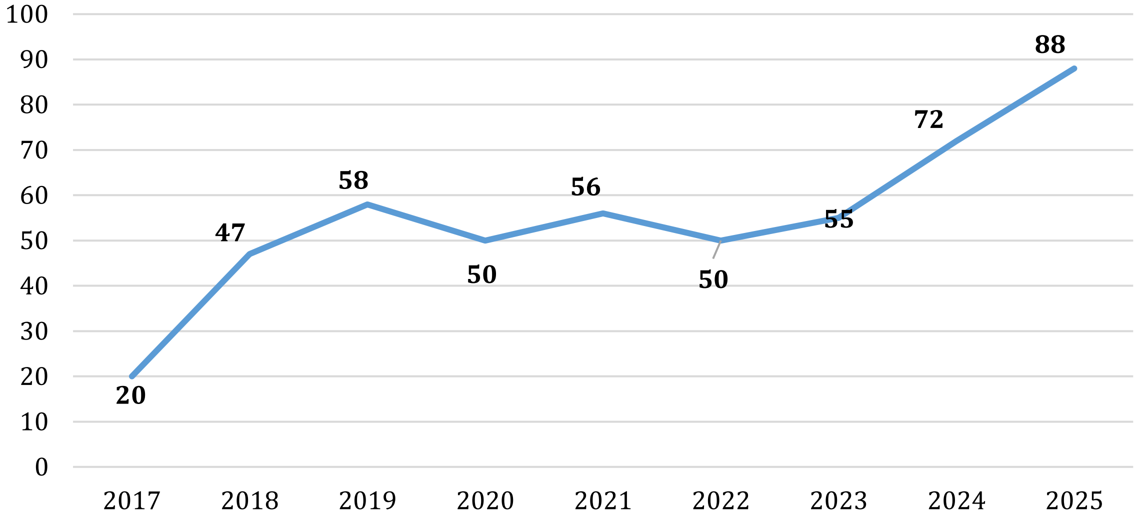

Figure 1. Use of AI by organizations

Source: Compiled by the authors.

According to McKinsey's global surveys on the state of artificial intelligence, 2017–2025 [26] the use of artificial intelligence continues to grow.

At the same time, the implementation of AI requires taking into account a number of related challenges. One of the key issues is to ensure transparency and explainability of algorithms, which is critical for minimizing model bias in lending or risk assessment [1; 17]. It is also important to comply with the regulations for the protection of personal data in accordance with the GDPR and national legislation. For the effective operation of the systems, banking institutions need trained personnel capable of developing and monitoring models, as well as a modernized IT infrastructure that will ensure the continuity of the functioning of numerous data analysis systems [19]. Regular audit and control of models remain a prerequisite for reliability and security [7; 12].

In international practice, the systematic application of AI has already become the foundation for the development of financial institutions, where countries with a high level of digitalization are actively implementing Explainable AI, standardized protocols for exchanging threat information, and national cyber defense platforms [7; 12; 23]. Compared to such states, Ukraine is moving in the appropriate direction, but it needs further improvement of the regulatory framework, investments in digital transformation and the unity of interbank standards [19; 20].

Artificial intelligence not only increases the level of security but also forms new strategies for the development of the financial sector, ensuring the competitiveness of banks in a dynamic digital environment [7; 12; 23]. Realizing the potential of AI requires a comprehensive approach that includes algorithm transparency, staff training, infrastructure modernization, and compliance with data protection standards. Studies for 2023–2025 unanimously confirm that AI is becoming a strategic factor in the development of financial systems and one of the most effective tools for ensuring their resilience [9; 12; 15].

A comparative analysis of machine and deep learning algorithms and international practices confirms that the strategic direction of the banking sector development is a combination of high accuracy of models in compliance with the requirements for transparency and cybersecurity, modern methods of machine and deep learning create significant opportunities for improving the efficiency of risk management, optimizing operations and ensuring the financial stability of banks.

AI-powered chatbots and virtual assistants provide round-the-clock support, personalized financial advice, and faster transaction processing, improving customer experience and operational efficiency [8; 24].

Mobile banking and augmented reality improve customer engagement and satisfaction by offering convenient and interactive banking solutions [8].

Artificial intelligence systems analyze large data sets to detect suspicious activity in real time, which significantly increases the accuracy of fraud detection [8; 16; 24].

Artificial intelligence improves risk management by analyzing transaction data to identify patterns and anomalies, thereby improving credit risk assessment and overall risk management [3; 13; 14; 16].

Artificial intelligence uses machine learning and predictive analytics to predict market trends, optimize investment portfolios, and provide customized recommendations for financial products [11; 24].

Artificial intelligence aids in making decisions about loans and credits by accurately assessing creditworthiness, thereby providing better access to credit for underrepresented groups [22; 24].

Artificial intelligence automates repetitive tasks, reducing operating costs and errors, while increasing efficiency [6; 21].

AI systems predict potential system failures and trigger emergency alarms, ensuring smooth banking operations [8].

Artificial intelligence is expected to continue to expand in the banking sector, with new technologies such as federated learning, quantum computing, and blockchain further revolutionizing risk management and operational practices [5].

Artificial intelligence is likely to enable the provision of more personalized banking services, increasing customer loyalty and competitive advantages for banks [4; 20].

Leading countries are already moving to integrated risk management platforms that simultaneously cover transaction analysis, scoring, and financial threat forecasting [12; 17]. Ukraine is moving in the same direction, but needs to further expand investments in digital infrastructure, staff training, and develop regulatory mechanisms for Explainable AI regulation [19; 20].

Artificial intelligence (AI) is significantly transforming the banking sector, increasing productivity, reducing costs, and improving customer satisfaction.

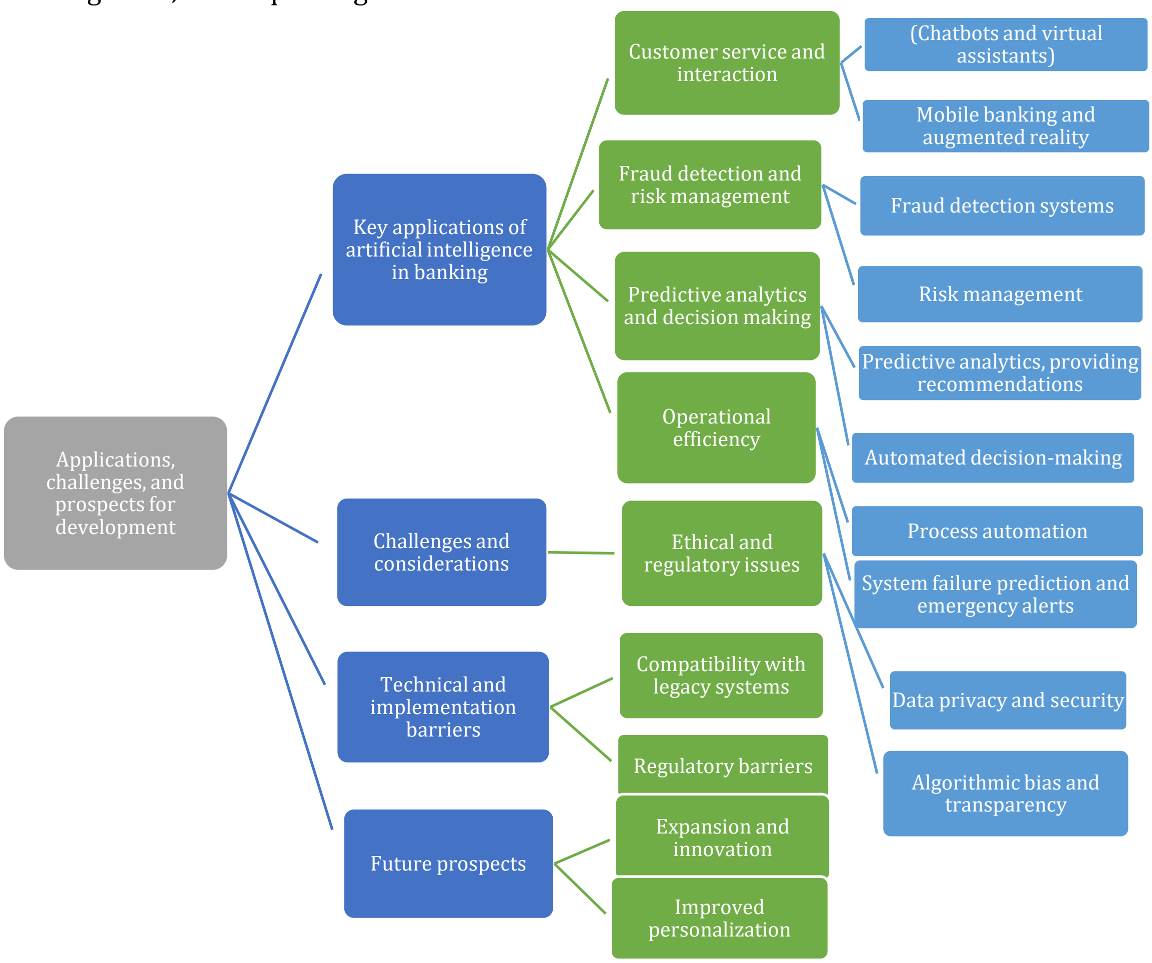

Figure 2. Key Applications and Impact of AI in Banking

Source: Compiled by the author based on data from [3; 8; 16; 19; 24].

6. Conclusions

The study confirmed that artificial intelligence is becoming a key tool for improving the security, efficiency and resilience of banking systems in the world. Analysis of modern models has shown that machine learning, deep neural networks, ensemble algorithms, and hybrid AI architectures provide a significant increase in fraud detection accuracy, improved risk forecasting, and optimization of financial institutions' internal processes. A comparison of the practices of different countries showed significant differences in the level of technological maturity and regulatory approaches: the US and the UK demonstrate the highest level of integration of complex models, the EU countries focus on interpretation and compliance with regulatory requirements, while Ukraine focuses on the development of transactional monitoring and adaptive anomaly detection systems.

The results of the study confirm that the adoption of AI provides a reduction in fraudulent transactions, increased data analysis speed, reduced operational costs, and improved customer experience. At the same time, a number of barriers have been identified, including insufficient explainability of models, high requirements for IT infrastructure, a shortage of qualified specialists, and the need for harmonization of regulatory standards. These factors are holding back the scaling of intelligent systems, especially in countries with less developed digital infrastructure.

Summing up, it can be argued that the further development of banking intelligent systems requires an integrated approach that combines technical modernization, improvement of the regulatory environment, development of human capital and the introduction of transparent self-learning models. The implementation of these conditions will contribute to the formation of a high-level financial security, increasing the resilience of banks to modern cyber threats and ensuring competitiveness in the international financial market.

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
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Medical Management in the Context of Digital Transformation: Challenges for Institutional Leaders

Nina Petrukha [1, 2 *] • Viktoriia Harkava [3] • Anatoly Knol [4]

[1] *Kyiv National University of Construction and Architecture (Ukraine). Associate Professor at the Department of Management in Construction, PhD in Economics, Associate Professor.*

[2] *Bogomolets National Medical University (Ukraine). Associate Professor at the Department of Health Management, Institute of Public Health and Preventive Medicine, PhD in Economics, Associate Professor.*

[3] *Private higher educational institution "Pylyp Orlyk International Classical University" (Ukraine). Head of the Department of Engineering Technologies, Doctor of Sciences (Economics), Professor.*

[4] *Zalishchytskyi Regional Hospital for War Invalids and Rehabilitated Persons (Ukraine). General Director.*

* ***Corresponding Author,*** e-mail: nninna1983@gmail.com

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.06

Received: 30 October 2025
Accepted: 1 December 2025
Published online: 15 December 2025

ABSTRACT

The relevance of this study is due to the fact that medical institutions are now forced to quickly adapt to large-scale digital transformation. This process has a profound impact on the healthcare management system and poses new challenges for managers. The article aims to identify the management challenges that medical institution managers face when implementing digital technologies, as well as to identify approaches that can help effectively overcome these difficulties. The methodological basis of the study includes systemic, structural-functional, comparative and analytical methods, which made it possible to comprehensively analyze the organizational, personnel and technological aspects of digitalization. In the course of the work, it was found that digital transformation actually forms a new management paradigm for managers, in which they have to simultaneously think strategically, understand technologies and work with personnel development. The study made it possible to identify key barriers to digitalization: insufficient digital literacy of employees, limited resources and the complexity of integrating new information solutions into already established processes. The level of readiness of medical institutions for digital changes turned out to be heterogeneous and largely depends on the type of institution and its resource capacity. Special attention is paid to the analysis of management models that contribute to successful digital transformation, in particular, change management models and the practice of forming interdisciplinary teams. The practical value of the study lies in the possibility of using its conclusions to form strategies for the digital development of medical institutions, improve management decisions, train managers to introduce innovations and increase the efficiency of organizational processes. The results obtained allow us to consider digitalization not only as a technological process, but as a complex management transformation.

KEYWORDS

information systems, management solutions, new interaction formats, organizational conditions, changes in the external environment, personalized offers.

Соціальний розвиток: економіко-правові проблеми № 12 (2025)

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК: економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Медичний менеджмент в умовах цифрової трансформації: виклики для керівників установ

Ніна М. Петруха [1, 2 *] • Вікторія Ф. Гарькава [3] • Анатолій Г. Кноль [4]

[1] *Київський національний університет будівництва і архітектури (Україна). Доцент кафедри менеджменту в будівництві, канд. екон. наук, доцент.*

[2] *Національний медичний університет імені О. О. Богомольця (Україна). Доцент кафедри менеджменту охорони здоров'я ННІ громадського здоров'я та профілактичної медицини, канд. екон. наук, доцент.*

[3] *Приватний заклад вищої освіти «Міжнародний класичний університет імені Пилипа Орлика» (Україна). Завідувач кафедри інженерних технологій, д-р екон. наук, професор.*

[4] *КНП «Заліщицький обласний госпіталь інвалідів війни та реабілітованих» Тернопільської обласної ради (Україна). Генеральний директор.*

*** Автор-кореспондент,** e-mail: nninna1983@gmail.com

СТАТТЯ

Дослідницька

DOI: **10.70651/3083-6018/2025.12.06**

Отримана: 30.10.2025 р.
Прийнята: 01.12.2025 р.
Опублікована: 15.12.2025 р.

АНОТАЦІЯ

Актуальність цього дослідження пов'язана з тим, що медичні установи нині змушені швидко адаптуватися до масштабної цифрової трансформації. Цей процес глибоко впливає на систему управління в охороні здоров'я та ставить перед керівниками нові завдання. Метою статті є виявлення управлінських викликів, з якими стикаються керівники медичних закладів під час упровадження цифрових технологій, а також визначення підходів, що можуть допомогти ефективно подолати ці труднощі. Методологічна база дослідження охоплює системний, структурно-функціональний, порівняльний та аналітичний методи, що дало змогу комплексно проаналізувати організаційні, кадрові та технологічні аспекти цифровізації. У ході роботи з'ясовано, що цифрова трансформація фактично формує для керівників нову управлінську парадигму, у якій доводиться одночасно мислити стратегічно, розумітися на технологіях та працювати із розвитком персоналу. Дослідження дало можливість виокремити ключові бар'єри цифровізації: недостатню цифрову грамотність працівників, обмеженість ресурсів та складність інтеграції нових інформаційних рішень у вже налагоджені процеси. Рівень готовності медичних установ до цифрових змін виявився неоднорідним і значною мірою залежить від типу закладу та його ресурсної спроможності. Окрему увагу приділено аналізу управлінських моделей, які сприяють успішній цифровій трансформації, зокрема моделей управління змінами та практики формування міждисциплінарних команд. Практична цінність дослідження полягає у можливості використання його висновків для формування стратегій цифрового розвитку медичних закладів, вдосконалення управлінських рішень, підготовки керівників до запровадження інновацій та підвищення ефективності організаційних процесів. Отримані результати дозволяють розглядати цифровізацію не лише як технологічний процес, а як комплексну управлінську трансформацію.

КЛЮЧОВІ СЛОВА

інформаційні системи, управлінські рішення, нові формати взаємодії, організаційні умови, зміни зовнішнього середовища, персоналізовані пропозиції.

1. Introduction

The healthcare system today is undergoing a deep digital transformation, which is due to the development of information technologies. At the same time, the transition to digital models of work has revealed a number of managerial contradictions that require a thorough analysis from the standpoint of modern medical management. The problem is that the heads of medical institutions are forced to simultaneously change traditional approaches to management, implement digital solutions and ensure the adaptation of personnel to new ones interaction formats. This is manifested in the lack of digital development strategies, the low level of digital skills of staff, as well as in the difficulties of integrating new systems into existing management and clinical processes. All this necessitates a deeper understanding of the managerial challenges faced by the heads of medical institutions in the process of digital transformation, and the search for practical mechanisms that can ensure the efficiency and sustainability of this process.

2. Literature Review

In the available scientific array, the topic of digital transformation of healthcare is mostly considered through the prism of macro-level processes – finance, cybersecurity, legal frameworks and social effects, while management mechanisms at the level of specific medical institutions are described in fragments. That is why the generalization of previous results allows us to outline the gaps that this article is designed to fill – the lack of applied models and indicators for heads of institutions coordinated with national digitalization trends. The work of Petrukha et al. [1] demonstrates that the digitalization of the economy and public finances is shifting the focus of fiscal policy towards data-centric approaches and real-time accountability. The authors show that the introduction of digital services creates measurable efficiency effects (reduction of transaction costs, acceleration of the decision-making cycle), as well as forms a demand for new competencies of managers.

In continuation of the financial and institutional logic of Petrukha et al. [2] in the study on cybersecurity, the economy and public finance prove that the resilience of digital transformations is determined not so much by the number of implemented IT solutions as by the quality of the security model (threat classification, access segmentation, continuous monitoring). It is concluded that without built-in cyber protection mechanisms, digital financial processes reproduce old risks on a new scale.

Melnyk et al. [3] record that in wartime, legal guarantees of occupational safety and personnel management become a critical component of the overall sustainability of socio-economic systems. The authors prove the importance of the formation of normatively validated risk management procedures for personnel processes and communications.

In the work of Petrukha et al. [4] The social imperatives of public finance in the war and post-war periods are emphasized: cost prioritization, transparency, targeted support, and accountability. The researchers conclude that the principles of post-war recovery should be embedded in management decisions at the stage of current adaptation.

Kvitka and Myrhorodska [5] link the digital transformation of the healthcare system with indicators of the quality of life of the population and conclude that the effects of digitalization materialize due to the availability of services, data security, and user competence. The authors outline that it is the combination of infrastructure, digital literacy, and process standardization that ensures a sustainable improvement in well-being.

Muzyka-Stefanchuk et al. [6] digitalization in connection with the reform of the financing of the industry and show that the discrepancy between model requirements and the real capabilities of institutions creates gaps in the quality of services. The key result is the need to synchronize financial mechanisms with the patient's digital routes (payment for the result, stimulation of data integration, support for telemedicine services).

In the works of Kyrychenko [7], digital transformation is understood through the prism of adaptive development strategies, where special attention is paid to the ability of heads of medical institutions to respond to the instability of the environment, combining a long-term vision with flexible management tools. The author emphasizes that digital changes exacerbate the requirements for the strategic competence of managers and reveal the limitations of traditional hierarchical management models in the face of rapid technological changes.

Expanding this approach, Kukhta [8] analyzes the digital transformation of management systems in a broader intersectoral context, emphasizing its ambivalent nature. Although the study focuses mainly on the business environment, its findings are also relevant for the healthcare sector, where management decisions directly affect the quality and availability of medical services.

An important contribution to the understanding of the personnel dimension of digital transformation was made by Bohuslavska and Chubenko [9], who consider the integration of digital technologies into the mechanisms for managing the development of personnel of medical institutions. The authors demonstrate that digitalization changes not only the tools of personnel management, but also the very logic of working with personnel, actualizing the need for continuous learning, the development of digital and interdisciplinary competencies, as well as the formation of new models of employee motivation.

Special attention is paid to the managerial dimension of digitalization of health care institutions by Gurzhiy [10], who analyzes the practical use of digital technologies in the management process. In his research, digital tools are considered as a means of increasing the efficiency of planning, control and coordination of the activities of medical institutions. At the same time, the author draws attention to the fragmentation of the implementation of digital solutions and the lack of a holistic management approach, which often leads to a discrepancy between technological capabilities and real management practices.

However, there is a lack of management models for heads of medical institutions in the scientific field. It is currently unclear how to build a hospital data architecture. It is necessary to clarify which KPIs to apply to digital services. It is important to develop mechanisms that will help integrate cybersecurity into daily processes. Filling these gaps is the subject of the current study.

3. Problem Statement

The article is aimed at studying the managerial challenges that arise for the heads of medical institutions in the process of introducing digital technologies.

4. Methods and Materials

The methodological logic of this study is based on the understanding of digital transformation not only as a technological renewal of the infrastructure of medical institutions, but as a complex management process that changes decision-making, the distribution of responsibilities and the nature of interaction between managers, staff and patients. Therefore, the study was built on a combination of qualitative and analytical approaches, which made it possible to cover both institutional and behavioral aspects of management in healthcare in the context of digitalization.

The empirical and analytical basis of the work was scientific publications, analytical reports of international organizations, regulations in the field of health care and digital governance, as well as the results of previous research on the transformation of management models in the public sector. The selection of sources was carried out taking into account their relevance, interdisciplinary nature and relevance to the problems of managing medical institutions in the context of the introduction of digital technologies.

5. Results and Discussion

The digital transformation of the healthcare system forms a fundamentally new management paradigm, in which the head of a medical institution becomes not only an administrator but also a leader in digital innovations. Modern digital diagnostic platforms such as RFID systems, barcoding, remote patient monitoring, and others (Table 1) create opportunities to improve the accuracy of diagnosis, the efficiency of clinical decision-making and patient safety. standards, introduction of digital clinical routes and data quality control [5, p. 16]. Automation of logistics processes using robotic systems (drug transportation, asset control, sample handling) significantly reduces the likelihood of human error, optimizes the use of resources, and reduces costs. At the same time, it requires managers to have new competencies in the field of cybersecurity, technical audit, and personnel change management.

The dynamic development of eHealth solutions contributes to increasing the transparency of processes and the integration of clinical data at all stages of treatment. The introduction of mobile applications for chronic patients, rehabilitation platforms, medical chatbots expands the boundaries of medical services beyond the hospital and contributes to the formation of a patient-centered model focused on the patient's active participation in treatment [6, p. 364].

Table 1. Digital Innovations in the Medical Field and Management Challenges for Executives

Digital Technology Group	Examples	Opportunities to improve the effectiveness of medical management	Key challenges for heads of medical institutions	Examples of medical information. system
Remote and automated diagnostics	Barcodes to identify medicines and patients; RFID tracking of equipment; Remote monitoring in the intensive care unit	Reduction of medical errors; optimization of resources; Quick access to data	High cost of implementation; The need for standardization and cyber protection	Medstar, Open MRS
Robotics-based hospital logistics	Robots for transporting medical supplies; automation of routine processes	Reducing the workload on personnel; Increasing the speed and accuracy of logistics	Resistance of personnel to change; Need for training in robotic systems	SAP Healthcare
Electronic medical services and document management	Electronic referrals; Transfer of tests and clinical data	Increasing the availability of information; reduction of patient service time	Integration with national systems (eHealth); Confidentiality of personal data	Doctor Eleks, Health24
Dashboards and software to manage patient flows	Dashboards, analytics, digital planning systems	Optimization of the load on the department; support for data-driven management decisions	Ensuring data accuracy; Unification of management processes	Clinica Web
Personalized medicine	Genetic testing, proteomic data for individual treatment plans	Improving the effectiveness of treatment and prevention	The need for high investments; Shortage of medical bioinformatics specialists	Medics, Open MRS
Digital tools for the treatment of chronic diseases	Diabetes Control Apps, Online Rehabilitation, Connected Sensors, and Heart Rate Monitors	Improving adherence to treatment; continuous monitoring of patients' condition	The need for digital literacy of patients; Technical support of services	Medstar, Doctor Eleks
AI solutions in communication with patients	Medical chatbots for pre-consultation and navigation	Unloading of doctors; Quick response to common queries	Quality control of AI responses; Legal and ethical standards	Health24, Clinica Web
Tools for disease prevention	Mobile apps, fitness trackers, activity trackers	Formation of a responsible attitude to health; Community-based prevention	The need to motivate patients; Risks of incorrect self-interpretation of data	Medics, Accemedin

Source: compiled based on [5; 6; 11–15].

The transition of medical institutions to the status of communal non-profit enterprises has changed not only their legal form, but also the financing model. In the new conditions, managers must independently ensure the efficiency of the institution, the rational use of resources and its competitiveness. For this purpose, strategic analysis, assessment of the state of the institution, research of patient needs and the market of medical services are used. Management decision-making should be based on data, risk forecasting, and a willingness to change. Successful implementation of the strategy involves constant monitoring, correction of actions and openness to innovations, in particular to digital transformation technologies – information systems, telemedicine, automation of services [7, p. 163].

The formation of a single hospital information space allows managers to make decisions based on accurate and transparent data [11]. The rejection of disparate electronic systems and paper archives eliminates contradictions between departments and makes it possible to consider data as a strategic asset that works for the quality of medical services and patient safety (Table 2).

Table 2. The Transformational Logic of Digital Medical Management

Digital Management Component	Key content	Managerial effects	Tools / Technologies
Focus on creating value for the patient	Moving from administrative logic to a value-centric model, where each process is evaluated through its impact on the patient experience	Increased patient satisfaction; reducing the number of errors; Transparency of management decisions	Patient portals, digital routes, feedback systems
BPM as a "framework" of change	Process management determines the structure of medical services from referral to discharge	Faster coordination of decisions; reduction of duplication of functions; Clarity of standards	BPM systems, process maps, visualization of work flows
Interdisciplinary teams with full responsibility	Teams work on the full cycle of the patient journey	Increased efficiency; Better integration of clinical and administrative solutions	Agile approaches, multidisciplinary groups, digital collaboration platforms
Technological infrastructure as the basis of transformations	Building a single technical environment for transparent data and integrated services	Reduction of operating costs; Accelerating innovation	Clouds, API integrations, ERP/CRM/HRM systems
Automation of routine processes	RPA and low-code solutions minimize manual work and paperwork	Redirecting staff time to work with the patient; Reducing errors	RPA bots, low-code platforms, autoforming documents
Data & AI Governance, DevSecOps, Zero Trust	Building a secure and flexible digital space of a medical institution	The growth of digital security; stability of systems; Data integrity control	Zero Trust architectures, DevSecOps pipelines, data management policies
Analytics and Artificial Intelligence	Load forecasting, optimization of patient routes, increasing the effectiveness of treatment	Reduction of queues; uniform distribution of resources; More accurate clinical solutions	AI forecasting models, analytical platforms, BI systems
Monitoring the effectiveness of digital changes	Evaluating digital transformation through measurable metrics	Transparency of investments; cost optimization; increasing the ROI of digital projects	KPI dashboards, decision monitoring systems, management analytics

Source: compiled based on [5; 7; 16–19].

Natural language processing and computer vision technologies automate quality control, patient support, and expand the hospital's service capabilities. A separate revolution is taking place thanks to the Internet of Medical Things (IoMT) and digital twins. Real-time feedback medical equipment allows you to predict failures, prevent incidents, monitor resource usage, and provide continuous patient monitoring. Digital twins help to simulate clinical scenarios and select optimal management decisions [8, p. 115]. Therefore, digital transformation transforms medical management into a manageable, transparent and data-centric system that ensures continuous improvement [12]. For managers, this is both a challenge and an opportunity: new competencies, strategic vision, ability to work with innovations are needed, but this is what opens the way to the medicine of the future – effective, patient-oriented and resistant to change (Table 3).

The World Health Organization's Global Strategy highlights the key role of digital competencies in strengthening health systems (WHO, 2021) [10]. The COVID-19 pandemic has further accelerated the adoption of digital solutions, while exposing digital literacy gaps among healthcare professionals, especially executives. This has made it urgent to integrate digital technologies into medical management curricula to prepare leaders for new challenges and opportunities of digital transformation [13]. Digitalization is changing the role and responsibilities of managers: they now lead digital initiatives, manage complex information systems, ensure data security and privacy, and facilitate organizational change for effective technology implementation. At the same time, traditional administrative and clinical knowledge is no longer sufficient; a modern medical manager needs complex competencies in the field of analytics, AI, telemedicine and digital process management [11, p. 100].

Table 3. Online education platforms for healthcare professionals and their contribution to the development of digital competencies

Educational Platform / Initiative	Course Type and Study Profile	Opportunities for healthcare professionals	Impact on the development of digital competencies
MedEdu	Evidence-based medicine, clinical protocols, healthcare management	Updating professional knowledge; practical analysis; training according to Ukrainian standards	Deepening of work with electronic clinical systems; Digital communication skills
Prometheus	General Medical and Management Courses, Digital Technologies in Medicine	Access to massive open online courses; Study of modern approaches to management	Formation of digital literacy; understanding of the organization of digital processes in medical institutions
Accemedin	Continuing professional development, highly specialized medical courses	Advanced training; access to courses for doctors of various specialties	Consolidation of skills in using electronic platforms and analytical tools
Educational portals of the Ministry of Health of Ukraine	Regulatory, clinical and management courses; Instructions and Trainings	Opportunity to undergo formal training; compliance with state standards	Mastering government electronic systems, including eHealth
Coursera, edX	Public health, digital health, bioethics, global health	Access to courses from leading universities; International approaches to health care	Development of analytics skills, working with data, implementing digital solutions in practice
Médecins Sans Frontières (MSF)	Preparation for work in crisis conditions, emergency medicine	Deepening of practical competencies; training in emergency work standards	Improving the skills of using mobile digital tools in the field

Source: Compiled based on [9, p. 11].

6. Conclusions

The study of the level of organizational, personnel and technological readiness of medical institutions to function in the context of digital transformation showed a significant imbalance between the technological potential and the real capabilities of personnel. and private medical institutions demonstrate better readiness for digital changes compared to municipal and rural ones. Based on the generalization of the results obtained, a number of practical approaches and management models capable of ensuring successful digital transformation have been identified. These include change management models adapted to the medical sector (ADKAR, Kotter), the development of digital competencies of managers and staff, the creation of internal digital transformation teams, the phased implementation of digital solutions taking into account the real needs of the institution, the construction of integrated information systems and the use of indicators for assessing the effectiveness of digital changes. The practical application of these approaches will contribute to increasing the effectiveness of management, reducing risks and improving the quality of medical care.

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Social Development: Economic and Legal Issues No. 12 (2025)

e-ISSN 3083-6018

SOCIAL DEVELOPMENT: Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Internal Control and Audit in the Financial Management System of an Enterprise

Volodymyr Malikov [1*] • Mariia Plekan [2]

[1] *Kharkiv National Automobile and Highway University (Ukraine). Professor at the Department of Accounting and Taxation, Doctor of Science in Public Administration, Professor.*

[2] *Lviv Polytechnic National University (Ukraine). Associate Professor at the Department of Accounting and Analysis, PhD in Economics, Associate Professor.*

*** *Corresponding Author,*** e-mail: yanaas@gmail.com

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.07

Received: 27 October 2025
Accepted: 2 December 2025
Published online: 16 December 2025

ABSTRACT

The relevance of the study lies in the growth of financial risks, the complexity of management decisions, and the need for enterprises to have more flexible and effective control mechanisms in the context of digital transformation in financial management. The purpose of the article is to substantiate the role of internal control and internal audit as interrelated elements of the enterprise's financial management system and determine their impact on the effectiveness of financial process management. The methodological basis of the study is the system and structural-functional approaches, logical-analytical analysis, generalization of scientific results of previous studies, as well as a comparative analysis of the practices of internal control and audit in the financial management of enterprises. As a result of the study, it was established that internal control in modern financial management performs not only a regulatory, but also a preventive function aimed at reducing financial risks. It was found that internal audit is a key tool for assessing the effectiveness of financial processes and the effectiveness of the internal control system, providing management feedback. It is proven that fragmentation and formalization of control procedures significantly reduce the managerial value of internal control and audit. It is substantiated that integrating audit and control functions into the financial management system enhances the quality of financial decisions and the financial stability of the enterprise. It is established that the digitalization of financial processes changes the role of internal audit, transforming it from a tool for post-facto control to a mechanism for continuous monitoring and analytical support of management. The practical significance of the results obtained lies in the possibility of their use in improving the financial management systems of enterprises, developing internal control and audit regulations, as well as forming managerial decisions aimed at increasing the financial efficiency and sustainability of the enterprise.

KEYWORDS

management tools, operational risks, benchmarking, SWOT analysis, early response system.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Внутрішній контроль і аудит у системі фінансового менеджменту підприємства

Володимир В. Маліков [1] * • Марія В. Плекан [2]

[1] *Харківський національний автомобільно-дорожній університет (Україна). Професор кафедри обліку і оподаткування, д-р наук з держ. управ., професор.*

[2] *Національний університет «Львівська політехніка» (Україна). Доцент кафедри обліку і аналізу, канд. екон. наук, доцент.*

***Автор-кореспондент,** e-mail: yanaas@gmail.com

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.07

Отримана: 27.10.2025 р.
Прийнята: 02.12.2025 р.
Опублікована: 16.12.2025 р.

АНОТАЦІЯ

Актуальність дослідження зумовлена зростанням фінансових ризиків, ускладненням управлінських рішень та потребою підприємств у більш гнучких і результативних механізмах контролю в умовах цифрової трансформації фінансового менеджменту. Метою статті є обґрунтування ролі внутрішнього контролю та внутрішнього аудиту як взаємопов'язаних елементів системи фінансового менеджменту підприємства й визначення їх впливу на ефективність управління фінансовими процесами. Методологічну основу дослідження становлять системний та структурно-функціональний підходи, логіко-аналітичний аналіз, узагальнення наукових результатів попередніх досліджень, а також порівняльний аналіз практик функціонування внутрішнього контролю й аудиту в управлінні фінансами підприємств. У результаті дослідження встановлено, що внутрішній контроль у сучасному фінансовому менеджменті виконує не лише регламентну, а й превентивну функцію, спрямовану на зниження фінансових ризиків. Виявлено, що внутрішній аудит виступає ключовим інструментом оцінювання ефективності фінансових процесів і результативності системи внутрішнього контролю. Доведено, що фрагментарність і формалізація контрольних процедур істотно знижують управлінську цінність внутрішнього контролю та аудиту. Обґрунтовано, що інтеграція аудиторських і контрольних функцій у систему фінансового менеджменту підвищує якість фінансових рішень і фінансову стійкість підприємства. Встановлено, що цифровізація фінансових процесів змінює роль внутрішнього аудиту, трансформуючи його з інструменту постфактумного контролю на механізм постійного моніторингу й аналітичної підтримки управління. Практична значимість отриманих результатів полягає у можливості їх використання під час удосконалення систем фінансового менеджменту підприємств, розроблення внутрішніх регламентів контролю й аудиту, а також формування управлінських рішень, спрямованих на підвищення фінансової ефективності та стійкості діяльності підприємства.

КЛЮЧОВІ СЛОВА

управлінські інструменти, операційні ризики, бенчмаркінг, SWOT-аналіз, система раннього реагування.

1. Introduction

Financial management of a modern enterprise is increasingly functioning in conditions where classical management tools are insufficient to ensure stability and predictability of financial results [14]. Market volatility, complication of financial flows, growing regulatory pressure, and digitalization of accounting and analytical processes significantly increase the sensitivity of enterprises to errors in financial decision-making. In such conditions, internal control and internal audit cease to be auxiliary or formal elements of management and actually turn into critical components of the financial management system [9]. At the same time, in the practice of many enterprises, they continue to be perceived in fragments, without clear integration into the management logic.

The problem is exacerbated by the fact that internal control is often reduced to a set of formal procedures focused mainly on compliance with regulatory requirements and internal regulations. This approach does not allow to fully use its potential as a tool for managing financial risks and ensuring the quality of management decisions. Internal audit, in turn, often functions in isolation from the strategic goals of the enterprise, focusing on retrospective analysis, and not on assessing the systemic effectiveness of financial management [12]. As a result, there is a gap between the control functions and the processes of financial management, which reduces the overall manageability of the financial system of the enterprise.

An additional factor in the actualization of the problem is a change in the nature of financial risks. If earlier the focus was on liquidity or solvency risks, today operational, informational and compliance risks are becoming increasingly important. They are complex in nature and cannot be effectively identified without a holistic internal control system and regular analytical assessment by the internal audit [9]. However, in practice, there is often no methodological consistency between these elements, and their interaction remains declarative. Thus, the relevance of this study is due to the need to bridge the gap between theoretical approaches to internal control and audit and the real challenges of financial management of the enterprise.

2. Literature Review

In the works of Papp and Boshota [15], financial controlling is considered as a key tool for ensuring the effectiveness of enterprise financial management. The authors prove that the introduction of controlling mechanisms allows to increase the consistency of financial planning, control and analysis, as well as reduce information asymmetry between management levels. At the same time, in their conclusions, internal control and audit are considered mainly as functional components of controlling, without a detailed analysis of their independent role in the financial management system.

Research by Melnyk et al. [13] focuses on the functioning of the internal financial control system in budgetary institutions. The authors found the presence of systemic problems associated with fragmentation of control procedures and limited focus on risk management. An important result is the conclusion about the insufficient integration of internal control into the processes of strategic management of financial resources, which reduces its managerial efficiency. At the same time, the specifics of the budget sector limit the possibility of direct transfer of these conclusions to entrepreneurial structures.

In the work of Adonin and Kalashnikova [1], financial controlling is interpreted as a system-forming element of enterprise management. The authors emphasize that it is through controlling that the connection between financial goals, control of results and managerial decision-making is ensured. At the same time, the study considers internal audit rather as an auxiliary control tool, which indicates insufficient attention to its analytical and consulting functions.

The issue of organization of internal control at the enterprise level is thoroughly disclosed in the work of Melnyk and Vabishchevych [12]. The authors substantiate the need to build internal control as a continuous process integrated into management cycles. It has been established that the effectiveness of internal control largely depends on the clarity of the distribution of powers and responsibilities. At the same time, the study does not sufficiently disclose the interaction of internal control with internal audit in the context of financial management.

In more modern studies, in particular in the work of Bardadym [2], the emphasis is placed on the role of internal control as a factor in increasing the overall efficiency of the enterprise. The author proves that internal control contributes not only to the reduction of financial losses, but also to the formation of managerial discipline.

Organizational and methodological aspects of control of financial activity are revealed in the study of Miniailo et al. [14]. The authors found that the effectiveness of financial control largely depends on the consistency of control procedures with the management goals of the enterprise.

A significant contribution to the study of the relationship between internal control and internal audit was made by Datsenko [6]. The author proves that it is the combination of these tools that forms the basis of the financial security of the enterprise. At the same time, the conclusions emphasize that in practice their functioning is often inconsistent, which reduces the effectiveness of financial risk management.

In the work of Chernetska et al. [5] Internal control is considered through the prism of its relationship with the accounting and analytical resource of the enterprise. The authors substantiate that the quality of managerial decisions directly depends on the consistency of control procedures and information support. At the same time, internal audit in the study is considered mainly as an element of the accounting system, and not as an independent tool for assessing the effectiveness of financial processes.

The issue of internal audit as an element of management of the economic security of the enterprise is disclosed in the work of Budnyk et al. [4]. The authors found that internal audit plays a key role in identifying financial threats and preventing crisis phenomena. At the same time, the study focuses mainly on the protective function of audit, while its role in improving the effectiveness of financial management remains secondary.

A similar position in content is taken by Berjanir et al. [3], which considers internal audit as a component of the enterprise management system. The author argues that internal audit contributes to increasing the transparency of management processes and the quality of decision-making. At the same time, the results of the study indicate the insufficient integration of internal audit into financial planning and budgeting, which limits its impact on financial management.

Thus, the analysis of scientific sources shows that internal control, internal audit and financial controlling are mostly studied as separate elements of management [14]. Their interaction in the context of the financial management system of the enterprise and the assessment of the effectiveness of financial processes remains insufficiently disclosed. Filling this gap necessitates further research aimed at forming a holistic vision of the role of internal control and audit as tools for creating managerial value.

3. Problem Statement

The purpose of the study is to substantiate the role of internal control and internal audit as interrelated elements of the financial management system of the enterprise.

4. Methods and Materials

The study employed a comprehensive approach to investigate the role of internal control and internal audit within the enterprise financial management system. A review and analysis of contemporary scientific literature on financial controlling, internal control, and audit were conducted to identify their impact on the effectiveness of financial management processes. A systemic approach was applied to conceptualize internal control and audit as interconnected elements of the financial management system. Comparative analysis was used to evaluate traditional and risk-based approaches to financial control, while expert assessments and practical experience were considered to identify key challenges and gaps in implementation. Data were also systematized and analyzed using tabular and graphical methods to illustrate structural components of internal control, main operational issues, and the effectiveness of management decisions. This methodological framework enabled the study to highlight the interaction between internal control and internal audit, uncover existing inefficiencies, and propose recommendations for improving enterprise financial management.

5. Results and Discussion

Internal control in the financial management system can be considered as a practical tool for the daily management of the enterprise's finances, which helps to maintain its stability, solvency and ability to develop in the long term [1]. Its importance lies not only in fixing financial results, but primarily in the timely identification of risks, deviations and potential threats that may affect the financial equilibrium of the enterprise. The main task of internal control is to organize financial processes in such a way as to minimize errors, prevent ineffective management decisions and ensure transparency of financial information. Thanks to this, the management receives a clear, reliable and analytically developed basis for decision-making both in current activities and in strategic planning. In this sense, financial controlling logically complements internal control and auditing and reinforces their effectiveness. An important feature of internal control is its ability to combine various managerial functions into a single system – planning, control, analysis and evaluation of results. It helps to build a holistic management cycle, within which financial goals are transformed into specific plans, and the results of their implementation are constantly analyzed and adjusted [15, p. 91].

The modern internal control system is based on a wide range of methods and analytical tools (Table 1), which greatly facilitate the process of monitoring the financial condition of the enterprise, increase the validity of management decisions and contribute to the timely identification of problem areas in the company's activities. The use of such methods allows not only to record financial results, but also to predict possible deviations and risks arising in the process of economic activity [5].

The most common methods of internal control include CVP analysis (analysis of the relationship "costs – volume – profit"), which makes it possible to determine the break-even point and assess the impact of changes in production volume or costs on the financial result of the enterprise [14]. SWOT analysis is used to strategically assess the internal strengths and weaknesses of the enterprise, as well as external opportunities and threats that affect its financial stability and competitiveness. Cost analysis is aimed at assessing the efficiency of resource use and the ratio of costs and results, which allows optimizing the cost structure and increasing the economic feasibility of management decisions. Benchmarking involves comparing the financial and operational indicators of the enterprise with the indicators of the leading companies in the industry in order to identify reserves for improving the efficiency of activities. Ratio analysis is a basic tool of operational financial controlling, as it allows you to quickly assess the liquidity, solvency, profitability and financial stability of the enterprise on the basis of a system of relative indicators. That is why it is most often used in the process of current and operational controlling. At the same time, in strategic financial controlling, preference is given to SWOT analysis and other strategic methods that allow assessing long-term trends in the development of the enterprise, its position in the market and the impact of the external environment. A special place is occupied by the early response system, which is aimed at identifying the first signals of financial threats, crisis phenomena or negative trends at the initial stages of their formation, which allows the management to take corrective measures in time [1].

Internal control at the enterprise is implemented through the tools of operational financial planning, which provides control over the actual receipts and expenditures of funds in the process of economic activity, as well as over the implementation of current financial plans [4]. The internal control system is considered as an integral part of the overall enterprise planning system, using a unified approach to methods and tools of financial management. Financial planning is a key process that determines the system of financial indicators and planning guidelines for providing the enterprise with resources and increasing the efficiency of its financial activities in the future. It allows you to determine the total need for financial resources to ensure production and economic activities and the possibility of obtaining them [3]. The importance of financial planning is manifested in determining the necessary amount of funds to finance the expansion of production, the fulfillment of financial and credit obligations to the budget, banks, as well as the solution of social issues and staff motivation. Planning helps to prevent excessive expenditure of resources both in individual areas of activity and on the scale of the entire enterprise. The process of financial planning includes the analysis of the current financial condition of the enterprise, modeling the future values of planned indicators, drawing up plans and developing a methodology for making adjustments during their implementation. The implementation of this concept is aimed not only at the formation and approval of financial plans, but also at monitoring their implementation and the prompt introduction of the necessary changes. The financial planning system and internal control are interrelated management functions [9]. Controlling cannot be effectively implemented without clearly defined plans and goals, and the lack of control over their implementation makes planning ineffective. Planning procedures provide for the description of tasks, expected results and ways to achieve them, while controlling ensures the verification of completed operations, timely detection of deviations and minimization of financial risks. Based on the results of internal control, the financial planning system is improved and the overall efficiency of enterprise management is increased [1].

Table 1. Structural elements of the formation of the internal control system at the enterprise

System Unit	Element content	Characteristics	Role in the financial management system
Principles of financial controlling	Focus on financial strategy	Consistency of control with the strategic goals of the enterprise	Provides long-term orientation of financial decisions
	Multifunctionality	A combination of planning, analysis, control, and coordination	Forms an integrated approach to financial management
	Focus on quantitative indicators	Use of financial ratios and indicators	Increases the objectivity of managerial decisions
	Compliance with analysis and planning methods	Coordination of controlling instruments with financial analysis and budgeting	Ensures the methodological integrity of the system
	Timeliness, simplicity, flexibility	Responsiveness and adaptability of the system	Allows you to quickly adjust financial decisions
	Economic feasibility	The costs of controlling do not exceed the effect of its implementation	Ensures system efficiency
Stages of building a system	Definition of the object of control	Management decisions regarding financial activities	Focuses on key financial processes
	Definition of types of control	Strategic, current, operational	Provides different time horizons of control
	Formation of a system of priorities of indicators	Ranking of indicators by levels of significance	Allows you to concentrate control on critical parameters
Functions of financial controlling	Planning and budgeting	Formation of financial plans and budgets	Ensures resource balance
	Financial analysis and control	Analysis of results and deviations	Detects problems and reserves
	Risk assessment and early warning	Diagnostics of threats to financial stability	Increases financial security
	Internal audit and consulting	Verification and recommendations to management	Maintains the quality of management decisions
	Adjustment of management decisions	Response to changes in the environment	Increases the adaptability of the enterprise
Information and technological support	Controlling automation	Use of ERP and analytical systems (SAP, Oracle, etc.)	Provides fast collection and processing of information
	Information base	Financial, managerial, statistical information	Increases the reliability of the analysis
Subjects of financial controlling	Financial controllers	Specialists responsible for the functioning of the system	Ensure the implementation of controlling in practice

Source: Compiled based on [1; 15].

The effectiveness of the internal control system is determined primarily by two interrelated factors [17]. The first of them is the level of achievement of the main goal of internal control, i.e. the ability of the system to timely detect errors, violations and risks, as well as to prevent their negative impact on the activities of the enterprise. The second factor is the scale of the impact of the detected deviations on the results of financial and economic activities, i.e. the extent to which a change in one indicator (for example, expenses, income or liquidity) can cause changes in other key financial parameters. On the other hand, significant errors or system deviations can lead to distortion of financial statements, incorrect management decisions, loss of resources, or even financial risks of the strategic level [12].

The evaluation of financial processes within the internal audit goes beyond verifying the correctness of accounts or compliance with internal regulations. The focus is on the logic of building the processes themselves: budgeting, cash flow management, cost formation, and financing of investment projects [16]. Internal audit analyzes their consistency with each other, compliance with the strategic guidelines of the enterprise and the economic feasibility of the management decisions made. Thus, it acts as a tool for qualitative assessment of financial management, and not only as a means of fixing deviations.

Internal audit occupies a special place in the process of assessing the effectiveness of the internal control system. In fact, it performs the function of the "second level" of control, aimed at checking the extent to which the existing control procedures correspond to the level of financial risks and can prevent undesirable financial consequences [17]. In this context, internal audit does not duplicate control functions, but analyzes their effectiveness, identifying weaknesses, excessive formalization, or, on the contrary, gaps in control. Thanks to this, the internal control system ceases to be static and acquires an adaptive character.

An important feature of modern internal audit is a combination of evaluation and consulting functions. The results of audit procedures are increasingly used not as a basis for sanctions, but as an information basis for improving financial processes [3]. Internal audit recommendations may relate to optimizing the cost structure, reviewing approaches to liquidity management, adjusting budget priorities, or improving the transparency of financial statements. In this format, internal audit begins to play the role of an intelligent intermediary between financial information and management decisions.

Significant potential of internal audit is revealed in the field of financial risk management. Assessing the effectiveness of financial processes, the audit identifies areas of increased risk, analyzes the causes of their occurrence, and assesses the adequacy of the implemented response mechanisms [18]. This allows not only to reduce the likelihood of financial losses, but also to increase the predictability of financial results in the medium and long term. In this way, the internal audit directly affects the financial stability of the enterprise.

The digitalization of financial management significantly changes the tools and approaches of internal audit, while at the same time enhancing its importance. Automation of accounting and control procedures, the use of large amounts of financial data and analytical platforms create conditions for the transition from periodic inspections to constant audit monitoring [16]. In such conditions, internal audit becomes not only a tool for retrospective assessment, but also a means of prompt detection of deviations and support of management decisions in real time.

Despite the conceptual certainty of the role of internal control and internal audit in the financial management system, the practice of their application at enterprises demonstrates the presence of a number of persistent dysfunctions [11]. They are manifested not in the absence of control mechanisms as such, but in the way they are integrated into management processes. As a result, formally built control and audit systems often do not fulfill the expected managerial role and do not ensure the proper quality of financial decisions.

One of the most common problems is the dominance of a formalized approach to internal control. Control procedures in many cases are focused on compliance with internal instructions or external regulatory requirements, while their connection with real financial risks remains weak [8]. Control records the fact of execution of transactions, but rarely assesses their feasibility or impact on financial results. In this configuration, internal control loses its preventive character and turns into a tool for post-factum response.

The problem is aggravated by the fragmentation of the internal audit in the financial management system. Audit functions often exist separately from the processes of budgeting, liquidity management or financial planning [10]. The results of the audit are not always transformed into specific management actions, and recommendations remain outside the context of strategic and tactical decisions. As a result, internal audit does not play the role of a feedback mechanism, and its potential as a tool for improving the effectiveness of financial management is only partially realized. A significant limitation of the effectiveness of internal control and audit is the discrepancy between their depth and the real level of financial risks [17]. In the practice of enterprises, asymmetry is often observed: detailed control of small transactions is combined with a superficial analysis of strategically important financial processes. Such an imbalance leads to overloading of the control system with secondary inspections and, at the same time, leaves out critical risk zones that directly affect the financial stability of the enterprise.

Another characteristic problem is the narrowing of the functional content of internal audit to purely audit activities. In many cases, the audit focuses on finding errors and deviations without proceeding to the analysis of their causes and systemic prerequisites [19]. This approach limits the possibilities of using audit as an analytical tool to support management decisions and reduces its value for financial management. Organizational and personnel factors are no less important [11]. The limited independence of internal audit, the combination of control and operational functions, as well as the shortage of specialized competencies, hinder the development of risk-based approaches. As a result, internal control and audit often do not have time to adapt to changes in the financial environment, and their methodology remains inertial.

Additional challenges are formed by the digitalization of financial management. Automation of financial processes significantly increases the speed and volume of data processing, but control and audit procedures do not always evolve in accordance with these changes [18]. The limited use of data analytics, insufficient attention to information and cyber risks, and the fragmentation of digital solutions are exacerbating the gap between modern financial technologies and traditional approaches to control. Summing up, the problems of the functioning of internal control and audit in the practice of financial management of enterprises are systemic in nature (Table 2). They are due not only to organizational shortcomings, but also to the incompleteness of the integration of control instruments into the general logic of financial resources management. Awareness of these problems creates the basis for searching for directions for improving internal control and audit as elements that form managerial value, and not just a control function.

Table 2. Systematization of the main problems of internal control and audit and their managerial consequences

Problem	Manifestation in the practice of enterprises	Managerial implications for financial management
Formalization of internal control	Focus on regulations without taking into account financial risks	Reducing the preventive role of control, increasing financial losses
Fragmentation of internal audit	Lack of integration with budgeting and financial planning	Ineffective use of audit results in management decisions
Imbalance between risks and control procedures	Excessive control of small operations and weak control of key processes	Loss of financial risk management
Narrowing the audit to the verification function	Focus on error detection without analyzing the causes	Limitations of the analytical value of the audit
Organizational and personnel limitations	Lack of independence and a deficit of competencies	Decrease in the objectivity of evaluating financial processes
Technological lag	Slow adaptation of control to digital financial processes	Increased information and operational risks

Source: Author's own development.

Strengthening the risk-based approach in the internal control and audit system is one of the key directions of improving the efficiency of financial management of the enterprise in modern conditions (Table 3). This approach allows not only to record violations and errors after their occurrence, but above all to timely identify potential threats and prevent them at the stage of managerial decision-making [7]. Within financial management, risk-based internal control is based on the systematic identification, assessment and prioritization of risks related to financial transactions, investment decisions, budgeting, liquidity management and liabilities of the enterprise. This means that control procedures are not the same for all processes, but adapt depending on the level of their risk [2]. This approach makes it possible to focus internal control and audit resources on the most vulnerable and critical areas of financial activity – where the probability of errors, abuse, losses or management miscalculations is highest. As a result, not only the effectiveness of control increase, but also its economic feasibility, since the time and efforts of controllers are used more rationally.

Table 3. Integration of the risk-based approach into the system of control of the financial activity of the enterprise

Functions and tasks of financial control	Content in the traditional control system	Implementation taking into account a risk-based approach	Expected managerial effect
Monitoring the progress of the implementation of financial tasks	Monitoring the implementation of budgets, financial plans and indicators	Monitoring focuses primarily on processes with a high level of financial risk (liquidity, accounts receivable, cash flows)	Early detection of threats to financial stability
Measurement of deviations of actual indicators from the planned ones	Comparison of actual and planned data	Deviations are analyzed from the point of view of their riskiness and potential consequences	Focus on critical deviations instead of formal ones
Diagnosis of deterioration of financial condition	Identification of negative trends in financial results	Diagnostics is carried out taking into account the likelihood of bankruptcy, loss of liquidity, reputational risks	Crisis prevention
Development of operational solutions for the normalization of activities	Adjust financial plans and budgets	Solutions are aimed at minimizing key risks (insolvency risk, currency risk, credit risk)	Increasing the adaptability of the enterprise
Adjustment of financial goals and indicators	View planned landmarks	The adjustment is carried out taking into account changes in the external environment and the risk profile of the enterprise	Aligning the strategy with real-world conditions
Assessment of the effectiveness of the use of financial resources	Analysis of profitability and performance of assets	Valuation taking into account the "profitability – risk" ratio	Improving the quality of investment decisions
Analysis of business activity and position in the financial market	Analysis of turnover, market indicators	Consideration of competitive, market and industry risks	A more stable position in the market
Assessment of the competitiveness of the enterprise	Comparison with competitors	Analysis of the vulnerability of the enterprise to strategic and reputational risks	Increasing strategic resilience
Assessment of liquidity, solvency and financial stability	Analysis of financial ratios	Interpretation of indicators through the prism of the risk of loss of solvency	Prevention of financial crises

Source: Compiled by the author based on [2; 14].

The integration of a risk-based approach into the financial control system allows the enterprise to move from formal surveillance to proactive threat management [8]. Control ceases to be a tool only for fixing deviations and becomes a means of preventing financial losses, crises and strategic mistakes. This improves the quality of management decisions, the efficiency of resource use and the overall financial security of the enterprise.

6. Conclusions

The study made it possible to rethink the role of internal control and internal audit in the financial management system of the enterprise. In the course of the analysis, it was found that the effectiveness of financial management is largely determined not by the formal presence of control mechanisms, but by the level of their integration into the processes of planning, implementation and evaluation of financial decisions.

It is substantiated that internal control in modern conditions performs not only the function of observing financial discipline, but also serves as a tool for preventive influence on financial risks. At the same time, internal audit provides an analytical assessment of the effectiveness of financial processes and the effectiveness of the internal control system, forming an information basis for adjusting management decisions. Their interaction creates a feedback mechanism, without which financial management loses its adaptability and strategic orientation.

In the course of the study, a number of problems have been identified that hinder the effective functioning of internal control and audit in the practice of enterprises. Among them are the dominance of formalized approaches, the fragmentation of audit procedures, and the discrepancy between the depth of control and the level of financial risks. The combination of these factors causes a gap between theoretical models of financial management and real managerial practice.

It has been proven that the digitalization of financial processes simultaneously increases the requirements for the internal control system and expands the possibilities of internal audit. The transition to automated and data-oriented approaches creates prerequisites for shifting the emphasis from post-factum control to constant monitoring and forecasting of financial deviations. Under such conditions, internal audit acquires the characteristics of a strategic tool for supporting management decisions.

It is advisable to direct further scientific research to the development of adaptive models of internal control and internal audit, taking into account industry specifics, the level of digital maturity of enterprises and the dynamics of financial risks. This will deepen the theoretical foundations of financial management and increase the applied significance of control instruments in modern economic conditions.

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Marketing Mechanisms of Forming an Enterprise's Pricing Strategy in the Conditions of Economic Turbulence

Nataliia Hrechanyk [1]* • Veronika Dmytrovska [2] • Iryna Kokhan [2]

[1] *Vasyl Stefanyk Carpathian National University (Ukraine). Associate Professor at the Department of Management and Marketing, Candidate of Economic Sciences, Associate Professor.*

[2] *Vasyl Stefanyk Carpathian National University (Ukraine). Associate Professor at the Department of Finance, Candidate of Economic Sciences, Associate Professor.*

* ***Corresponding Author,*** e-mail: nataliia.hrechanyk@pnu.edu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.08

Received: 1 November 2025
Accepted: 3 December 2025
Published online: 17 December 2025

ABSTRACT

In conditions of economic turbulence, accompanied by fluctuations in demand, inflationary risks and a decrease in purchasing power, the issue of forming an effective pricing strategy for enterprises becomes particularly relevant. The purpose of the article is to theoretically substantiate and practically clarify the marketing mechanisms for forming an enterprise's pricing strategy in conditions of economic instability, taking into account the behavioral aspects of consumer reaction and digital capabilities of market analytics. The study used systemic, analytical, comparative, graph-analytical and behavioral methods, as well as elements of marketing modeling, which allowed assessing the adaptability of pricing strategies and identifying the relationship between market fluctuations, consumer confidence and business performance. The results obtained showed that classical approaches to pricing (cost, competitive, demand-oriented) lose their effectiveness in crisis conditions, giving way to behavioral-adaptive models. The Behaviorally Adaptive Pricing Model is proposed, which combines economic, psychological and cognitive factors of decision-making and provides flexible price management based on data on market changes, emotional expectations of consumers and social triggers. Using the example of PwC and the telecommunications sector, it is proven that an effective pricing strategy involves a combination of economic feasibility with communication transparency, digital analytics and value personalization. The practical significance of the results lies in the possibility of using the proposed approaches to build adaptive pricing strategies for enterprises in various industries, which increase their competitiveness, ensure financial stability and contribute to strengthening consumer confidence in periods of economic instability.

KEYWORDS

marketing mechanism, behavioral pricing, adaptive model, consumer trust, market monitoring.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Маркетингові механізми формування цінової стратегії підприємства в умовах економічної турбулентності

Наталія Ю. Гречаник [1] * ● Вероніка С. Дмитровська [2] ● Ірина В. Кохан [2]

[1] *Карпатський національний університет імені Василя Стефаника (Україна). Доцент кафедри менеджмент і маркетингу, канд. екон. наук, доцент.*

[2] *Карпатський національний університет імені Василя Стефаника (Україна). Доцент кафедри фінансів, канд. екон. наук, доцент.*

* ***Автор-кореспондент,*** e-mail: nataliia.hrechanyk@pnu.edu.ua

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.08

Отримана: 01.11.2025 р.
Прийнята: 03.12.2025 р.
Опублікована: 17.12.2025 р.

АНОТАЦІЯ

В умовах економічної турбулентності, що супроводжується коливаннями попиту, інфляційними ризиками та зниженням купівельної спроможності, питання формування ефективної цінової стратегії підприємств набуває особливої актуальності. Метою статті є теоретичне обґрунтування та практичне уточнення маркетингових механізмів формування цінової стратегії підприємства в умовах економічної нестабільності з урахуванням поведінкових аспектів споживчої реакції та цифрових можливостей аналітики ринку. У дослідженні застосовано системний, аналітичний, порівняльний, графоаналітичний і поведінковий методи, а також елементи маркетингового моделювання, що дозволили оцінити адаптивність цінових стратегій і виявити взаємозв'язок між ринковими коливаннями, довірою споживачів і результативністю бізнесу. Отримані результати засвідчили, що класичні підходи до ціноутворення (витратний, конкурентний, попитово-орієнтований) втрачають ефективність у кризових умовах, поступаючись місцем поведінково-адаптивним моделям. Запропоновано модель Behaviorally Adaptive Pricing Model, яка поєднує економічні, психологічні та когнітивні фактори прийняття рішень і забезпечує гнучке управління ціною на основі даних про ринкові зміни, емоційні очікування споживачів і соціальні тригери. На прикладі компаній PwC та телекомунікаційного сектору доведено, що ефективна цінова стратегія передбачає поєднання економічної доцільності з комунікаційною прозорістю, цифровою аналітикою та персоналізацією вартості. Практична значимість результатів полягає у можливості використання запропонованих підходів для побудови адаптивних цінових стратегій підприємств різних галузей, що підвищують їхню конкурентоспроможність, забезпечують фінансову стабільність і сприяють зміцненню довіри споживачів у періоди економічної нестабільності.

КЛЮЧОВІ СЛОВА

маркетинговий механізм, поведінкове ціноутворення, адаптивна модель, довіра споживачів, ринковий моніторинг.

1. Introduction

In the context of growing economic turbulence, which manifests itself in high volatility of exchange rates, inflationary fluctuations, disruptions of logistics chains and unpredictable consumer behavior, the issue of effective formation of the company's pricing strategy becomes especially relevant. Traditional approaches to pricing, based on market stability and predictability of demand, lose their effectiveness, since they do not take into account the dynamics of external risks, changes in consumer value product and the need for a prompt response to environmental fluctuations.

The problem is that most enterprises continue to use static pricing models focused on a cost or competitive approach, while modern conditions require a marketing-oriented agile strategy. Such a strategy should combine analytical tools for market monitoring, consumer behavioral models and technological solutions for dynamic pricing. Insufficient integration of marketing analytics with the strategic pricing process leads to an imbalance between the real market value of the product, consumer perception, and the financial goals of the enterprise.

2. Literature Review

The problems of strategic pricing in modern conditions of instability are revealed in detail by Reshitko [14], who emphasizes that the pricing strategy should perform not only a calculation, but also a coordination function in the marketing management system. The scientist emphasizes the importance of constant monitoring of demand, elasticity and consumer confidence, because they form the real limits of price flexibility of the enterprise. For their part, Kochevoi et al. [3] emphasize the role of price as a tool for strategic marketing planning. The authors prove that a competent combination of pricing policy with communication and sales strategies helps to stabilize market share even in periods of demand instability. In the works of Derhaliuk and Seredyuk [2], attention is focused on methods of pricing policy management. Researchers show that the most effective are hybrid approaches, which combine elements of cost, market and behavioral pricing. The experience of retail trade in the context of marketing pricing policy is analyzed by Nahorna and Barylovych [11]. Their findings show that consumers react not only to the nominal value of the price, but also to the level of trust, transparency and ethics of price communication. Pricing policy as an element of general marketing management is interpreted by Babukh and Fen [1]. Scientists believe that price performs a communication function, signaling the level of quality, brand reputation, and the degree of trust in the company. In the systemic aspect, the study of Zaverbnyi [20] demonstrates that the typology of pricing strategies covers a wide range, from premium to flexible-adaptive models. The scientist notes that the main problem of modern enterprises is fragmentation in the implementation of strategies, when individual departments operate without an agreed price plan. A modern view of the international dimension of pricing is presented in the work of Lunova [9]. The researcher proves that effective adaptation of marketing strategies for pricing in global markets requires taking into account the cultural, economic and behavioral factors of consumers in different countries. Summarizing the scientific positions of domestic authors, we can conclude that the development of modern pricing models occurs in the direction of a combination of marketing, behavioral and technological approaches. The study of Yevtushenko and Vasylkova [19] focuses on the strategic nature of pricing in conditions of economic instability. The authors propose a model for coordinating price decisions with the resource constraints of the enterprise and the dynamics of market risks, which enhances the practical significance of the price as an anti-crisis mechanism. The behavioral aspect of adaptive pricing is developed by Sokhetska [17], who proves the need to take into account cognitive limitations and emotional reactions of consumers in periods of turbulence. The scientist emphasizes that price decisions should be formed taking into account motivational triggers and models of value perception, and not only on calculated parameters. In the work of Mazhara and Yarmolenko [10], the emphasis is placed on modeling the adaptive pricing policy. The authors develop an approach that takes into account the interaction of internal factors of the enterprise and external shocks, offering tools for predicting the market's reaction to price changes in conditions of turbulence.

3. Problem Statement

The article is aimed at theoretical generalization and practical substantiation of marketing mechanisms for the formation of the pricing strategy of the enterprise in the conditions of economic turbulence. To achieve this goal, it is envisaged to solve the following tasks: to reveal the essence and structural components of the pricing strategy of the enterprise from the standpoint of modern marketing management; to analyze the influence of economic turbulence factors (inflationary fluctuations, instability of demand, currency risks, changes in behavior consumers) on pricing mechanisms; to characterize marketing tools and methods of adaptation of the pricing policy of the enterprise to the unstable external environment [16].

4. Methods and Materials

The study uses a set of theoretical and applied methods aimed at identifying key marketing mechanisms for the formation of the pricing strategy of enterprises in conditions of economic instability.

The method of comparative analysis was used to compare classical and modern pricing models (cost, demand, behavioral, and dynamic), which made it possible to determine their relevance in the conditions of market turbulence.

Methods of structural-logical analysis and modeling provided the construction of a classification of adaptive price models and the development of a generalized sequence of formation of the pricing strategy of the enterprise.

The empirical component is based on the analysis of financial and economic indicators of the consulting company Price Waterhouse Coopers (PwC) [13] and enterprises of the telecommunications sector for 2022–2024 [10; 17], which made it possible to trace the practical application of mixed price approaches and assess the market reaction to price changes.

The information base of the study includes: scientific works of domestic and foreign authors on marketing pricing, analytical materials on market trends, official statistical data of enterprises, and results of their own systematization of approaches to adaptive pricing.

5. Results and Discussion

In the modern system of market relations, the price occupies a central place as a basic indicator of economic processes and a key tool of marketing management. It not only reflects the cost assessment of a product or service, but also shapes the behavior of market participants, determines the profitability of enterprises, the dynamics of development of certain sectors of the economy and the level of well-being of the population. Price is not only an economic category, but also a strategic tool in marketing management, which determines the competitive position of the enterprise in the market. In the context of constant fluctuations in the economic environment, inflationary processes and instability in demand, it is the pricing policy that becomes the key lever for influencing business performance. For most businesses, the pricing process today is not just a technical calculation, but a comprehensive management decision that combines marketing, financial and behavioral aspects. The efficiency of all its structural divisions and the level of profitability in conditions of market turbulence depend on the ability of the enterprise to flexibly respond to changes in the external environment through adaptive price mechanisms.

An economically justified pricing policy becomes the basis for business stability in a turbulent market environment, when enterprises face fluctuations in demand, inflationary risks and changes in the purchasing power of consumers. The legislative field of Ukraine, in particular the Law "On Prices and Pricing", interprets the price as the monetary equivalent of the cost of a unit of goods or services [18; 19]. However, in modern realities, this concept goes far beyond the formal definition – price turns into a strategic tool of marketing flexibility, which allows enterprises to adapt to economic instability, maintain competitiveness and ensure sustainable development even in conditions of uncertainty.

Modern economic conditions, characterized by constant shocks – currency, energy, war, inflation – radically change approaches to the formation of price strategies. During the period of economic turbulence, classical pricing models (cost, demand, and competitive), which have long been considered effective, increasingly demonstrate their inertia and weak reactivity to market changes. Their main weakness is that they rely on the assumption of rational behavior of economic agents and the stability of the macroeconomic environment, which the current reality does not guarantee. In conditions when consumers make decisions under the influence of emotions, fears and information noise, the concept of "rational price" loses its absoluteness [17, p. 30]. So, in a crisis environment, price ceases to be only the economic equivalent of cost – it becomes a marker of trust, stability, and predictability of the brand. Enterprises that do not take into account behavioral patterns risk losing a customer, even with an economically justified cost of the product. That is why adaptive pricing models are becoming relevant (Table 1), which combine economic, psychological and technological factors into a single system. They allow the enterprise not only to respond to fluctuations in demand but also to actively manage price perception through communication, personalization, and social signals.

Table 1. Adaptive Pricing Models: Characteristics, Benefits, Risks, and Behavioral Guidelines

Model Name	Key Feature	Behavioral guidelines	Key Benefits	Possible risks
1. Cost-plus model	Price formation based on the amount of costs and profit	Rational cost analysis without taking into account behavioral factors	Ease of calculation, transparency for justifying prices	Low adaptability does not take into account fluctuations in demand and consumer emotions
2. Demand-based pricing model	Setting prices taking into account the elasticity of demand and solvency	Limited rationality (the consumer reacts not only to logic, but also to expectations)	Coherence with market demand	High sensitivity to consumer sentiment volatility
3. Behaviorally Adaptive Pricing Model (BAPM)	Integration of economic and psychological factors into the pricing process, taking into account cognitive effects	Loss effect, framing, status quo, emotional response, expectations	High sensitivity to environmental changes, the ability to predict consumer reaction	Difficulty in building models; risk of manipulation or loss of trust
4. Psychological pricing	Using the emotional perception of price and the principle of "fair value"	Anchor effect, loss effect, magic number effect (9.99, 499 UAH)	Increasing brand credibility, stimulating demand	Overuse can cause mistrust, loss of reputation
5. Social-Reference Pricing	Setting prices with a focus on social norms and reference expectations	Social signals, imitation, conformity, price comparison	Strengthening the social legitimacy of the price, reducing the risk of rejection	Consumer resistance with a sharp deviation from the usual prices
6. Dynamic Pricing	Automatic real-time price adjustment according to changes in demand, supply, macro factors	Behavioral reaction to frequent price changes; Sensitivity to transparency	Flexibility, quick response to the market	Risk of loss of trust due to frequent changes, perception of manipulation
7. Heuristic Pricing	Use of cognitive simplifications in pricing (availability heuristics, status quo)	Heuristics of representativeness, accessibility, attachment	Ease of perception, ease of decision-making by the buyer	Can distort the real value estimate
8. Model using psychological triggers (Trigger-based Pricing)	Activation of buying behavior due to limited supply, social proof, discounts	Social proof, scarcity effect, urgency	Increasing demand, mobilizing consumer attention during the crisis	Ethical overload is possible, loss of trust under excessive pressure

Source: Compiled by the author based on [17].

The behavioral aspect of pricing is revealed in the company's ability to "read" consumer expectations. As research shows, during economic crises, a special information environment is formed – markets are overflowing with "emotional narratives" that directly affect consumer behavior [10]. For example, in Ukraine in 2022–2024. There was an instability of purchasing power against the backdrop of martial law: the population began to avoid unnecessary expenses, and the key selection criteria were "trust price", "fair discount" and "brand social responsibility". Therefore, effective marketing mechanisms today include: psychological pricing, which forms a sense of price fairness; framing effect ("20% savings" is perceived more positively than "the new price is 20% lower"); the effect of social proof ("this product has already been purchased by 1000 customers2); scarcity effect, which activates spontaneous decision-making ("5 units left") [17, p. 31]. Such tools not only increase conversions but also create an emotional shield of trust between the brand and the client in times of uncertainty.

Modern companies, especially in e-commerce, are actively implementing Big Data pricing and Machine Learning pricing models that allow you to track the behavior of thousands of customers in real time [7]. Algorithms analyze purchase history, search queries, demographics, social trends, and form personalized price offers that optimize profits and increase loyalty [13]. Thus, in the retail sector in Ukraine, in recent years, the number of platforms using real-time pricing, when the price automatically changes depending on demand, seasonality, or even time of day, has increased. This allows enterprises not only to maintain competitiveness, but also to form adaptive flexibility – the ability to respond to market fluctuations without losing customer trust. However, there is also an ethical dimension: excessive personalization or frequent price changes can be perceived as discriminatory or manipulative, so the success of digital models depends on the transparency of communication and social trust in the brand. Attention is drawn to the Behaviorally Adaptive Pricing Model (BAPM), which formalizes the pricing process as an iterative cycle, where decisions are constantly updated based on three data streams: economic indicators (inflation, unemployment, exchange rates, purchasing power); behavioral signals (the level of consumer confidence, reaction to discounts, changes in emotional tone in social networks); cognitive patterns (loss effect, framing effect, anchor effect, etc.). As a result, the price turns into a "dynamic communication tool" that not only reflects the market situation, but also actively forms consumer expectations [17, p. 32]. This makes BAPM extremely relevant for the modern Ukrainian economy, where business constantly operates in conditions of unpredictability. For Ukrainian enterprises, the transition to behaviorally adaptive pricing systems is of strategic importance:

– increasing the flexibility of management decisions – the ability to adjust prices in real time in accordance with socio-economic sentiments;

– optimization of profitability through accurate segmentation and personalization;

– strengthening consumer confidence through the creation of a transparent pricing logic ("price that can be explained");

– increasing the resilience of business to crisis impacts due to quick feedback between the market and the strategy.

In this context, it is advisable to consider an example of a study of pricing strategy in the consulting sector, where the activities of the Ukrainian representative office of the international network Price Waterhouse Coopers (PwC) for 2022–2024 are analyzed [10, p.146]. The purpose of the analysis was to assess the effectiveness of the chosen pricing model and its impact on the financial stability of the company. Over the past three years, the company has seen a net revenue growth of 71.8%, reflecting its successful market expansion and stable demand for its services. At the same time, the profitability of sales decreased from 38.71% to 35.23%, and in 2024, a net loss of -1448 thousand UAH was recorded. UAH. This indicates an increase in operating costs and the need for deeper optimization of the price structure. Despite the decline in profitability, PwC's financial condition remains stable. In terms of liquidity and autonomy ratios (within the range of 0.6–0.7), the company maintains an absolute type of financial stability, has a sufficient amount of its own working capital and a high ability to cover short-term liabilities. This indicates financial independence and readiness to invest in the development of new areas without a critical impact on the current pricing policy. In the course of the study, four key features of PwC pricing were identified:

– qualification dependence of price – a high share of labor costs (5.56% in the cost structure in 2024) determines a close relationship between the level of competencies of personnel and the final cost of services;

– seasonality of demand – in peak periods (January-April), premium prices are used, and in the off-season, flexible discounts and promotional offers are used to maintain staff workload;

– synergy of package offers – a combination of audit and consulting services allows you to optimize prices and increase value for the client;

– reputational premium – belonging to the "Big Four" and international image provides an opportunity to keep prices in the upper market segment.

Overall, the results show that PwC applies a comprehensive pricing model that combines a cost approach, market orientation and the principle of "value for the customer". Despite a temporary decrease in profitability, this strategy remains effective, as it ensures sustainable revenue growth, financial autonomy, and customer confidence in a turbulent economic environment. Summarizing the results of PwC's study on pricing strategy, it is advisable to examine how similar approaches to value formation are implemented in other industries, particularly in the telecommunications sector, where pricing policy is not only economic but also strategic.

Unlike consulting companies, where the cost of intellectual labor is a key factor, telecommunication enterprises operate in a highly competitive environment that requires dynamic and multi-level price management. In this industry, mixed pricing strategies that combine elements of market adaptation and behavioral flexibility are most commonly used. In particular, the market penetration strategy helps to quickly expand the customer base through attractive initial rates, while the premium strategy focuses on building a high-quality image and increasing the value of services. At the same time, discriminatory pricing allows you to vary tariffs depending on the segment of consumers and the level of their loyalty, and the strategy of "skimming the cream" is used when launching innovative solutions, when the price is first maximum, and then gradually decreases. In addition, telecommunications companies are actively using price wars as a tool to strengthen competitive positions, as well as package pricing, which involves the integration of several services – mobile communications, Internet, television – into a single tariff, increasing consumer loyalty. This approach demonstrates that in a saturated market, it is flexibility, the ability to predict customer behavior and a strategic combination of pricing instruments that determine the effectiveness of the company's marketing policy [4; 13; 17]. Thus, in both the consulting and telecommunications sectors, pricing is no longer just a mechanism for reimbursement of costs – it is transformed into a complex system of market relations management, where the price becomes an indicator of the quality, trust and competitive stability of the company [8].

The variety of modern pricing models – from competitive and dynamic to premium or package – creates the possibility of combining approaches, when the enterprise simultaneously takes into account the cost, demand and perception of value. For example, the combination of value and package pricing allows you to form attractive offers that strengthen customer loyalty and increase market share. In today's economy, a company's success is determined by its ability to flexibly adapt pricing policies to changes in the external environment, integrating digital tools, consumer behavior analytics, and personalized solutions. It is this adaptive pricing strategy that turns into the main driver of competitiveness and long-term sustainability of the business [4; 5; 9; 20].

Therefore, the development of a pricing strategy is a consistent and multi-level process aimed at systematically substantiating approaches to price formation and coordinating them with the company's goals and conditions of an unstable market (Fig. 1). At the initial stage, initial information is collected - analysis of the market environment, consumer preferences, costs and competitive positions. This allows you to determine the potential capabilities of the enterprise and form the basis for choosing the directions of pricing policy. The second stage involves strategic analysis, within which various development scenarios are modeled, financial results, cost structure, consumer behavior and competitors' actions are evaluated. Particular attention is paid to forecasting external factors – inflation, government regulation, and changes in demand. It is at this stage that an understanding of how price can affect the profitability and competitiveness of a company is formed. The final stage is the design and testing of the pricing strategy, when the optimal price level is determined, the effectiveness of the selected model is checked and adjusted in accordance with market dynamics [19]. As a result, a coordinated price management system is formed, which not only ensures the financial stability of the enterprise but also strengthens its strategic position in the market.

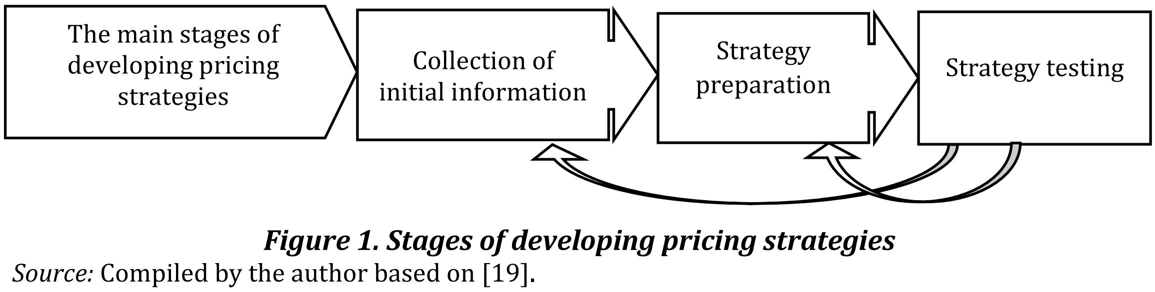

Figure 1. Stages of developing pricing strategies

Source: Compiled by the author based on [19].

Thus, companies are forced to adapt their pricing strategies to the specifics of each market, taking into account the level of competition, purchasing power and cultural characteristics. The competitive environment is a determining factor: with low competition, an enterprise can charge premium prices and strengthen the brand image, while in saturated markets it must focus on the average price level and strengthen marketing tools to maintain positions. In international practice, several models of price adaptation are distinguished. The standardization model provides a single price for all countries (like Apple), which strengthens the brand, but reduces the availability of the product for countries with lower incomes. On the contrary, the full adaptation model takes into account local economic and cultural factors, as in McDonald's or IKEA, providing flexibility but requiring higher costs. The globalization model combines a global approach with local adjustments, allowing you to maintain corporate integrity while meeting regional needs (as in Coca-Cola). The purchasing power model (PPP), which takes into account the level of income of the population (Netflix, Spotify), and the model of competitive parity, when prices are consistent with market conditions and offers of competitors, are also used [12]. All these approaches are aimed at achieving the main goal – maintaining the profitability of the company while meeting the local expectations of consumers as much as possible.

6. Conclusions

It has been proven that price is not only an economic category, but also a strategic tool of marketing management, which determines the positioning of an enterprise in the market, the level of its competitiveness and consumer confidence. In conditions of high volatility, the price turns into a multidimensional signal that reflects not only the cost, but also the reputation of the brand, the level of service, customer expectations and the social responsibility of the business. It has been established that traditional pricing models (cost, demand, and competitive) lose their effectiveness in crisis conditions due to limited flexibility and focus on rational consumer behavior. In situations of uncertainty, they do not take into account the emotional, social and behavioral factors that shape the real perception of the value of the product. This creates the need to move to adaptive and behavior-oriented models. The concept of behavioral-adaptive pricing, which combines economic indicators, behavioral signals and cognitive patterns of consumer decision-making, is proposed. This approach allows the enterprise not only to respond to market changes but also to actively manage price perception through personalized offers, social triggers, framing effect, and "trust price" models. The role of digital technologies and analytical tools (Big Data, Machine Learning, and real-time pricing) in the formation of modern marketing pricing mechanisms has been revealed. They provide businesses with the ability to quickly track market fluctuations, analyze consumer behavior in real-time, and create customized price offers, increasing profitability and customer loyalty. Thus, the results of the study indicate that marketing pricing mechanisms should move from static economic models to integrated, behavioral-analytical systems that combine elements of flexibility, transparency and digital adaptability. This opens up prospects for further scientific research in the direction of developing models of "internal price dynamics" of enterprises, which take into account the relationship between strategic, psychological and technological factors in the process of pricing [6].

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Increasing Adaptability to Economic Challenges as a Key Component of Ensuring Competitiveness of Ukrainian Construction Enterprises

Yuliya Pereguda [1, 2 *]

[1] *National University of Life and Environmental Sciences of Ukraine (Ukraine). Associate Professor at the Department of Global Economics, Doctor of Science (Economics), Associate Professor.*

[2] *Interregional Academy of Personnel Management (Ukraine). Deputy Head, Professor at the Department of Organization of Tourism Activities of the Educational and Scientific Institute of Management, Economics and Business, Doctor of Science (Economics), Associate Professor.*

* ***Corresponding Author,*** e-mail: julilla.pereguda@gmail.com

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.09

Received: 3 November 2025
Accepted: 5 December 2025
Published online: 18 December 2025

ABSTRACT

The impact of economic challenges accompanies the development of the Ukrainian economy and Ukrainian enterprises. Ukraine is currently facing three major economic challenges that significantly impact business activities: the crisis of 2014–2017, which was caused by revolutionary changes in the vector of economic relations development in the country; the COVID-19 pandemic, which occurred between 2019 and 2020; and the Russian military invasion of Ukraine and the crisis of military economic development in 2022–2025. Under these conditions, enterprises must increase the level of adaptability to economic challenges, which will act as a guarantee of ensuring competitiveness in the markets of goods (works, and services). The scientific research is dedicated to solving the topical scientific and practical problem of developing proposals in the context of ensuring the competitiveness of Ukrainian construction enterprises based on increasing the adaptability of the construction business in Ukraine to the impact of economic challenges. The scientific article has assessed the level and trends of adaptability to economic challenges faced by Ukrainian construction enterprises during the period from 2013 to 2024. The evaluation was carried out across three components: assessment of changes in the share of construction in the country's gross domestic product; assessment of changes in the number of construction enterprises; and assessment of the formation of net profit (loss) by construction enterprises of the country, including the division of construction business entities into large, medium-sized, small, and micro enterprises. The study proposes a set of optimization measures aimed at increasing adaptability to economic challenges and enhancing the competitiveness of Ukrainian construction enterprises. A key element of this approach is the developed mechanism for improving adaptation to financial challenges and strengthening the competitiveness of construction enterprises in Ukraine.

KEYWORDS

adaptation, construction enterprises, wartime economic development, economic challenges, competitiveness.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Підвищення адаптації до економічних викликів як ключова складова забезпечення конкурентоспроможності українських будівельних підприємств

Юлія А. Перегуда [1, 2 *]

[1] *Національний університет біоресурсів і природокористування України (Україна). Доцент кафедри глобальної економіки, д-р екон. наук, доцент.*

[2] *ПрАТ «Вищий навчальний заклад «Міжрегіональна Академія управління персоналом» (Україна). Заступник завідувача, професор кафедри організації туристичної діяльності Навчально-наукового інституту управління, економіки та бізнесу, д-р екон. наук, доцент.*

***Автор-кореспондент,** e-mail: julilla.pereguda@gmail.com*

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.09

Отримана: 03.11.2025 р.
Прийнята: 04.12.2025 р.
Опублікована: 18.12.2025 р.

АНОТАЦІЯ

Розвиток української економіки та українських підприємств супроводжується впливом економічних викликів. Наразі найбільш значний вплив на бізнес-діяльність в Україні мають три ключові економічні виклики: криза 2014–2017 років, що була викликана революційними змінами у векторі розвитку економічних відносин в країні; пандемія 2019–2020 років; російське військове вторгнення в Україну та криза військового розвитку економіки 2022–2025 років. В цих умовах підприємства повинні підвищувати рівень адаптивності до економічних викликів, що буде виступати запорукою забезпечення конкурентоспроможності на ринках товарів (робіт, послуг). Наукове дослідження присвячене вирішенню актуальної науково-практичної проблеми щодо розробки пропозицій у контексті забезпечення конкурентоспроможності українських будівельних підприємств на основі підвищення адаптивності будівельного бізнесу в Україні до впливу економічних викликів. У науковій статті була проведена оцінка рівня і тенденцій адаптивності до економічних викликів українських будівельних підприємств у період з 2013 року до 2024 року. Оцінювання проводилась по трьом складовим: оцінка змін частки будівництва у валовому внутрішньому продукті країни; оцінка змін у кількості будівельних підприємств; оцінка формування будівельними підприємствами країни чистого прибутку (збитку), у тому числі з поділом будівельних суб'єктів господарювання на великі, середні, малі та мікропідприємства. Проведена оцінка показала критичні проблеми будівельного бізнесу в Україні щодо адаптації до економічних викликів, що негативно впливає на конкурентоспроможність будівельних підприємств. У дослідженні була запропонована сукупність оптимізаційних заходів підвищення рівня адаптивності до економічних викликів та конкурентоспроможності українських будівельних підприємств, де ключовим виступає розроблений механізм підвищення адаптації до економічних викликів та конкурентоспроможності будівельних підприємств України.

КЛЮЧОВІ СЛОВА

адаптація, будівельні підприємства, воєнний розвиток економіки, економічні виклики, конкурентоспроможність.

1. Introduction

On the other hand, the construction industry, taking into account the level of destruction of infrastructure facilities in the country, critical changes in the demand for commercial and residential real estate as a result of relocation enterprises of the country, as well as internal migration of the population of Ukraine, should act as a driver for the economy of the state and the economy of Ukrainian regions. Separately, it should be noted that the construction sector and construction enterprises have an interconnection and significant impact on all other sectors of the economy, forming the demand for raw materials, building materials, services and works and providing the economy with the supply of construction works, as well as forming a significant component of capital investments of business and the population of the country [1].

The development of the construction business in Ukraine takes place under the influence of an aggressive external environment, the basis of which is a certain number of key economic challenges that form a set of unique conditions, as well as risks for the conduct of financial and economic activities by construction enterprises of the country. On the other hand, the business environment for the construction business is highly competitive, where large, medium, small and micro providers of construction services and construction work are present with a significant share of shadow and gray businesses. Thus, it is possible to say that competitive success in the construction business in Ukraine, as well as long-term effective functioning in the construction services market, is possible only if it quickly adapts to economic challenges.

Summing up the above, we emphasize that currently one of the key scientific and practical problems for the country’s economy as a whole, as well as for the construction sector of the national economic system and construction enterprises in particular, is the assessment of the level of adaptation of construction enterprises in Ukraine to economic challenges and the search for ways to increase the level of adaptation of the construction business to key economic challenges in the context of ensuring (enhancing) the competitiveness of construction entities management.

2. Literature Review

The problems of studying the competitiveness of construction enterprises were in the focus of scientific attention of both foreign and domestic scientists.

Of scientific interest is the research of Ahmed Badawi et al. on the assessment and improvement of the effectiveness of management of the competitiveness of construction companies based on an integrated multi-criteria model of decision-making. At the same time, scientists focus on the study of three key areas (pillars) of competitive advantages of construction enterprises: non-financial internal sphere; non-financial external sphere; financial sphere. The proposed model for assessing the competitiveness of the construction business includes 6 categories and 26 factors [2].

A group of Indonesian scientists (M. Huda, T. S. Rini, Siswoyo, S. Azizah) focused on studying the influence of the company’s environment on the efficiency and competitiveness of a business entity. At the same time, the study focused on the activities and assessment of the competitiveness of Indonesian construction companies [3].

Scholars from Ghana (Matthew Kwaw Somiya, Clinton Ochis Aigbawboa, Wellington Didibhuku Twala) have attempted to identify critical success strategies for the competitive advantage of local construction firms in developing countries, taking construction companies from Ghana as an example. The researchers identified four key components underlying critical success strategies for the competitive advantage of local construction firms in developing countries, namely: tender, contract, customer-centric, and branding strategies [4].

A scientist from Uzbekistan Solieva Umida Alisher Kizi in her own research reveals approaches to increasing the competitiveness of construction enterprises, taking as a basis the study of the construction business in Uzbekistan. The scientist concludes that enterprises with high investment activity, new technologies, elements of the management system (ISO 9001 and ISO 50001) show better results and are more competitive in the markets of developing countries [5].

Interesting, from a scientific point of view, is the work of the Israeli scientist Oleg Harit, which focuses on the strategy of introducing new technologies in construction within the framework of ensuring the competitiveness of the construction business. The scientist investigates the problems, economic effects and business strategies of the introduction of BIM technologies in construction, as well as the impact of the introduction of BIM technologies on the competitiveness of construction enterprises [6].

Ukrainian scientists aroused considerable interest in the issues of assessing, ensuring and increasing the competitiveness of the construction business before the start of the full-scale invasion of Russian aggressors into Ukraine. It is possible to single out the scientific works: K. A. Mamonova and D. O. Prunenko on the disclosure of theoretical aspects of assessing the competitiveness of construction enterprises in Ukraine [7]; a team of scientists headed by O. G. Yankov, who, within the framework of the study of assessing the level and directions of increasing the competitiveness of enterprises, paid attention to the analysis of the factors of competitiveness of construction enterprises of Ukraine [8]; G. M. Grebnev, who concentrated on determining the directions for increasing the effectiveness of the marketing mechanism for managing the competitiveness of construction enterprises of Ukraine [9]; A. G. Semenov, who revealed the peculiarities of diagnosing the strategic competitiveness of construction enterprises according to indicators of sustainable development [10]; O. S. Ivanilova, V. V. Smachylo and K. V. Polozhiy, who focused on the quantitative assessment of the competitiveness of four construction enterprises in the Kharkiv region, based on the data of financial statements and industry statistics [11].

We testify to the growing attention to the problems of ensuring (assessing, enhancing) the competitiveness of Ukrainian construction enterprises after 2022, as a reaction of the Ukrainian scientific community to the new economic challenges of the military development of the Ukrainian economy. It is possible to single out the scientific researches of I. V. Biletsky et al., who paid special attention to the disclosure of factors influencing the competitiveness of Ukrainian construction enterprises during the war [12]; S. S. Lopatka, who identified the key characteristics of ensuring the competitiveness of the Ukrainian construction business during hostilities in the country [13]; I. Epifanova et al., who in their own research formed a set of key internal and external factors of ensuring the competitiveness of construction enterprises, and also proposed an integral indicator for assessing the level of competitiveness of the construction business [14]; V. V. Kruglikova et al., who studied the influence of external and internal environmental factors on the level of competitiveness of a construction enterprise in the conditions of hostilities in Ukraine [15]; N. Tyurinoy et al., who developed recommendations for the formation of stages of management of competitiveness of enterprises in the construction industry of Ukraine, as well as structured criteria for assessing the competitiveness of a construction company [16]; L. O. Gudymy, who conducted a study of various classifications of factors that have an impact on the work of construction enterprises, structured the factors according to their belonging to the environment and concluded about the predominance of external factors, as well as on the basis of the list of identified factors, formed a PEST analysis, where she substantiated how exactly the selected factors affect the competitive activity of construction enterprises in Ukraine [17].

Please note that research in the field of competitiveness of construction enterprises, both abroad and in Ukraine, does not touch on one of the key modern scientific and practical issues, namely the impact of adaptability to economic challenges on the competitiveness of the construction business, which requires the initiation of a scientific discussion and the receipt of practical recommendations for construction enterprises in the country, taking into account the military development of the economic system of the state and the prospects for post-war development Ukrainian economy.

3. Problem Statement

The purpose of the article is to form proposals to increase the competitiveness of Ukrainian construction enterprises based on improving adaptation to the economic challenges of the construction business of Ukraine.

4. Methods and Materials

This study applies an integrated approach combining economic analysis, enterprise management theory, and competitiveness concepts to assess the adaptability of Ukrainian construction enterprises to economic challenges. The empirical base includes official statistics of the State Statistics Service of

Ukraine and industry reports for 2013–2024. Dynamic, comparative, and trend analysis methods were used to identify structural changes and crisis impacts on the construction sector. Enterprises were classified by size to assess differences in adaptability. Logical analysis and modeling were applied to develop recommendations for increasing adaptability and strengthening competitiveness under conditions of economic instability and wartime challenges.

5. Results and Discussion

Throughout the entire functioning of market economic relations in Ukraine, the Ukrainian construction business has been under the influence of a set of various economic challenges that have been dynamically changing and formed a unique business environment for Ukrainian construction enterprises. Currently, it is possible to single out five key economic challenges that had a critical impact on the formation and development of the business environment in the construction sector of the country's economy: the transformational economic crisis of 1991–1999, which was caused by the transition of the country's economy to a market model of development; the economic crisis of 2008–2009, which was caused by the global financial crisis and was the first "classic" market crisis for the Ukrainian economy and Ukrainian enterprises; the crisis of 2014–2017, which was caused by revolutionary changes in the vector of development of economic relations in the country; pandemic of 2019–2020; the Russian military invasion of Ukraine and the crisis of military economic development in 2022–2025.

We consider it appropriate, taking into account the identified five key economic challenges for the economic system of Ukraine, the construction industry of the country's economy and construction enterprises, to focus in the study on the last three of the identified economic challenges, as those that have the greatest impact on modern business activities in the construction sector of the state. At the same time, when conducting the study, it should be taken into account that competition in the construction sector between construction enterprises has significant differences from other areas of the country's economy, which forms a unique competitive environment. Such differences include:

– strong pressure on the new supply of commercial and private real estate from the secondary market;

– the need to invest significant funds in construction work and a significant period of return on investment;

– the possibility of forming a "canopy" of speculative demand in the market, which can be significantly differentiated by regions and individual territories (locations) of the country;

– the need to take into account the emergence or implementation of "deferred demand" in the market, which may differ significantly by region and individual territories (locations) of the country;

– complex production process, which has a long operating cycle and in which a significant number of participants are involved, both those who are directly involved in construction and those who have an indirect impact on construction activity;

– formation of significant demand from the secondary real estate market, which delays construction companies from the construction of new real estate;

– high level of gray and shadow segments, which deforms the construction services market, especially in the field of real estate repair services;

– high level of sensitivity to changes in the external environment and the development of the economy of the country and certain regions of Ukraine.

Taking into account the above, we consider it appropriate to assess the level of adaptation of the construction business and construction enterprises in Ukraine to economic challenges (economic crisis of 2014–2017, pandemic, and Russian military invasion). Hence, the estimate will be made for the period from 2013 (the year before the economic crisis of 2014–2017) to 2024 (the last year of available statistics). At the same time, for the assessment, we will take three key components that will allow us to assess the adaptability of Ukrainian construction enterprises to economic challenges, namely: the ratio of the development of the construction industry with the development of the national economy, which is expressed in Gross Domestic Product (GDP) (Fig. 1 and Fig. 2); comparison of the development of enterprises in the country as a whole and in construction (Table 1); formation of net profit (loss) by enterprises of the country and construction business, including the division of construction enterprises into large, medium, small and micro enterprises (Fig. 3 and Fig. 4).

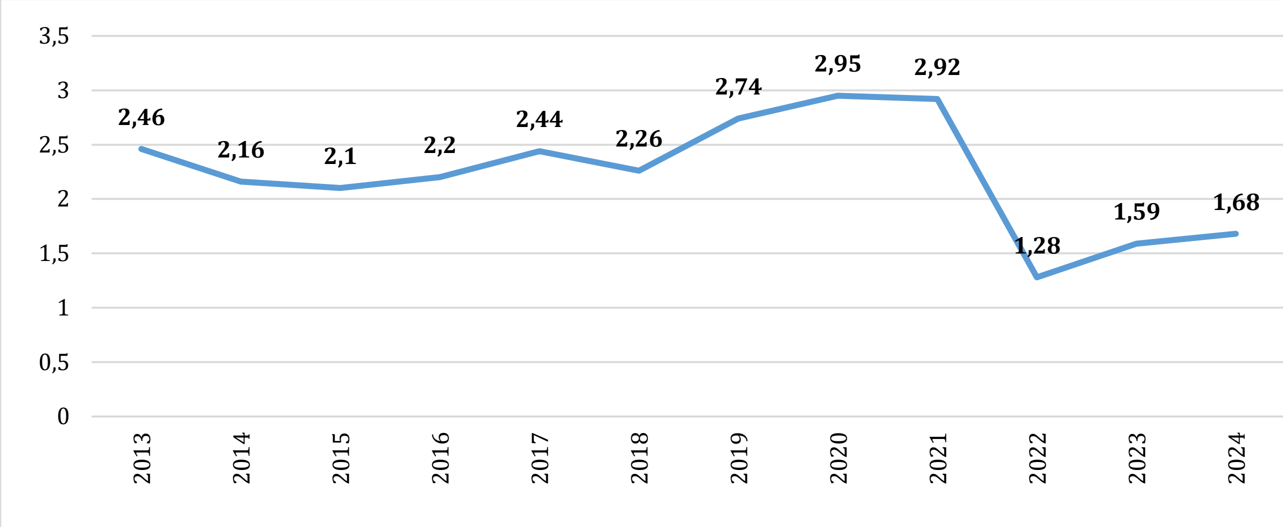

Figure 1. Share of construction in the gross domestic product of Ukraine in 2013–2024, %

Source: Systematized by the author according to the data [18].

The study of the share of construction in GDP will allow us to understand the level of reaction of the construction industry and construction enterprises of the country to negative and positive changes in economic relations during the study period (Fig. 1). It should be noted that in 2014–2016 there was a decrease in the share of construction in the country's GDP, which indicates adaptive problems of construction enterprises, while the pandemic did not negatively affect the activities of construction enterprises in Ukraine. Hostilities in the country have critically negatively affected the activities of construction enterprises. At the same time, the data in Figure 1 shows that the industry is critically slow to recover from the war shocks of economic development against the background of the rapid recovery of the national economy as a whole.

The study of the dynamics of indices of the physical volume of gross domestic product and construction to the previous year in Ukraine in 2013–2024 (Fig. 2) confirms the previously made conclusions and indicates that construction in Ukraine is a leading industry within the development of economic crises, which can be seen by the lagging behind of the construction industry from the development of the country's economy in 2013–2015, as well as by the outstripping pace of construction development in relation to the economy of the state in 2016–2021. On the other hand, it is clear that the construction industry was critically unprepared for military changes in the development of Ukraine's economic system in 2022, but tried to compensate for the decline in 2023 and 2024.

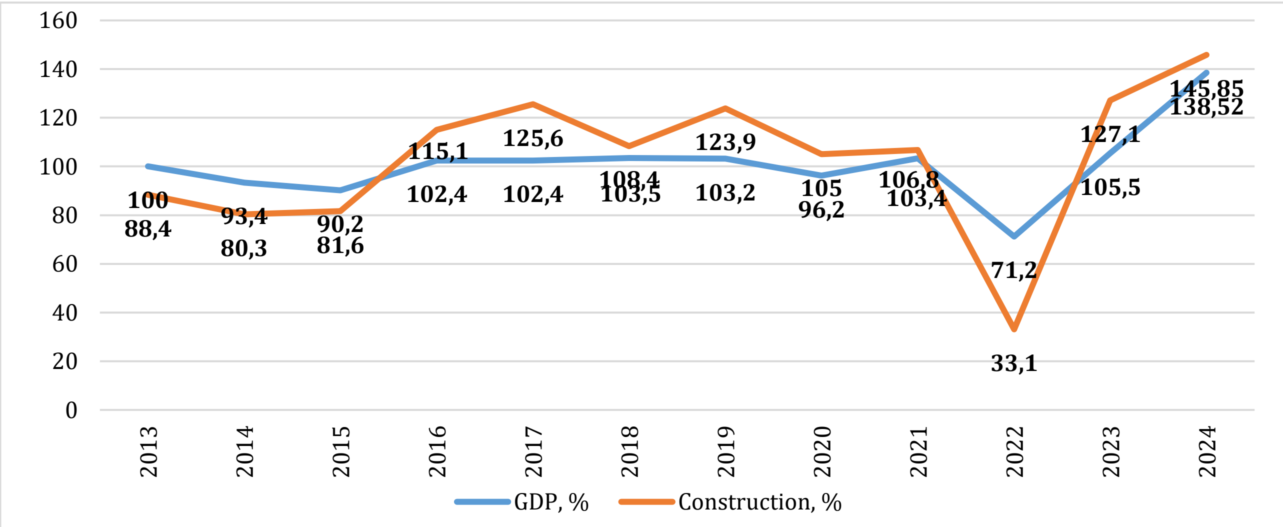

Figure 2. Dynamics of indices of the physical volume of gross domestic product and construction to the previous year in Ukraine in 2013–2024, %

Source: Systematized by the author according to the data [18].

The analysis of the dynamics of the number of enterprises in general and the number of construction enterprises in Ukraine (Table 1) shows the same picture as was determined in the analysis of GDP, namely: the number of construction enterprises began to decline in 2014–2015, and starting from 2016, the growth of the number of construction enterprises in the country began; during the pandemic, there was a rapid increase in the number of construction enterprises, which ended in 2021; In 2022, there was a sharp decrease in the number of construction enterprises; In the period 2023 and 2024, there was an increase in the number of construction entities, but in 2024, the growth rate of the number of construction enterprises lagged behind the national growth rate of the number of business entities. Studying the dynamics of the number of enterprises in general and the number of construction enterprises in Ukraine in the period from 2013 to 2024, it is possible to see that against the background of a small increase in the total number of enterprises in the country (+ 227338 units or + 0.89%), the number of construction enterprises decreased (-1824 units or -1.97%), which was caused, first of all, by the low adaptability of the construction business to the war challenges of the development of economic relations in the country, as well as competitiveness issues.

The presented conclusions are confirmed by changes in the share of construction enterprises in the total number of enterprises in the country during the study period, which decreased in 2024 compared to 2013 by 0.46% to 2.62% (Table 1). Separately, we draw attention to the discrepancy between the share of construction enterprises in the total number of enterprises in Ukraine and the share of the construction business in the country's GDP, which increased significantly in the period from 2022 to 2024. The above indicates an increase in problems related to the adaptation of construction business entities to the challenges of military development of the state's economy and problems with competitiveness.

Table 1. Analysis of the dynamics of the number of enterprises in general and the number of construction enterprises in Ukraine, as well as the share of construction enterprises in the total number of enterprises in the country in 2013–2024

Years	In general, enterprises, units	Construction, units	Share of construction in the total number of enterprises, %
2013	1722070	52983	3.08
2014	1932161	52189	2.70
2015	1974318	55128	2.79
2016	1865530	50208	2.69
2017	1805059	50261	2.78
2018	1839593	52531	2.86
2019	1941625	56855	2.93
2020	1973577	56926	2.88
2021	1956248	56627	2.89
2022	1732508	44720	2.58
2023	1913193	50621	2.65
2024	1949408	51159	2.62
Basic absolute deviation, units.	227338	–1824	-0.46
Basic growth rate, %	100.89	98.03	97.16

Source: Systematized by the author according to data [19].

An important marker of business adaptation to economic challenges is the formation of net profit or net loss. Let's study the dynamics of net profit (loss) in general for the country's enterprises and for construction enterprises of Ukraine in 2013–2024 in Figure 3.

We note the critical problems of the country's construction sector regarding the formation of net profit, since for twelve years of the study, construction enterprises received a net profit within only four years (2018, 2019, 2021, 2023), while the country's economy generated net profit for eight years out of twelve years of the study (2016, 2017, 2018, 2019, 2020, 2021, 2023, 2024). And even in periods of profitable activity, the share of construction enterprises in the total amount of net profit received by Ukrainian enterprises was insignificant: in 2018 – 1.5%; 2019 – 2.6%; 2021 – 0.7%; 2023 – 0.3%. It should be noted that in addition to 2019, the share of net profit received by construction enterprises in the total amount of net profit received by enterprises of Ukraine did not correspond to the share of the construction industry in the country's GDP, as well as the share of the number of construction enterprises in the total number of enterprises of the state. On the other hand, in 2022, construction companies provided 7.0% of the country's net loss.

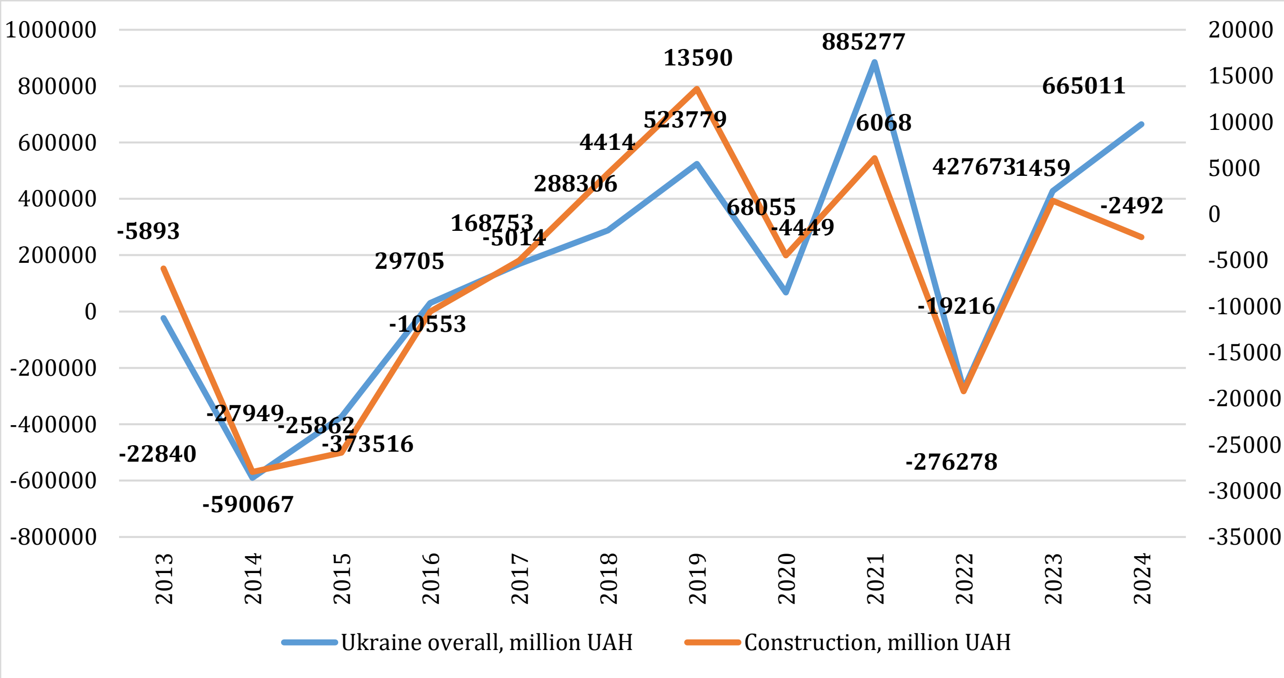

Figure 3. Dynamics of net profit (loss) in general by enterprises of the country and by construction enterprises of Ukraine in 2013–2024, mln UAH.
Source: Systematized by the author according to [20].

Taking into account the problematic situation with the formation of net profit (loss) in the construction sector, we consider it appropriate to determine which enterprises (large, medium, small, micro) were least adapted to economic challenges, especially during the war development of the Ukrainian economy. For this purpose, we will study the dynamics of net profit (loss) for large, medium, small and micro enterprises of the construction industry of Ukraine in 2013–2024 (Fig. 4).

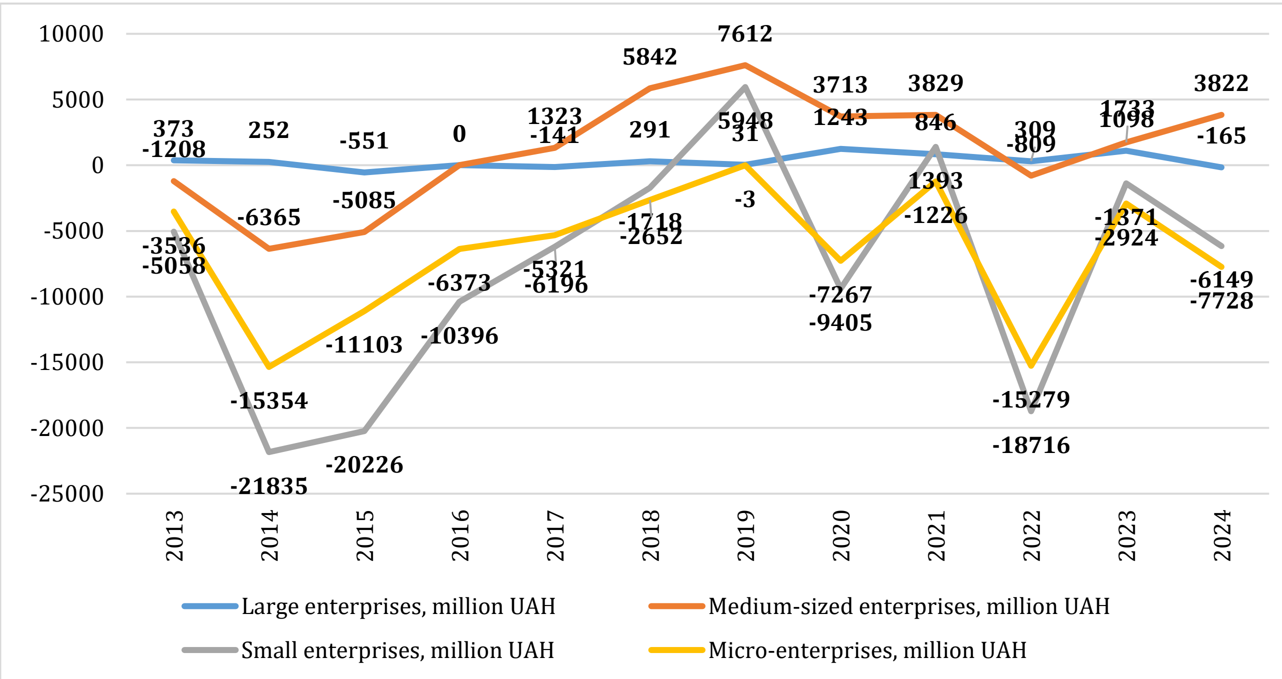

Figure 4. Dynamics of net profit (loss) by large, medium, small and micro enterprises of the construction industry of Ukraine in 2013–2024, mln UAH.
Source: Systematized by the author according to [20].

Having studied the data on net profit (loss) for large, medium, small and micro enterprises of the construction industry of Ukraine for the period from 2013 to 2024, it is possible to draw the following conclusions: all enterprises of the construction industry were not sufficiently adapted to economic challenges during the study period; the highest level of adaptation and competitiveness was shown by medium-sized enterprises; Large construction enterprises were also adapted to economic challenges to some extent, but their share and impact on the construction industry during the study period was not significant; Please note that in 2016 large and medium-sized enterprises did not carry out operational activities, which indicates critical problems in terms of adaptation and competitiveness; small construction enterprises generated net profit only in 2019 and critically responded to all economic challenges identified in the study; The least adapted to economic challenges and the least competitive during the study period were microconstruction enterprises, which formed only a net loss throughout the study period.

Summing up the assessment of the level of adaptation of construction enterprises in Ukraine to economic challenges, we note the insufficient level of adaptation in the period from 2013 to 2024. At the same time, the main problems with adapting to economic challenges arose in the construction industry with the beginning of the full-scale invasion of Ukraine by Russian aggressors. Small and micro-enterprises in the construction sector in the country suffered the most from the low level of adaptation to economic challenges. Problems with adaptation led to the withdrawal of enterprises from the construction industry due to the loss of competition and the generation of losses (Table 1, Fig. 3 and Fig. 4).

In modern conditions, taking into account the conducted research, it is the increase in adaptation to economic challenges, especially those caused by the military development of the Ukrainian economy, that is the key to ensuring a sufficient level of competitiveness for Ukrainian construction enterprises. At the same time, the construction business in Ukraine should pay attention to the following aspects of increasing adaptability to economic challenges in the context of increasing its own competitiveness in the market of construction services and works: development and implementation of adequate methods for assessing the level of adaptation to economic challenges and the level of competitiveness in the relevant markets; identification and formation of a list of key negative factors influencing adaptability to economic challenges and competitiveness; shifting the emphasis in personnel training towards ensuring anti-crisis resilience of business in the face of increased impact of economic challenges on competitiveness; development and implementation of strategic measures to increase the level of adaptation to economic challenges and the level of competitiveness in the relevant markets; increasing innovation activities with an emphasis on the introduction of new construction technologies, digitalization of business activities, optimization of managerial work; formation of a set of resources for the implementation of strategic measures to increase the level of adaptation to economic challenges and the level of competitiveness; development and implementation of a mechanism for increasing adaptation to economic challenges and increasing the level of competitiveness (Fig. 5).

We note the critical need to increase the adaptation of construction enterprises of Ukraine to economic challenges within the framework of ensuring a level of competitiveness of construction business activities adequate to market requirements.

6. Conclusions

Business entities in the construction sector of the economy of Ukraine are under significant pressure from economic challenges, especially those related to the conduct of military operations on the territory of the country. On the other hand, we note significant problems with ensuring the competitiveness of construction enterprises, which was expressed in a decrease in the share of the construction industry in GDP (loss of competition to other industries for resources and money of consumers), decrease in the number of construction enterprises (loss of competition in the construction services market and exit from the market) and critically negative trends within the formation of net profit (loss), especially by small and micro-construction business units (non-compliance with competitive market conditions). In such conditions, construction enterprises should look for opportunities to ensure their own competitiveness, which can be done on the basis of increasing the level of adaptation to economic challenges. For this purpose, it is important to develop and implement a set of optimization approaches and a mechanism for increasing adaptation to economic challenges and competitiveness of construction enterprises in Ukraine.

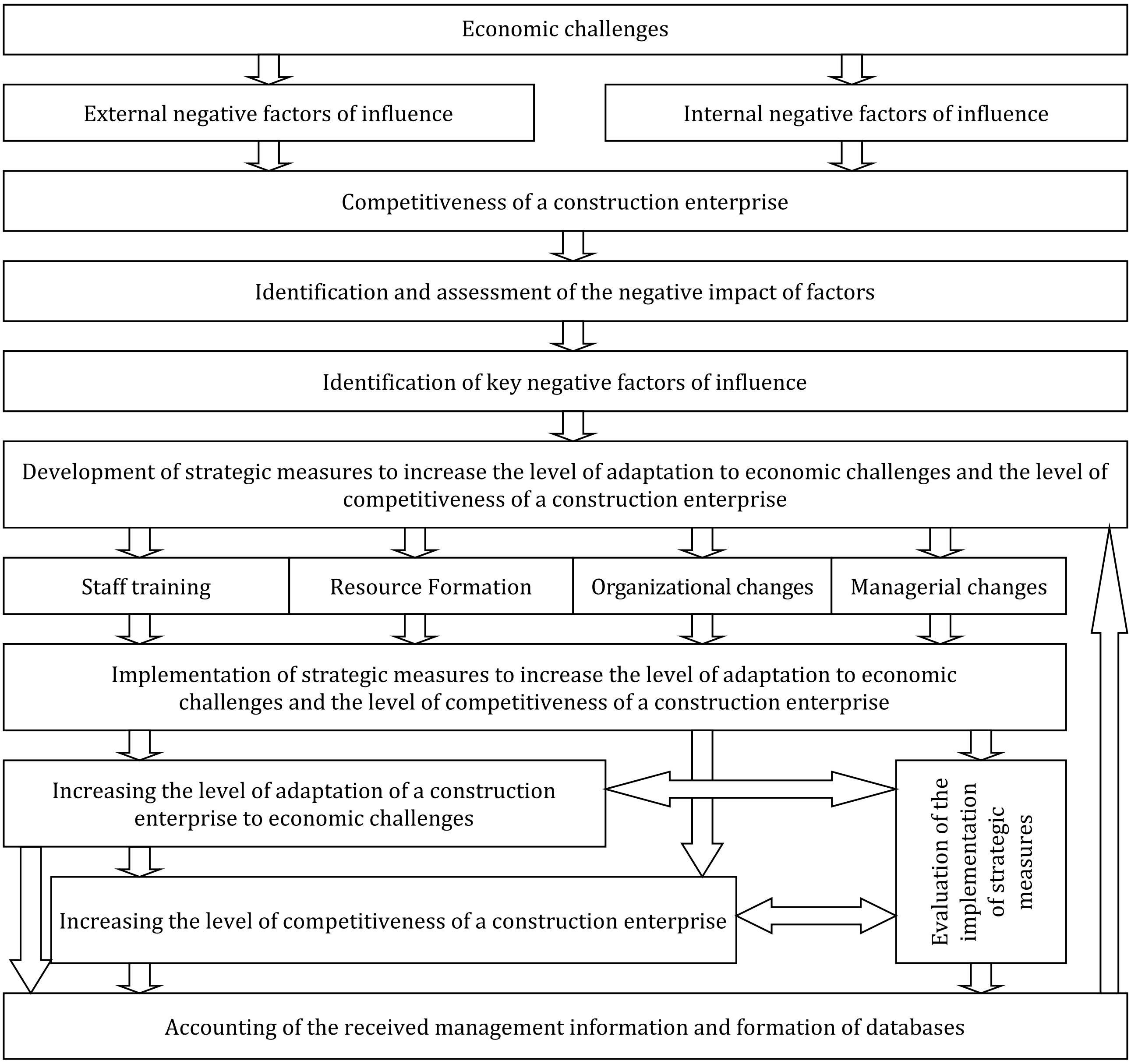

Figure 5. Mechanism for increasing adaptation to economic challenges and competitiveness of construction enterprises of Ukraine

Source: Own research.

The practical implementation of the proposals and conclusions of this article should be considered in the context of their importance for ensuring the competitiveness of Ukrainian construction enterprises, as well as stimulating the increase of adaptability to the economic challenges of the Ukrainian construction business. Prospects for further research on the basis and using the scientific results of the study are to find ways to increase the level of competitiveness of Ukrainian construction enterprises of small and micro businesses in the face of economic challenges.

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Problems of Applying Artificial Intelligence Technologies in Enterprise Tax Accounting

Yuliia Popivniak [1 *]

[1] *Ivan Franko National University of Ukraine (Ukraine). Associate Professor at the Department of Accounting and Audit, PhD in Economics, Associate Professor.*

* ***Corresponding Author,*** e-mail: yuliia.popivniak@lnu.edu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.14

Received: 12 November 2025
Accepted: 15 December 2025
Published online: 24 December 2025

ABSTRACT

The article investigates the limitations and risks associated with the use of artificial intelligence (AI) technologies in enterprise tax accounting systems. Since the tax environment for enterprises in Ukraine is characterized by instability, complexity, and, in some cases, insufficient regulation of certain types of activities or operations, and the introduction of modern digital technologies is occurring at a rapid pace, the topic of this study is extremely relevant. The purpose of this study is to identify the primary challenges of applying AI technologies in tax accounting for domestic enterprises and to propose solutions or mitigate the negative consequences associated with such applications. The methodological foundation of the study is based on a systemic approach combined with scientific methods such as analysis, synthesis, generalization, induction, and deduction. As a result of the research, the stages of AI evolution in taxation were generalized – from the automation of repetitive routine operations to the deep integration of complex AI systems capable of analyzing regulatory acts, forecasting tax liabilities, and supporting managerial decision-making. By analyzing both international and domestic experience in the application of AI in the tax domain, the study identifies the main areas of its use at the enterprise level. At the same time, several problems have been identified that ultimately reduce the effectiveness of AI use: lack of appropriate competencies among employees, difficulties in integrating with existing technologies at the enterprise, significant costs for implementing AI, especially at the initial stages, difficulties in assessing the profitability of investments in AI, low data quality, as well as environmental, social and ethical risks, and cybersecurity problems. The article substantiates measures that enable the successful implementation of AI (increasing the level of digital competencies of employees, paying special attention to the protection of tax data and the transparency of AI algorithms, retaining a key function for humans – making management decisions, phased application of AI technologies, etc.). It is concluded that the balanced and conscious use of AI, taking into account all the caveats and risks, can transform tax accounting, turning it into an effective tool for managing the activities of the enterprise.

KEYWORDS

cybersecurity, tax accounting, tax risks, digital technologies, artificial intelligence.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК: економіко-правові проблеми

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Проблеми застосування технологій штучного інтелекту в податковому обліку підприємства

Юлія М. Попівняк [1 *]

[1] *Львівський національний університет імені Івана Франка (Україна). Доцент кафедри обліку і аудиту, канд. економ. наук, доцент.*

*** Автор-кореспондент,** e-mail: yuliia.popivniak@lnu.edu.ua

СТАТТЯ

Дослідницька

DOI: **10.70651/3083-6018/2025.12.14**

Отримана: 12.11.2025 р.
Прийнята: 15.12.2025 р.
Опублікована: 24.12.2025 р.

АНОТАЦІЯ

У статті досліджено обмеження та ризики використання технологій штучного інтелекту (ШІ) в системі податкового обліку підприємства. Так як податкове середовище функціонування підприємств в Україні характеризується нестабільністю, складністю, а, подекуди, недостатньою врегульованістю тих чи інших видів діяльності або операцій, а запровадження сучасних цифрових технологій відбувається стрімкими темпами, тема дослідження є вкрай актуальною. Мета дослідження – виокремлення основних проблем застосування технологій ШІ в податковому обліку вітчизняних підприємств та обґрунтування пропозицій щодо їх вирішення чи мінімізації пов’язаних з таким застосуванням негативних наслідків. Методологічну основу дослідження становили системний підхід у поєднанні з такими методами наукового пізнання як аналіз, синтез, узагальнення, індукція й дедукція. У результаті проведеного дослідження узагальнено етапи еволюції застосування ШІ в оподаткуванні – від автоматизації повторюваних рутинних операцій до поглибленої інтеграції складних систем ШІ, здатних здійснювати аналітику нормативних актів, прогнозування податкових зобов’язань і підтримку управлінських рішень. Проаналізувавши світовий та вітчизняний досвід використання ШІ в податковій сфері, визначено основні напрями його застосування на рівні підприємств. Разом з тим ідентифіковано низку проблем, які, у кінцевому результаті, знижують ефективність використання ШІ: брак відповідних компетенцій у працівників, труднощі інтеграції з існуючими на підприємстві технологіями, значні витрати на впровадження ШІ, особливо на початкових етапах, складнощі з оцінкою рентабельності інвестицій у ШІ, низьку якість даних, а також екологічні, соціальні та етичні ризики, як і проблеми кібербезпеки. У статті обґрунтовано заходи, що уможливлюють успішне впровадження ШІ (підвищення рівня цифрових компетенцій працівників, зосередження особливої уваги на захисті податкових даних та прозорості алгоритмів ШІ, збереження за людиною ключової функції – прийняття управлінських рішень, поетапне застосування технологій ШІ тощо). Зроблено висновок, що виважене й усвідомлене використання ШІ зі врахуванням усіх застережень і ризиків може трансформувати податкових облік, перетворивши його на дієвий інструмент управління діяльністю підприємства.

КЛЮЧОВІ СЛОВА

кібербезпека, податковий облік, податкові ризики, цифрові технології, штучний інтелект.

1. Introduction

Already at the initial stages of its development, AI showed significant potential for application in various areas of human activity, including the economy. The key advantages of this technology are increasing the efficiency of operations and saving resources, including time, which makes it possible for employees to use them to perform more complex and analytical tasks. The field of accounting is no exception, because despite the relative conservatism and cautious approach to the introduction of new technologies, it is also increasingly amenable to digitalization.

At the same time, the wary attitude of accountants to the use of AI is justified. Their professional activity, in particular in terms of accounting for tax purposes, is characterized by a high level of complexity, labor intensity of calculations and dependence on often ambiguous legislative norms and their official explanations. At the same time, the result of tax accounting must be accurate and strictly follow the requirements of legal regulations, which generates distrust in the use of AI in the process of such maintenance.

Despite its many advantages, the adoption of AI technologies in taxation requires a balanced approach. The main risks and reduction of the positive effect of this implementation are associated with its implementation without first carefully studying AI tools and understanding the challenges that will have to be faced.

2. Literature Review

In the domestic and foreign scientific literature, the issues of the use of AI technologies in accounting (including tax) are sufficiently studied. Thus, A. Goyal [5] focuses on the advantages and problems of the introduction of AI, as well as promising areas of its application in taxation. The author's thoughts on the combination of AI intelligence and the speed of quantum computing are interesting [5].

A. Tsiutsiak et al. [16], as well as D. Kobylnik et al. [8] investigate the issues of digitalization of the tax system of Ukraine, including the use of AI, and highlight the main problems of such digitalization. O. Melnyk et al. [10] also focus on the impact of digital transformation on tax administration.

The possibilities of introducing AI technologies into the practice of tax accounting of small businesses, as well as their advantages and risks, as well as recommendations for improving the efficiency of such implementation, were studied by A. Shapovalova et al. [13].

The concept of AI, its development and possibilities of application in taxation are analyzed by Z. Huang [6]. The scientist also summarizes the obstacles to the introduction of this technology in the economic practice of the enterprise, as well as formulates the prospects for the further development of AI [6].

M. Wang [17] summarizes recent research on the use of AI in taxation, highlighting the advantages and disadvantages of this technology, future directions of its research. At that time, T. Shehu and O. Olukeye [14] consider the transformative impact of AI on tax compliance and reporting functions in enterprises. Scientists also formulate the positive and negative aspects of AI based on their analysis of practical situations of its implementation [14].

Contrary to a significant number of scientific sources that reveal the peculiarities of the use of AI in the tax sphere in one context or another, the issues of its implementation at the level of enterprises remain insufficiently studied. There is also a lack of research that focuses on an in-depth study of the problems of such application and the search for possible ways to overcome them. The above determines the relevance of the chosen topic of the article.

3. Problem Statement

The purpose of our study is to identify the main problems of using AI technologies in the tax accounting system of an enterprise, as well as to formulate recommendations for their avoidance or minimization of negative impact. To achieve this goal, the following tasks have been completed: the state and features of the use of AI in the tax accounting of an enterprise have been studied; the difficulties and challenges faced today by the domestic tax system and the enterprises operating in it are analyzed; the problems of the introduction of AI technologies are highlighted, taking into account the current level of their development and the peculiarities of management in Ukrainian realities; Ways to overcome these problems are proposed.

4. Methods and Materials

In the process of research, we applied a systematic approach in combination with such methods of scientific knowledge as analysis, synthesis, generalization, induction and deduction, as well as descriptive and illustrative methods. The information base of the study is scientific articles, analytical reports of international professional organizations and companies (including KPMG, OECD, ACCA, PwC, EY), as well as strategic regulations on the development of digitalization and the introduction of AI technologies in Ukraine. The study is based on a comparative analysis of approaches to the use of AI in tax accounting.

5. Results and Discussion

Today, AI penetrates into all areas of economic activity and is used in an increasing number of business processes at the enterprise. The need for its implementation in the tax sphere arose due to the complexity of tax legislation in Ukraine, the growth of information to be processed, as well as the need to increase the efficiency of tax compliance. In the initial stages of use, AI was used to automate standard, clearly regulated operations. At the beginning of the XXI century. expert systems based on the use of AI and could reproduce the logic of decision-making by tax authorities began to be introduced into taxation practice. In the 2000s, with the development of machine learning, the capabilities of AI also expanded. It began to be used to detect tax fraud and in-depth data analysis. In the 2010s, AI turned into an effective technology for automating VAT accounting and administration [5, p. 1214]. The current stage (from 2020 to the present) is characterized by a particularly rapid pace of AI implementation in tax practice (the so-called "deep AI integration" – the use of complex AI systems capable of analyzing regulations using natural language processing and performing predictive analytics to ensure compliance [14, p. 87].

At the legislative level, a number of regulations have been adopted that stimulate the introduction of AI technologies in Ukraine, in particular, in the tax sphere: the Strategy for the Digital Development of Innovations until 2030 (where the development and implementation of AI is one of the priority technological areas), the Concept for the Development of Artificial Intelligence in Ukraine, the Roadmap/White Paper on the Regulation of AI in Ukraine, Recommendations for the Responsible Use of AI: issues of intellectual property rights, as well as the Concept of the State Target Scientific and Technical Program for the Use of Artificial Intelligence Technologies in Priority Sectors of the Economy for the Period up to 2026.

Currently, about 70% of the world's tax administrations use AI in their work. The most common areas of such use are the detection of facts of tax evasion and tax fraud (74.4%), the use of AI in risk assessment processes (64%), in virtual assistants (59%), in order to support the process of administrative decision-making by officials (44%), to form recommendations for further actions (41%), etc. However, we emphasize the caution of the approach of tax administrations. None of them, due to uncertainty about the accuracy and security of AI, uses this technology to make final management decisions [11, p. 39].

With the development of AI technologies, in particular large language models (LLMs), they are increasingly used in corporate tax accounting. According to a survey conducted by KPMG, 74% of business leaders consider generative AI to be a key technology that will affect their business in the next year and a half [3, p. 4–5]. For example, in the international context, 21% of enterprises today use AI technologies to prepare and submit tax returns [2, p. 22]. At the same time, business entities that have implemented AI note significant advantages from their use, in particular, the acceleration of verification cycles in the preparation of these declarations by 5 times [1, p. 16].

Today, 27% of businesses in Ukraine use AI tools with a significant economic effect, and 7% plan to implement such tools within the next year. However, another 10 % of business entities, having introduced AI into their activities, consider the effect of its application insufficient [15, p. 14].

In general, tax accounting professionals should consider AI as a tool to expand their own capabilities and increase the efficiency of their work. Traditional AI technologies, including machine learning, help them process large amounts of information more efficiently and reduce the risks of errors associated with the use of, for example, spreadsheets.

In the field of taxation, AI can be successfully used to improve the speed and accuracy of tax calculations and the effectiveness of tax compliance, increase awareness by collecting and analyzing tax data (often in significant volumes) and liabilities, track changes and navigate tax legislation, prepare tax returns (including in real time), create tax strategies adapted to the specifics of cooperation with debtors and taking into account additional factors (structure of the enterprise, international activities, changes in tax legislation, etc.). AI technologies will also be useful when it is necessary to clarify unclear legislation, interpret tax data, analyze tax trends, or generate responses when communicating electronically with tax authorities or interacting with the latter to receive personalized support and advice (virtual tax assistants, assistance to taxpayers in filling out tax returns, online chats, etc.). AI features such as instant data retrieval, automation of routine repetitive tasks, and information summarization help free up time for strategic tax planning and predictive analytics, tax risk management, improving enterprise tax accounting, and integrating the tax function with other business processes in the enterprise.

Thus, by introducing AI technologies into tax accounting, it is possible to significantly increase the efficiency of its implementation, improve the quality of decisions made while ensuring their innovation, reduce the costs of the enterprise and improve its experience of interaction with counterparties. At the same time, there are certain success criteria that allow assessing the feasibility of AI implementation and its impact on the activities of the enterprise: saving time and increasing the efficiency of operations, increasing the accuracy of the latter and reducing the number of errors, improving the decision-making process, achieving a high level of tax compliance and risk management, reducing costs, increasing the productivity of tax specialists. These criteria should be guided by when deciding on the use of AI in tax accounting [5, p. 1215].

It is worth adding that examples of AI tools that are used in tax accounting today are Bloomberg Tax, TaxGPT, Tax Star, Xtracta, Blue J, TurboTax, Fathom, Avalara, Simpla AI, AI-Accountant, etc.

At the same time, along with the obvious advantages of introducing AI into the accounting practice of enterprises, there are also difficulties in such implementation. According to surveys, enterprises see the following potential risks of using AI in tax accounting: a decrease in the accuracy and reliability of tax information (49%), a decrease in the role of human judgment in tax decisions (42%), an increase in the likelihood of errors or misinterpretations (34%), regulatory risks (30%), and data security breaches (30 %), privacy issues (24%), ethical issues and bias (17%), lack of control over AI-generated responses (14%) [9, p. 15].

The COVID-19 pandemic, and subsequently the full-scale war, have increased the general uncertainty about tax administration and burden in Ukraine. We note similar trends in the international context. According to the surveys, enterprises note the need to constantly monitor complex and changing national legislation and regulatory requirements as the main challenge of organizing work with taxes (50% of respondents). At the same time, the difficulty of responding to increased control and coercive measures by tax authorities is noted (48% of respondents). In addition, the main destabilizing factor influencing the enterprise is called tax reforms (in particular, changes in the corporate income tax rate, digital taxes, etc.) (60 % of the respondents) [9, p. 7]. Among other challenges of the domestic tax system today, we can single out corruption risks and excessive pressure from tax authorities, insufficient qualification of accountants and tax specialists, imperfection of existing tax services and insufficient use of digital technologies (robotics, AI, etc.), high risk of fines and problems of integration with international standards (especially regarding VAT accounting, transfer pricing, etc.).

The large-scale implementation of AI in enterprises is also complicated by the problems of integrating core business processes and systems, as well as the lack of uniform tax data standards.

In general, among the problems of using AI in accounting, researchers distinguish those related to the technological aspect/data aspect (data availability and quality, digital maturity, etc.), human (insufficient management support, lack of appropriate work skills, etc.), operational (reengineering of business processes, resource management, etc.), as well as ethical and regulatory aspects (data integrity, security, reliability, etc.) [7, p. 13].

Our own approach to distinguishing the problems of AI implementation in, in fact, the tax practice of the enterprise is presented in Fig. 1. First of all, input data in the tax sphere is often characterized by complexity, fragmentation, isolation and, in some places, inconsistencies. This significantly reduces the positive impact of the use of AI (80% of specialists note the lack of readiness of data for their processing by AI as the main obstacle to the implementation of the latter [4, p. 11]). related to tax data – ensuring their protection. This data is sensitive and confidential, so the issue of its security when using AI in a cyber environment is extremely important.

The expansion of the use of AI inevitably leads to the loss of jobs for employees. First of all, this applies to administrative and auxiliary employees of accounting departments of the enterprise. However, those accountants who resist (including cultural) the introduction of new digital technologies at the enterprise, as well as do not have the skills to integrate them with other technologies and practical application in their work (including interpretation, verification, correction and supplementation of AI-generated results) are also at risk. Studies show that 95% of tax specialists are convinced of the insufficient level of their professional knowledge. At the same time, 42% consider the ability to work with AI to be the main skill that will be necessary for them in the future [12, p. 9]. In general, there are four types of AI users – skeptics, beginners, researchers and experienced users [5, p. 1219]. Of all the above, it is the skeptics who are currently at risk of losing their jobs, because they avoid the use of AI and do not develop their skills in this direction.

Another category of problems with the use of AI in tax accounting is related to social challenges (inaccessibility or digital divide in tax administration). It can often be biased or discriminatory against certain groups of taxpayers, which is unacceptable, because it is important that the actions of AI in taxation comply with generally accepted societal values and principles of fairness. Difficulties with the transparency of decision-making caused by the so-called "black boxes" of AI reduce the reliability and accuracy of the results obtained and make it difficult to distinguish responsibility for such acceptance. Sometimes AI technologies make mistakes or "hallucinate", and such mistakes are not always obvious. The above is a great threat to the correctness of the calculation of tax liabilities, the preparation of tax returns. AI errors reduce taxpayers' trust in individual decisions made on the basis of erroneous data, as well as in regulatory authorities and the tax system as a whole.

It is also important to properly monitor the work of AI and determine the specific parameters of its functioning. This will reduce the risks of the introduction of AI technologies, although the allocation of such parameters in the context of existing gaps in its legislative regulation may not be an easy task.

It is impossible not to mention the environmental hazards that accompany the use of AI (carbon dioxide emissions, water consumption, electronic waste, etc.).

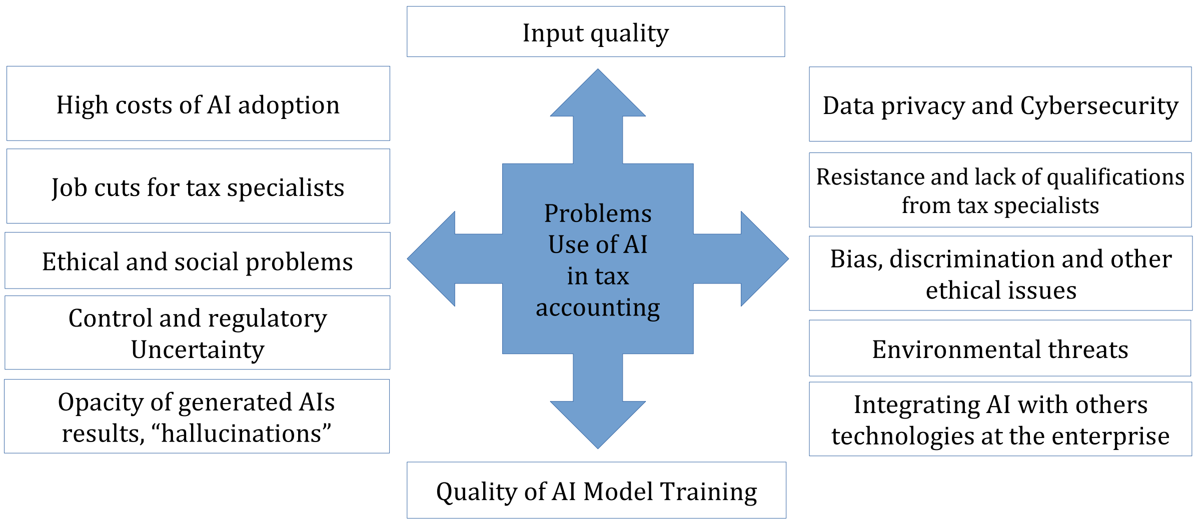

Figure 1. Problems and challenges of using AI technologies in corporate tax accounting
Source: Developed by the author.

As of today, business entities note that it is extremely difficult to create AI tools. At the same time, cooperation with suppliers to purchase them is possible only in 67% of situations, and internal tasks for the implementation of AI technologies are successfully implemented only in a third of cases. In addition, 95% of companies face problems in assessing and justifying the return on their investment in AI. Tax specialists and departments are no exception [4, p. 18].

To reduce the risks of implementing AI technologies in corporate tax accounting and avoid the problems listed above, we recommend a number of measures. First of all, to test the capabilities of AI, its application can start with small projects. Initially, only proven AI tools should be integrated, moreover, into already established and tested operations. Integrating AI into existing systems combines the advantages of both parties and, at the same time, compensates for their disadvantages – traditional technologies provide stability and proven methods, while AI offers innovation and efficiency gains.

Secondly, it is important to maintain human involvement in the tax accounting process, because despite the high potential of AI, it cannot completely replace the human factor. That is why tax accounting specialists should play a key role in its management, especially when it is necessary to carry out analytics, critical analysis or apply ethical or moral principles when making a final decision.

The implementation of AI technologies should not be carried out separately in accounting, but in interaction with other departments of the enterprise. It is also worth involving external consultants, suppliers of these technologies and counterparties of the enterprise. This will allow the exchange of ideas and knowledge, using the experience gained by all parties to the process. In addition, when using AI, it is useful to interact with employees of the tax administration. Among the advantages is the achievement of a higher level of trust in tax accounting and its legislative certainty, as well as consistency with existing legal requirements.

An important point is the continuous professional development of tax specialists. Investing in acquiring AI competencies and being able to integrate them into daily activities is decisive today. Employees' awareness of the opportunities and benefits of using AI will reduce their bias and rejection of technology, as well as allow them to use AI more effectively for tax accounting. At the same time, it is necessary to act strategically, forming a common digital culture at the enterprise, taking into account the intercultural and international aspects of AI implementation.

We also recommend the introduction of reliable cybersecurity systems that will protect tax accounting data conducted using AI technologies.

When using AI, it is imperative to ensure maximum transparency and logic of the results obtained. Employees of the enterprise should understand the origin of the information used by AI, with the possibility of obtaining links to it, as well as, if necessary, additional explanations. There must be confidence that the data on which the AI model is trained is also reliable and reliable. Data updates for use by AI tools should be daily. It should take into account the latest changes in tax legislation and remove outdated information that is no longer needed for work.

Finally, state support for initiatives to introduce AI into the practice of tax accounting at enterprises is decisive. It can be implemented through the introduction of financial incentives (tax incentives or grant support) that partially or fully compensate business entities for their initial costs of using AI tools. Development and further digitalization of state tax services (state electronic service Diia, module of the information and communication system of the State Tax Service "Tax Block", electronic services Public Information and Reference Resource, Electronic Cabinet of the Payer, Specialized client software for the formation and submission of reports to the "Single Window for Submission of Electronic Reporting", PRRO, Service "Pulse", Interactive Tax Map of Ukraine, InfoTAX chatbot, online consultations, electronic directories and registers, etc.) will also facilitate the integration of AI into the tax practice of enterprises.

6. Conclusions

In tax accounting, automating an increasing number of operations, AI is gradually turning into a tool for its transformation in general. The use of AI has a number of advantages, as it allows to increase the accuracy and speed of tax calculations, compliance efficiency, the quality of analytics, and, consequently, the validity of management decisions. It also makes it possible to use the labor potential of the enterprise to solve more complex and analytical tasks. The global economic experience confirms the conclusions made, but shows a cautious attitude to the introduction of AI technologies in taxation, due to the problems of reliability, data security, transparency of algorithms and gaps in the legislative regulation of this technology.

The positive effect of the introduction of AI technologies is reduced due to a number of problems that arise when using them, such as low quality of input data, lack of relevant competencies of personnel, high implementation costs, cyber threats, problems of ethical use of AI, etc. Under such conditions, the priority factors are the preservation of the decisive role of a person in decision-making, as well as investing in improving the digital skills of employees, the formation of a digital culture at the enterprise, ensuring cybersecurity and transparency of the results obtained using AI. A balanced and phased introduction of AI in tax accounting will significantly increase its efficiency in the context of the strategic development of an enterprise in a changing economic environment.

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT: Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Financial Stability of Tourism Enterprises in the Context of Post-Crisis Recovery and Adaptive Mechanisms of Economic Development

Liudmyla Chip [1] * Alla Rudych [2]

[1] *Poltava State Agrarian University (Ukraine). Associate Professor at the Department of Finance, Economic Research and Tourism, PhD in Economics, Associate Professor.*

[2] *Poltava State Agrarian University (Ukraine). Professor of the Department of Finance, Economic Research and Tourism, PhD in Economics, Associate Professor.*

* ***Corresponding Author,*** e-mail: chipljudmila@gmail.com

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.02

Received: 23 October 2025
Accepted: 27 November 2025
Published online: 11 December 2025

ABSTRACT

The article examines the economic stability of tourism enterprises as their ability to function effectively, adapt to market changes, and ensure profitability in conditions of competition and crisis. This is achieved through the rational use of resources, strategic planning, innovation, and quality services, which depend on internal factors (management, investment, personnel) and external factors (economic situation, demographics, political stability). Post-crisis recovery is characterized by unstable demand for tourism services, rising operating costs, limited access to financial resources, and changing consumer preferences among tourists. The model of financial adaptation of tourism enterprises in the post-crisis period is based on cost optimization through the reduction of unproductive costs, flexible personnel management and the use of outsourcing, as well as on the diversification of income sources through the development of domestic tourism, expansion of the range of services and the use of digital sales channels. Liquidity and financial risk management play an important role, involving the creation of reserve funds, restructuring of liabilities, and attracting state support. Investments in innovation, in particular the digitalization of business processes, online booking and the introduction of CRM systems, as well as strategic financial planning based on scenario forecasting, anti-crisis strategies and continuous monitoring of financial indicators, contribute to increased economic stability. The implementation of the financial adaptation model contributes to strengthening the financial stability of tourism enterprises through rational management of costs, liquidity, and financial risks. This allows them to maintain solvency even in conditions of economic instability. In addition, the investment attractiveness of companies increases, as the use of modern financial and innovative tools ensures transparency of their activities and increases the level of trust on the part of investors. This creates favorable conditions for the sustainable recovery of tourism enterprises after the crisis, their adaptation to market changes, and for laying the foundations for the long-term development of the tourism sector as a whole.

KEYWORDS

economic stability, post-crisis recovery, financial adaptation, tourism enterprises, energy independence.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Фінансова стійкість туристичних підприємств у контексті посткризового відновлення та адаптивних механізмів економічного розвитку

Людмила О. Чіп [1] * Алла І. Рудич [2]

[1] *Полтавський державний аграрний університет (Україна). Доцент кафедри фінансів, економічних досліджень і туризму, канд. екон. наук, доцент.*

[2] *Полтавський державний аграрний університет (Україна). Професор кафедри фінансів, економічних досліджень і туризму, канд. екон. наук, доцент.*

***Автор-кореспондент,** e-mail: chipljudmila@gmail.com

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.02

Отримана: 23.10.2025 р.
Прийнята: 27.11.2025 р.
Опублікована: 11.12.2025 р.

АНОТАЦІЯ

Стаття досліджує економічну стійкість туристичних підприємств як їх здатність ефективно функціонувати, адаптуватися до змін ринку та забезпечувати прибутковість в умовах конкуренції та кризових явищ. Це досягається за рахунок раціонального використання ресурсів, стратегічного планування, інновацій та якісного обслуговування, які залежать від внутрішніх факторів (управління, інвестиції, персонал) та зовнішніх факторів (економічна ситуація, демографія, політична стабільність). Посткризове відновлення характеризується нестабільним попитом на туристичні послуги, зростанням операційних витрат, обмеженим доступом до фінансових ресурсів та зміною споживчих уподобань туристів. Модель фінансової адаптації туристичних підприємств у посткризовий період базується на оптимізації витрат шляхом скорочення неприбуткових витрат, гнучкому управлінні персоналом та використанні аутсорсингу, а також на диверсифікації джерел доходів через розвиток внутрішнього туризму, розширення спектру послуг та використання цифрових каналів продажу. Важливу роль відіграє управління ліквідністю та фінансовими ризиками, що передбачає створення резервних фондів, реструктуризацію зобов'язань та залучення державної підтримки. Інвестиції в інновації, зокрема цифровізацію бізнес-процесів, онлайн-бронювання та впровадження CRM-систем, а також стратегічне фінансове планування на основі сценарного прогнозування, антикризових стратегій і постійного моніторингу фінансових показників, сприяють підвищенню економічної стійкості. Впровадження моделі фінансової адаптації сприяє зміцненню фінансової стабільності туристичних підприємств через раціональне управління витратами, ліквідністю та фінансовими ризиками. Це дозволяє їм зберігати платоспроможність навіть в умовах економічної нестабільності. Крім того, зростає інвестиційна привабливість компаній, оскільки використання сучасних фінансових і інноваційних інструментів забезпечує прозорість їх діяльності та підвищує рівень довіри з боку інвесторів. Це створює сприятливі умови для сталого відновлення туристичних підприємств після кризи, їх адаптації до ринкових змін та закладання основ для довгострокового розвитку туристичної галузі в цілому.

КЛЮЧОВІ СЛОВА

економічна стійкість, посткризове відновлення, фінансова адаптація, туристичні підприємства, енергонезалежність.

1. Introduction

Tourism occupies one of the leading places among the key sectors of the economy, combining economic, social and cultural aspects of the development of regions. The strong financial position of tourism enterprises allows businesses to fulfill their obligations to partners and employees, invest in the modernization of the material and technical base, introduce modern technological solutions in the service sector and improve competitiveness in the market as a whole. The implementation of the financial adaptation model can contribute to increasing the financial stability of tourism enterprises, increasing their investment attractiveness, ensuring sustainable post-crisis recovery, and creating the necessary prerequisites for the long-term development of the tourism industry as a whole.

2. Literature Review

Polova [14] analyzed the economic aspects of sustainable tourism, highlighted the main economic advantages of this approach (cost optimization through the use of energy-efficient technologies, increasing customer loyalty and positive multiplier impact on the development of regions). The team of authors Iakushev et al. [8] analyzed the features of socio-economic sustainability of tourism industry enterprises in crisis conditions (COVID-19 pandemic). Efthimiou [4] examines new trends in the tourism industry related to recovery and adaptation in a post-critical situation (transition to domestic tourism, increased emphasis on sustainable and health-oriented services, integration of advanced technologies and strengthening of resilience strategies), highlights the role of innovative practices and strategic adjustments (sustainable development, financial sustainability, digital inclusion and community engagement).

In the article by Minich and Hopkalo [11] the theoretical and practical aspects of assessing the financial stability of enterprises in the tourism and hotel sector in the context of economic recovery after the crisis are considered. The importance of financial stability as the main factor in ensuring the stable operation and competitiveness of companies in conditions of increased economic and social instability is highlighted. Demian and Tokar [6] paid special attention to the need to revise traditional methods of assessing financial stability. The authors propose an alternative methodology, which is based on a comprehensive analysis of the internal characteristics of the enterprise (managerial flexibility, ability to introduce innovations and adaptation to crisis conditions). The use of this approach allows for a more accurate assessment of the real financial potential of tourism enterprises in the context of military conflicts and economic instability. Article by Baldzhy and Raychev [2] contains a description of the components of financial stability that affect the functioning of hotel and restaurant business enterprises; conditions that reflect the level of financial stability; relevant indicators for its evaluation. Zubekhina [20] conducted a comprehensive comparative analysis of the financial indicators of travel agencies, taking into account the number of entities, revenue and average income per enterprise. This made it possible to identify the factors affecting the efficiency and competitiveness of regional tourism markets. Yunyk [19] established a statistical relationship between the level of digitalization, diversification of logistics routes and the level of adaptability of tourism enterprises. The team of authors is Eppang et al. [5] investigated the strategies of sustainability of tourism enterprises, where the Duhek model of sustainability is used as a basis (sustainability is considered as a meta-ability consisting of three stages – anticipation, overcoming and adaptation). Holod et al. identified mechanisms for ensuring the development of tourism business, which can become priority areas of anti-crisis management in Ukraine. Pavlenchyk et al. [12] considered digital aspects in the recovery of tourism enterprises after the crisis in conditions of multidimensional destruction. A key role is played by the use of scenario modeling, which allows adapting management decisions to the specific state and characteristics of the enterprise. Babko and Krukovska [1] considered financial models of management of tourism enterprises and analyzed methods of cost optimization in order to increase the efficiency of their activities in the context of dynamic changes in the market situation. Maliuha et al. [10] identified the factors that form the specifics of pricing in the hotel industry and influence the choice of the pricing strategy of the enterprise, which should be regularly reviewed and adapted in accordance with the current situation as a whole. Research by Pavliuk [13] showed that the implementation of a process approach has a positive effect on the ability of tourism establishments to adapt to changes, innovate and re-engineer business processes, and the importance of developing teamwork and establishing effective cooperation. Tsvilyi et al. [17] investigated the peculiarities of the national management of tourism market entities in the context of ensuring sustainability in the post-crisis economic environment.

3. Problem Statement

The article is aimed at considering the features and formation of economic stability of tourism enterprises in post-crisis conditions in order to ensure their increase in financial stability and create prerequisites for the successful development of the tourism industry.

4. Methods and Materials

In the process of work, systematization and review of scientific publications of domestic and foreign authors, official materials covering the modern development of the tourism industry and the problems of financial adaptation of enterprises were carried out. The application of this approach made it possible to generalize the theoretical provisions, identify the key factors of economic sustainability and substantiate the feasibility of using models of financial adaptation of tourism enterprises in the post-crisis period.

5. Results and Discussion

In today's conditions of instability of the global environment, destinations face unprecedented challenges. Having recently recovered from the effects of the pandemic, the tourism industry now has to deal with the challenges posed by military escalation and economic challenges. The vulnerability of the sphere is due to a number of factors, which include seasonality, high capital intensity, strong dependence on demand and mobility, as well as significant investment needs and high levels of indebtedness, which affect financial stability [16].

Economic sustainability of tourism enterprises is defined as the ability of tourism business entities to maintain solvency, profitability and competitiveness in an unstable external environment, as well as to quickly recover from crisis phenomena (pandemics, hostilities, economic recessions). The concept of economic sustainability of tourism emphasizes the level of sustainable development of the tourism economy in conditions of uncertainty and risk. The economic stability of the tourism industry is inextricably linked with regional development and the overall prosperity of the territory. The formation of economic sustainability of tourism is also consistent with spatial models of economic growth, which is aimed at achieving equilibrium. Usually, the economic sustainability of tourism has key points of fluctuations and growth, which manifest themselves in the form of a wave-like trend, which includes periods of transition and stagnation. The long-term development of this resilience is characterized by evolutionary dynamics, a moderate wave-like upward curve that varies depending on the pace of time and the degree of cooperation between different sectors of development [18].

Financial stability is a complex and multifactorial concept due to the influence of the existing environment and the highest form of financial stability of an enterprise is its ability to develop in changing conditions [2, p. 93]. The essence of financial stability lies in the effective formation, distribution and use of all available resources and reserves, while the forms of its manifestation can be of a diverse nature [9, p. 22; 6, p. 39]. In the tourism and hospitality industry, which is characterized by seasonality, significant competition and dependence on macroeconomic factors, financial stability plays an extremely important role. Financial stability reflects the ability of an entity to carry out its activities smoothly, meet financial obligations promptly, respond flexibly to changes in the external environment and rationally use available resources [3, p. 235; 11, p. 414]. Its analysis makes it possible to determine potential risks that are associated with the solvency and liquidity of the enterprise; assess the level of financial independence of the organization; analyze the effectiveness of asset and capital management; and develop sound management decisions on investment, lending, and strategic development planning [11, p. 416].

In the post-crisis period, the key success factor is the ability to quickly adapt the tourism business to innovations, updating service delivery technologies, communication methods, consumption patterns of goods and services, as well as business processes. To overcome the barriers of modernization and achieve success, domestic companies need to completely reform their organizational structure, creating separate divisions responsible for the digitalization of business. The market leaders will be only those travel companies where the management and staff have a strong motivation and desire to constantly improve the business management system [17].

Let us consider the key factors of resilience in the post-crisis period (Fig. 1). The sustainability of tourism enterprises is largely determined by the level of their financial flexibility, which consists in the ability to quickly redistribute financial resources, maintain a sufficient level of liquidity and respond promptly to changes in the external environment. Diversification of income makes it possible to reduce dependence on certain tourist destinations, seasonal fluctuations in demand, or external crisis influences. Expansion of the range of services, focus on domestic tourism, and development of specialized tourism products contribute to the stabilization of financial flows and the reduction of risks of activity. An equally significant condition for ensuring economic sustainability is the adaptability of the business model of tourism enterprises, which provides for flexible adjustment of management strategies, the use of digital technologies and the introduction of innovative approaches to the organization of tourism activities. Effective cost management, in turn, ensures the rational use of resources, optimization of operational processes, and an increase in performance. Taken together, these factors form the basis for the stable functioning of tourism enterprises and create prerequisites for their long-term development in the context of post-crisis recovery.

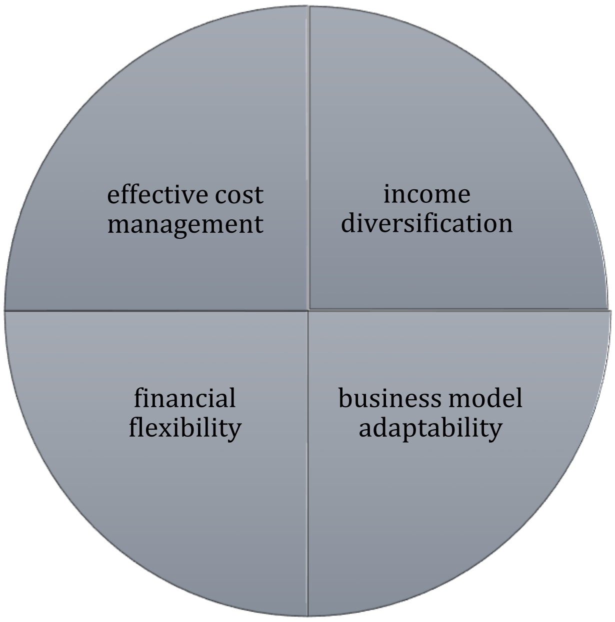

Figure 1. Key factors of resilience in the post-crisis period

Source: Compiled by the authors.

A financially stable enterprise can successfully withstand unexpected changes in market conditions, avoiding the threat of bankruptcy. In addition, the higher the financial stability of the company, the more advantages it has over competitors in the same sector of the economy when obtaining loans and attracting investments. Such an enterprise timely fulfills its obligations to the state, extra-budgetary funds, employees and contractors. This has a positive effect on its reputation and image (goodwill), which are key components of the entity's intangible assets [2, p. 90]. Effective tourism sustainability management can restore the supply of tourism products and the functionality of tourism services as quickly as possible through the prudent use of internal and external resources [18].

The competitiveness of tourism enterprises in crisis conditions depends on their ability to function as an integral system, where the key elements are logistical flexibility, digital integration and managerial readiness. It is the coordinated interaction of these components that allows you to quickly respond to risks, keep in touch with customers and maintain positions in the market even in an unstable environment [19].

Post-crisis recovery is characterized by unstable demand for tourism services, rising operating costs, limited access to financial resources, and changing consumer preferences of tourists.

In the context of the post-crisis recovery of the Ukrainian economy, when tourism enterprises have to deal with instability, relocation, loss of assets and changes in consumer behavior, digital solutions can play a crucial role in ensuring effective financial management [11, p. 417]. They contribute to the automation of accounting, allow you to analyze financial indicators in real time, minimize the risks of fraud and help you make informed management decisions. Modern digital tools provide automation of the processes of collecting, processing and analyzing financial information. The use of specialized software, such as ERP systems, CRM platforms or cloud services, provides an opportunity to monitor the movement of funds in real time, accounting for expenses and income, as well as analyze key financial indicators. For the tourism and hotel business, where financial flows often have seasonal fluctuations and unpredictability, this takes on special importance [11, p. 418].

Zubekhina proposed and scientifically substantiated a set of measures aimed at increasing the financial efficiency and competitiveness of tourism enterprises in modern conditions [20, pp. 65–66]. This includes:

– diversification of the tourist product, which provides for the expansion of the range of services and the introduction of new ideas to attract different categories of tourists;

– innovative marketing strategies (the use of Big Data, international promotion, and partnership campaigns with hotel and restaurant complexes) to increase brand awareness and increase the average check;

– cooperation in the format of public-private partnership, which opens up opportunities for investment in cultural heritage, the creation of tourism clusters for infrastructure development and stimulation of the growth of tourist flows;

– digitalization of business processes through the automation of bookings, the introduction of CRM systems and virtual reality technologies for conducting interactive excursions. This significantly increases the ease of service and increases conversion;

– increasing human resources through continuous training systems and exchange of regional experience forms the professional growth of personnel and improves the quality of service;

– Financial and economic instruments, including soft loans, grants and tax incentives, help attract investment and accelerate the development of the tourism industry [20, pp. 65–66].

The essence of financial stability of a tourism enterprise is considered as a parametric unity of the components of solvency, creditworthiness and provision of financial resources. Solvency means the presence of such an important aspect as the absence of a lack of funds (i.e., a shortage of financial resources) after the fulfillment of all financial obligations. That is why it is recommended to evaluate this indicator as part of the analysis of the structure of assets and liabilities, as well as their ratio, taking into account the data at the beginning and end of the period or for several periods. Creditworthiness is defined as a stable set of values of variables related to the allocation and use of financial resources. These elements form such characteristics as the ability of a tourism enterprise to fulfill credit obligations and repay debts. Financial security is interpreted as the volume of available assets, including cash, that meet the needs of the smooth functioning of production processes and the sale of a tourist product. Characteristic features of such security for tourism enterprises are the balance of assets and liabilities, as well as the stability of cash flows [3, pp. 226–229].

Diversification is an effective tool for the development of the tourism industry in times of crisis. By expanding the range of their offerings and adapting to new markets, businesses operating in the tourism sector can reduce dependence on a single source of income, as well as minimize the negative effects of crises on their operations. In addition, diversification opens up new prospects for the growth and development of the tourism sector [7].

The model of financial adaptation is a system of measures and tools that are aimed at ensuring the economic stability of the enterprise by promptly responding to crisis and post-crisis challenges. Let us consider the main elements of the model (Fig. 2). The first element of the model of financial adaptation is *cost optimization*. This involves the rationalization of the structure of costs of the enterprise in order to maintain financial stability in conditions of limited resources. unproductive costs, the introduction of flexible forms of personnel management, as well as the outsourcing of certain support functions, which reduces fixed costs and increases operational efficiency. An important element of the model is the *diversification of income sources*, which reduces the dependence of tourism enterprises on seasonal fluctuations and external risks. In the post-crisis period, the development of domestic tourism, the expansion of the range of tourist products through gastronomic, ecological and event tours, as well as the active use of digital sales channels to attract new target audiences, are of particular importance. The third element is *liquidity and financial risk management*, which ensures the ability of the enterprise to fulfill its financial obligations. This is achieved through the formation of reserve funds, debt restructuring and attraction of state programs to support the tourism business, which is especially relevant in the period of post-crisis recovery. The next element of the model is *investment in innovations aimed* at increasing the competitiveness of tourism enterprises. This process encompasses the digitalization of business processes, the implementation of online booking systems, the development of digital marketing, and the use of CRM systems for effective customer relationship management. The final element of the financial adaptation model is *strategic financial planning*, which involves the use of scenario forecasting of enterprise development, the development of anti-crisis financial strategies and constant monitoring of key financial indicators. This allows a timely response to changes in the external environment and ensures the long-term economic sustainability of tourism enterprises.

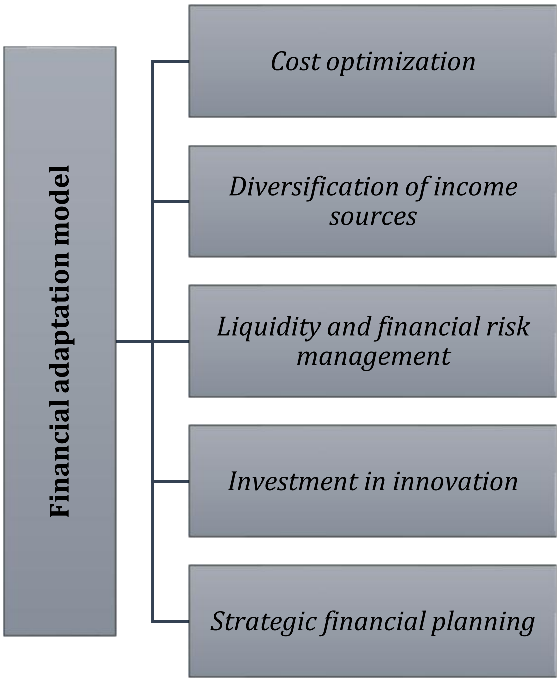

Figure 2. Main elements of the model of financial adaptation of tourism enterprises
Source: Formed by the authors based on [3; 6; 17;19].

The implementation of the financial adaptation model can contribute to increasing the financial stability of tourism enterprises, increasing their investment attractiveness, ensuring sustainable post-crisis recovery, and creating the necessary prerequisites for the long-term development of the tourism industry as a whole. Increasing resilience means not only recovering from current challenges, but also preparing for future uncertainties. This involves a strategic combination of innovation, diversification, political support, and community engagement [4, p. 2088].

Enterprises that integrate the principles of sustainable development into their activities usually also demonstrate more stable financial indicators. This is due to the reduction of operating costs, in particular through the introduction of energy-efficient technologies, rationalization of the use of resources and reduction of waste generation. The integration of sustainable tourism principles into the local economy forms a sustainable model of self-sufficiency in which all stakeholders benefit. In particular, business gains stability, the community gains socio-economic development, and tourists gain a unique, authentic experience. Sustainable tourism is transforming traditional approaches to business, combining financial profitability with environmental and social responsibility. The economic component of sustainable tourism is closely intertwined with other key elements, which emphasize its comprehensive nature [14].

Duhek's sustainability model offers a framework for building the resilience of tourism businesses in three stages: foresight, overcoming difficulties, and adaptation. Foresight encompasses strategic planning, risk assessment, and crisis preparedness. Overcoming difficulties involves quick financial measures and support to manage the consequences of the crisis. At the adaptation stage, long-term changes are carried out: diversification, introduction of innovations and cooperation. This helps to overcome challenges and ensure long-term success. For the hotel business, foresight includes crisis planning, staff training, and the creation of early warning systems. In the stage of overcoming difficulties, flexibility in strategies, technological support for remote services, and effective communication with guests are important. Adaptation requires redesigning space, diversifying revenues, and innovating. In the adaptation phase, the focus is on recovery policies and destination marketing to restore travelers' trust. Marketers must provide reliable information channels and readiness for crisis communication, adapt content to customer needs, emphasizing security and information. Adaptation should focus on new market segments and promote local experiences and sustainability initiatives [5, pp. 108–116].

Financial models of management of tourism enterprises need to be adapted to modern market conditions and should integrate advanced tools that are aimed at optimizing costs. The use of methods such as ABC analysis, financial leverage and automation of business processes contributes to increasing the efficiency of enterprises, as well as ensuring their competitiveness and stability in the market [1, p. 88–90]. Financial leverage is one of the key tools that allows companies to increase their return on equity by attracting external financing. For tourism businesses, especially in conditions of economic instability, the use of credit resources or attracting investors can be an effective means of developing a business while maintaining control over costs. For example, in the process of expanding the hotel chain, you can use bank loans to open a new establishment in a popular tourist destination. By applying financial leverage, companies are able to use the funds raised to buy real estate and carry out renovation work, which ensures a quick entry into the market. In case of successful operation of the new hotel, the income received will contribute to the repayment of the loan, and a significant part of the profit will remain at the disposal of the business owners [10, p. 52; 13, pp. 118–120]. Using financial instruments, travel companies are able to quickly launch projects related to the organization of tours and outdoor activities. In addition, travel agencies can use loans to conduct large-scale advertising campaigns. By investing in marketing activities, agencies are able to attract new customers, which helps to increase sales. A well-planned advertising strategy ensures prompt repayment of loan funds and helps to increase profitability due to the increase in revenue from attracting new customers [1, p. 88].

Digitalization contributes to the exit of tourism enterprises beyond the anti-crisis mode, transforming them into subjects of the innovative economy, which are characterized by a high level of flexibility, adaptability and investment attractiveness. The implementation of the digital transformation process in crisis circumstances requires the integration of general digital competence with a rational choice of tools due to the specifics of management goals. In this context, four functional areas play a key role: intelligent management systems, digital marketing, investment platforms and analytical services, which together form the core of the modern digital strategy of tourism enterprises [12].

Among the main areas of development of adaptive strategies for the restoration of sustainable tourism, infrastructure development, creation of sustainable competitive advantages, implementation of digital solutions to enhance socialization and increase marketing efficiency, stimulation of investment projects, popularization of environmental brands abroad and improvement of the institutional and regulatory framework stand out. The main objectives of the recovery models are to reduce the negative impact of tourism on the environment, strengthen social inclusion, ensure the effective functioning of tourism throughout the year, support local communities and cultures, green and digital transformation, involve all stakeholders, as well as jointly implement measures for the efficient use of resources, reduce emissions and ensure social sustainability. Increasing the performance of the tourism sector should be achieved through the implementation of a strategic approach to planning, which takes into account the forecasting of the development of the industry, the integration of innovative technologies to strengthen competitiveness in the international tourism market and the application of pan-European standards [15].

To ensure the further development of tourism and compliance with the principles of sustainable development, coordinated cooperation and coherence of activities at the bilateral, regional and international levels are needed [8, p. 486]. This includes the introduction of effective regulatory mechanisms, ensuring safety for tourists and industry workers, as well as consolidating the efforts of government agencies, the private sector and civil society. It is important to direct these efforts to the development and implementation of practically-oriented strategies to stimulate the development of the tourism sector. In addition, it is necessary to intensify investments in innovative technologies, environmentally friendly infrastructure and the creation of quality jobs.

Thus, the financial stability of tourism enterprises is the foundation of their long-term success, which requires an integrated approach to management and adaptation to a dynamic market environment.

6. Conclusions

In the post-crisis period, the economic sustainability of tourism sector enterprises is largely determined by their ability to adapt financially, which includes a flexible response to changes in the external environment, cost optimization, expansion of sources of income and effective management of financial risks. The use of the financial adaptation model allows tourism enterprises to ensure the preservation of solvency, increase the level of competitiveness and maintain the stability of financial indicators. At the same time, the long-term economic sustainability of enterprises in the tourism industry should be based on the introduction of digital technologies, stimulation of domestic tourism and the formation of a competitive tourism product. The integrative application of this model contributes to increasing the investment attractiveness of the tourism sector, intensifying entrepreneurial activity, as well as creating the necessary conditions for ensuring sustainable tourism development in the context of the post-crisis transformation of the national economy.

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Social Development: Economic and Legal Issues No. 12 (2025)

e-ISSN 3083-6018

SOCIAL DEVELOPMENT: Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Integration of Tourism and Hospitality into the System of Balanced Regional Development

Tetiana Zubekhina [1] *

[1] *Lutsk National Technical University (Ukraine). Associate Professor of the Department of Tourism and Hotel and Restaurant Management, Candidate of Pedagogical Sciences, Associate Professor.*

* ***Corresponding Author,*** e-mail: t.zubekhina@lntu.edu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.11

Received: 7 November 2025
Accepted: 10 December 2025
Published online: 21 December 2025

ABSTRACT

In the context of global economic instability, climate risks, and intensifying interregional competition, integrating tourism and hospitality into a balanced development model becomes a key prerequisite for sustainable growth. These sectors generate a multiplier effect through employment, investment, and the expansion of the SME base, provided that economic, environmental, and social objectives are aligned. Despite its high potential, the tourism and hospitality sector are vulnerable to shocks (pandemics, war), institutional gaps, and resource constraints. The absence of coordinated sustainable governance mechanisms reduces the sector's contribution to regional GVA and exacerbates territorial disparities. To substantiate the theoretical foundations and practical approaches to integrating tourism and hospitality into a system of balanced regional economic development and to quantitatively assess their impact on the economic, social, and environmental resilience of territories. Systemic, comparative, and statistical approaches were applied; regional indicator series for 2019–2023 were analyzed. Correlation analysis examined relationships among tourism tax revenues, the number of operators, wages in hospitality, GDP, and the dynamics of cultural assets. Strong positive relationships were identified between "tourism tax revenues – GDP" ($r = 0.88$) and "number of operators – GDP" ($r = 0.96$), confirming the sector's multiplier effect on the regional economy. The "wages – year" indicator ($r = 0.91$) indicates a gradual improvement in working conditions within the hospitality industry. The negative trend in "cultural assets – year" ($r = -0.90$) reflects the consequences of wartime destruction and the need to restore cultural infrastructure as a component of tourism potential. Practical recommendations were formulated, including institutional coordination, economic incentives for eco-innovation (Green Key/ISO 14001 certifications), digital flow management, development of local value chains, and international cooperation. Tourism and hospitality act as drivers of balanced regional development provided that comprehensive sustainable governance mechanisms are implemented, combining economic efficiency, social inclusion, and environmental responsibility. The proposed model and toolkit can serve as a foundation for post-crisis recovery policies and long-term regional competitiveness.

KEYWORDS

sustainable tourism, hospitality industry, balanced regional development, multiplier effect, sustainable management, correlation analysis, recovery policy.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Інтеграція туризму і гостинності у систему збалансованого регіонального розвитку

Тетяна В. Зубехіна [1*]

[1] *Луцький національний технічний університет (Україна). Доцент кафедри туризму та готельно-ресторанної справи, канд. пед. наук, доцент.*

* ***Автор-кореспондент,*** e-mail: t.zubekhina@lntu.edu.ua

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.11

Отримана: 07.11.2025 р.
Прийнята: 10.12.2025 р.
Опублікована: 21.12.2025 р.

АНОТАЦІЯ

В умовах глобальної економічної нестабільності, кліматичних ризиків і посилення міжрегіональної конкуренції інтеграція туризму та гостинності у модель збалансованого розвитку постає ключовою передумовою стійкого зростання. Ці сектори створюють мультиплікативний ефект через зайнятість, інвестиції та розширення бази МСП, за умови узгодження економічних, екологічних і соціальних цілей. Попри високий потенціал, туристично-гостинний сектор уразливий до шоків (пандемія, війна), інституційних розривів і ресурсних обмежень. Відсутність узгоджених механізмів сталого управління знижує внесок галузі у регіональний ВРП та посилює територіальні диспропорції. Необхідне емпірично обґрунтоване поєднання управлінських інструментів і політик. Обґрунтувати теоретичні засади та практичні підходи до інтеграції туризму і гостинності у систему збалансованого регіонального економічного розвитку та кількісно оцінити їхній вплив на економічну, соціальну й екологічну стійкість територій. Застосовано системний, порівняльний і статистичний підходи; опрацьовано регіональні ряди показників за 2019–2023 рр. Виконано кореляційний аналіз зв'язків між туристичним збором, кількістю операторів, заробітною платою у сфері гостинності, ВВП і динамікою культурних об'єктів. Сформовано рамку шести каналів впливу: економічного, соціального, екологічного, просторового, інституційного та підприємницько-інноваційного. Виявлено тісні позитивні зв'язки «туристичний збір – ВВП» ($r = 0,88$) та «кількість операторів – ВВП» ($r = 0,96$), що підтверджує мультиплікативний ефект галузі для регіональної економіки. Показник «заробітна плата – рік» ($r = 0,91$) свідчить про поступове покращення умов праці в індустрії гостинності. Негативна динаміка «культурні об'єкти – рік» ($r = -0,90$) відображає наслідки воєнних руйнувань і потребу у відновленні культурної інфраструктури як складової туристичного потенціалу. Сформовано практичні рекомендації: інституційна координація (DMO, PPP), економічні стимули для еко-інновацій (сертифікації Green Key/ISO 14001), цифрове управління потоками, розвиток локальних ланцюгів вартості та міжнародна кооперація (UNWTO, EU Green Deal). Туризм і гостинність є драйверами збалансованого регіонального розвитку, за умови впровадження комплексних механізмів сталого управління, що поєднують економічну результативність, соціальну інклюзію та екологічну відповідальність. Запропонована модель і набір інструментів можуть слугувати основою для політик післякризового відновлення та довгострокової конкурентоспроможності регіонів.

КЛЮЧОВІ СЛОВА

сталий туризм, індустрія гостинності, збалансований регіональний розвиток, мультиплікативний ефект, сталий менеджмент, кореляційний аналіз, політика відновлення.

1. Introduction

In the current conditions of global economic instability, climate change and increased competition between regions, the issue of ensuring balanced development of territories is of particular importance. Tourism and hospitality are among the most effective sectors of the world economy, capable of providing a multiplier effect for the development of small businesses, job creation, infrastructure improvement and investment attractiveness of regions.

At the same time, there is a growing need for sustainable approaches to the use of natural, cultural and social resources, which allow avoiding excessive anthropogenic load and socio-economic imbalances. Therefore, the study of the role of sustainable tourism and hospitality as factors of balanced regional development is extremely relevant both in scientific and practical dimensions. Sustainable tourism development involves a harmonious combination of economic, environmental and social aspects of activities aimed at meeting the needs of current generations without jeopardizing future generations.

The tourism and hospitality industries, being integrators of many types of economic activity, have a significant potential for influencing the structural transformation of the regional economy, contribute to the diversification of sources of income of the population, the development of entrepreneurship and the formation of a positive image of the territory. These issues are of particular relevance in the context of post-crisis economic recovery, decentralization of regional governance and strengthening the role of local communities. Therefore, the formation of effective mechanisms for the sustainable development of tourism and hospitality is becoming a necessary prerequisite for balanced regional economic growth.

2. Literature Review

The integration of tourism and hospitality into the system of balanced regional development is an important scientific and practical area of research, as it combines economic, social and environmental aspects of the development of territories and acts as a factor in increasing their competitiveness and quality of life of the population. In the context of tourism activities, the concept of "sustainable tourism" is defined by the World Tourism Organization (UNWTO) as a form of tourism that takes into account current and future economic, social and environmental impacts, meets the needs of visitors, industry, the environment and host communities. Unlike traditional approaches, sustainable tourism focuses not only on maximizing profits, but also on long-term conservation of resources and improving the quality of life of the local population [16].

In the theoretical aspect, the hospitality sector is considered as a socio-economic system that ensures the creation, provision and consumption of accommodation, food, leisure and communication services. Its development is closely related to tourism activities, forming a common economic space that affects the structure of the regional economy. I. Vakhovych et al. [15] studies were devoted to the analysis of trends in the development of the hospitality industry in the regions of Ukraine and its role in socio-economic growth. The paper considers key indicators (contribution to GDP, tourist tax, investment volumes), identifies regional disparities and a general decline in the dynamics of the industry, as well as outlines areas for increasing competitiveness, digitalization, greening, clustering, improving personnel skills and more efficient use of tourist tax funds.

The article by A. Mazaraki et al. [8] is devoted to the development of a system for ranking tourist regions of Ukraine by the level of their investment attractiveness based on economic and tourist indicators. As a result of the study, three groups of regions with high, medium and low investment potential have been identified, which allows assessing the effectiveness of tourism management and serves as a basis for making investment decisions.

The study by D. D. Utami et al. [14] aims to identify the key success factors and create the basis for the development of entrepreneurship in rural tourism with the aim of sustainable development of tourist villages. On the example of six successful villages in Indonesia, ten main factors have been identified – economic, social and environmental – that contribute to effective resource management, innovation and the growth of sustainable rural tourism.

The study by D. Mehraj et al. [9] is devoted to the study of factors influencing students' intentions to become "green" entrepreneurs in the field of tourism. Based on the Advanced Theory of Planned

Behavior (TPB) and Entrepreneurial Education, an analysis of 350 students found that attitudes, subjective norms, perceptions of behavior control, and the level of entrepreneurial education significantly determine the intention for sustainable entrepreneurship, which is essential for policymakers, educators, and future entrepreneurs.

The article by R. Strippoli et al. [13] is devoted to the analysis of the role of the circular economy in reducing the environmental, social and economic burden of the tourism industry by implementing the principles of reduction, reuse, recycling and recovery. It highlights the importance of applying environmental sustainability strategies to achieve the Sustainable Development Goals and raise awareness among tourism sector actors about the need for environmental education and responsible resource management.

In their study, A. Okhrimenko et al. [10] analyze the impact of internal and external migration caused by Russian military aggression on hotel activities in Ukraine and Poland. The results showed that due to the accommodation of IDPs and migrants, hotel occupancy increased (in Ukraine by 6%, in Poland by 13%), as well as new services, sources of financing and employment opportunities for migrants appeared, which increased the adaptability and economic sustainability of the hotel business.

A study by A. Kritikos et al. [7] analyzes the impact of the COVID-19 pandemic on the tourism economies of the islands of Crete and Chios, emphasizing the relationship between sustainable tourism, regional development and innovation. The results show the desire of stakeholders to diversify tourism services through digital transformation, ecotourism and cultural tourism, and suggest the creation of a Regional Tourism Innovation Index as a tool to assess innovation readiness and shape long-term development strategies aligned with EU policies and the transition to a green economy.

A. Ivanov et al. [6] investigate the provision of sustainable development of enterprises of the tourist and recreational complex of Ukraine as an important factor in balancing the economic, social and environmental interests of the state. It highlights the role of innovation, environmental standards, digital technologies and good governance in increasing industry competitiveness, infrastructure development and employment growth, which contributes to sustainable economic growth and social cohesion.

O. Baula et al. [1] devoted their study to the analysis of the state and dynamics of the development of the tourism services market in Ukraine in the context of global trends. The article compares the indicators of costs and revenues from international tourism, substantiates the need for structural restructuring of the industry and institutionalization of entrepreneurial activity through the creation of strategic alliances. However, Ukraine's potential is not sufficiently realized, for the use of which it is necessary to implement world experience and form a clear strategy for increasing competitiveness.

3. Problem Statement

In the current context of increasing global crisis phenomena, in particular economic instability, pandemic consequences, climate threats and military conflicts, tourism and hospitality remain among the most vulnerable, but at the same time potentially powerful sectors of regional development. Despite their significant multiplier effect on the formation of gross regional product, employment, development of small and medium-sized enterprises and infrastructure modernization, in many regions there is fragmentation of management, institutional inconsistency and lack of systematic integration of tourism and hospitality in the strategy of balanced development of territories.

The problem becomes especially acute in the conditions of post-crisis and post-war recovery, when the destruction of cultural and tourist infrastructure, a decrease in investment activity and an increase in socio-economic disparities significantly limit the opportunities for sustainable growth of regions. The lack of scientifically grounded mechanisms for coordinating economic, social and environmental interests within the tourist and hospitality complex reduces the efficiency of the use of local resources and does not allow to fully realize the potential of tourism as a driver of balanced regional development. In this regard, the need for a comprehensive study of theoretical and practical approaches to the integration of tourism and hospitality into the system of balanced regional development, as well as the development of effective management tools and policies capable of ensuring economic sustainability, social inclusion and environmental responsibility of the development of territories is actualized.

4. Methods and Materials

The methodological basis of the study is a systematic approach, which allows us to consider tourism and the hospitality sector as interrelated elements of the socio-economic system of the region. This approach provides a comprehensive vision of the interaction of economic, social, environmental and managerial factors that form the basis for the balanced development of territories.

The article is aimed at substantiating the theoretical foundations and practical approaches to the development of sustainable tourism and hospitality as factors of balanced regional economic development, as well as determining their impact on the economic, social and environmental stability of territories.

In the process of work, a number of complementary methods of scientific knowledge were used: comparative analysis, to assess regional differences in the development of the tourist and hospitality complex, to identify the best practices of sustainable management in domestic and foreign regions. Statistical methods for quantifying the impact of tourism and hospitality on key indicators of socio-economic development of regions. The use of an integrated methodological approach allows combining theoretical analysis with practical calculations, ensuring the reliability of conclusions and formulating scientifically grounded proposals to increase the efficiency of sustainable development of tourism and hospitality as factors of regional economic growth.

5. Results and Discussion

Tourism and hospitality act on regional development through a set of interrelated channels: economic (value added, investment, employment), social (quality of life, social cohesion), environmental (resource efficiency, environmental pressure), spatial (infrastructure, network effects) and institutional (policies, management, entrepreneurship) (Table 1).

Table 1. Channels of influence of tourism on regional economic development

Channel of influence	Key elements	Content of the impact
Economic channel	*Structural shifts*	The growth of tourist demand increases the share of the service sector in the GRP of the region, stimulates the development of transport, construction, and creative industries.
	Employment and income	Tourism creates jobs with low barriers to entry, forms supply chains for SMEs, and increases tax revenues to local budgets.
	Multiplier	There is a positive elasticity of GRP to the growth of tourist flows (0.3–0.5), which indicates a multiplier effect for the regional economy.
Social Channel	*Quality of life and inclusion*	The development of hospitality increases access to services, supports local crafts and cultural heritage, and expands opportunities for young people and women entrepreneurs.
	Social capital	Co-governance mechanisms (community-based tourism, clusters, PPP) strengthen social cohesion and community participation in decision-making.
Ecological and resource channel	*External effects*	Without effective management, tourism can create infrastructural overload and degradation of natural resources.
	Eco-innovation	The implementation of Green Key, ISO 14001, resource conservation and circular economy standards increases environmental sustainability and business competitiveness.
Spatial-network channel	*Infrastructure connections*	The development of transport, digital and communal infrastructure creates "spill effects" for neighboring communities.
	Polarization vs. diffusion	Tourist "anchors" (natural, cultural objects) can concentrate benefits in centers or spread them to the periphery under conditions of cluster coordination.
Institutional and political channel	*Regulatory environment*	Transparent permitting procedures, grants for eco-modernization, tax incentives form the institutional conditions for balanced development.
	Destination Management (DMO)	Professional organizations align the interests of business, government and the community, reduce transaction costs, and improve the quality of branding in the region.
Entrepreneurship and innovation	*Startup ecosystem*	The use of digital platforms, smart solutions and analytics systems increases the productivity and sustainability of tourism and hospitality enterprises.
	Localization of value chains	Deepening local procurement (food, crafting, events) reduces revenue leakage and strengthens the economic self-sufficiency of regions.

Source: Developed by the author.

According to a report by the United Nations World Tourism Organization (UNWTO), global tourism activity has practically recovered to pre-crisis levels, with more than 1.4 billion people traveling around the world in 2024, which is 99% of the figure of 2019, i.e., the period before the COVID-19 pandemic. The total revenues of the tourism industry in 2024 reached 1.9 trillion US dollars, which is on average equivalent to more than 1000 dollars per tourist. These data indicate a gradual recovery not only of tourist flows, but also of the financial stability of the sector, which is an important factor in global economic growth [16].

Regionally, Europe remained the most attractive travel destination, receiving 747 million tourists (more than half of the global flow). This result is especially noteworthy given the geopolitical tensions in the region, in particular Russia's ongoing war against Ukraine, which has affected the security sentiment of travelers. The Asia-Pacific region attracted 316 million visitors, indicating an active recovery from prolonged pandemic restrictions, while the Americas welcomed 213 million tourists, the Middle East 95 million, and Africa 74 million (Fig. 1).

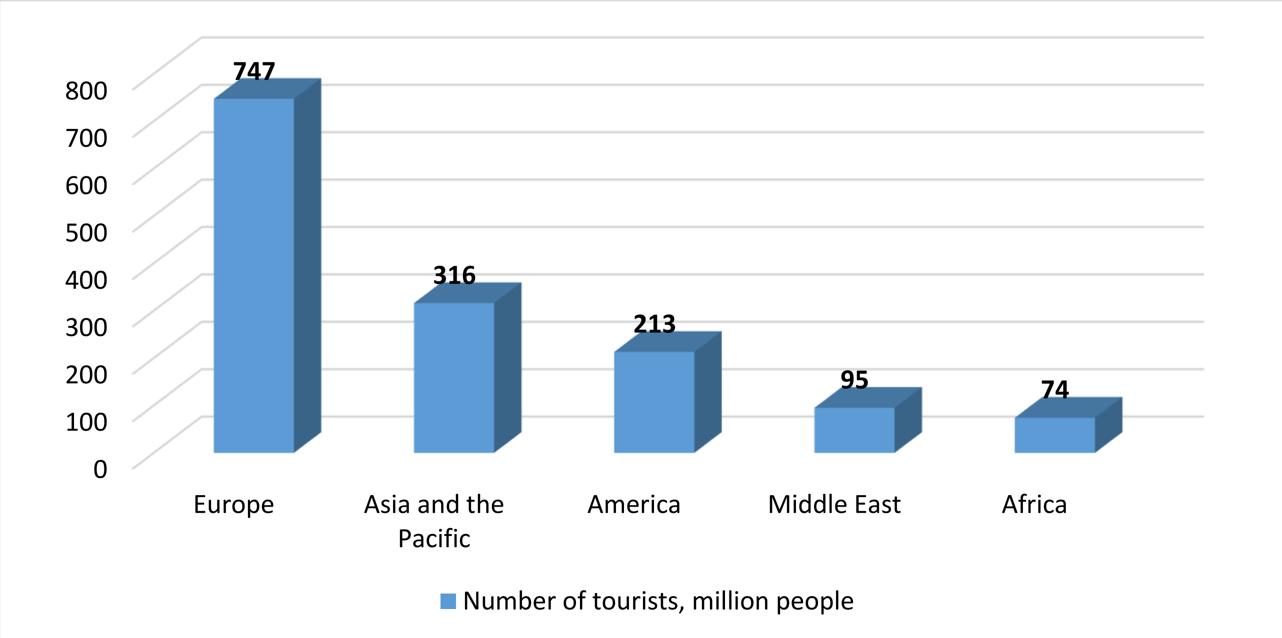

Figure 1. Number of international tourists by region in 2024

Source: Developed by the author based on [16].

At the country level, France (100 million tourists) and Spain (98 million tourists) retained the status of world leaders in terms of attendance. France's success is due to a combination of major events and cultural factors: the 2024 Summer Olympics, the opening of the restored Notre Dame Cathedral, and the commemoration of the 80th anniversary of the Allied landings in Normandy. These examples confirm that event tourism and cultural heritage are key drivers of international flows and economic effect in the hospitality industry [16].

We can see that the global tourism industry in 2024 demonstrated not only a high level of adaptability to global challenges, but also a significant contribution to regional and national economic growth, job creation and the development of related sectors.

Armed conflicts have a significant impact on the tourism industry, causing a sharp reduction in the flow of visitors, investments, employment and income in the hospitality sector. Tourism is one of the most risk-sensitive industries, as safety is perceived as a key condition for travel. At the same time, in the post-crisis period, tourism often becomes an instrument of economic recovery, ensuring the creation of jobs, the return of business activity and the international image of the country (Table 2).

The security factor is a key determinant of the recovery of tourist activity, the faster the country forms the image of a safe destination, the more actively investments and visitors return. Post-conflict tourism (memorial, social, volunteer) is an effective tool for integrating communities and preserving historical memory. Public policy and international support are crucial for the reconstruction of tourism infrastructure, in particular through grants, partnerships and the involvement of private businesses.

Georgia and Croatia show examples of successful use of tourism as a catalyst for recovery, while Ukraine has the potential to follow these models after the end of the war [4; 12].

Table 2. Comparative analysis of tourism in countries affected by war

Country	Main consequences for tourism	Recovery dynamics	Key areas of stabilization
Ukraine	Since the beginning of the full-scale invasion of the Russian Federation (2022), tourist activity has decreased by more than 90%. A significant part of the infrastructure is damaged, domestic tourism is limited by war risks.	Gradual recovery in the western regions (Lviv, Zakarpattia, Ivano-Frankivsk region) through the development of domestic tourism, business relocation, volunteer and memorial tourism.	Development of social and military-historical tourism, support for local initiatives, restoration of heritage sites through international funds.
Israel	Escalation of the conflict in 2023–2024 led to a reduction in the tourist flow by 60-70%. High demand volatility due to security risks.	Temporary decline in the second half of 2024; Partial recovery is expected from 2025 thanks to cultural and religious tourism.	Strengthening the image of safe destinations, developing religious pilgrimage tourism, investing in cybersecurity for tourism systems.
Georgia	The 2008 war and regional instability have affected the image of the destination, but the country is showing a high rate of recovery due to its positioning as a safe destination in the South Caucasus.	In 2023–2024. Georgia received more than 7.1 million tourists, which is 20% higher than in 2019.	Focus on wine, gastronomic and natural tourism, active promotion of the *Visit Georgia brand* and investments in infrastructure.
Croatia	After the wars of the 1990s. The country has become an example of successful post-conflict transformation of tourism into the basis of economic growth.	The tourist flow exceeds 18 million people per year, revenues are more than 20% of GDP.	Sustainable coastal tourism model, EU integration, international promotion of cultural heritage.
Bosnia and Herzegovina	After the conflict of the 1990s. Recovery was slow due to weak infrastructure and security stereotypes.	In 2024, the tourist flow reached about 1.2 million people, which is 70% of the pre-war potential.	Emphasis on ecotourism, cultural memory, historical routes, support of local communities by international donors.

Source: Developed by the author.

The results of the study confirm that tourism and hospitality are important structure-forming components of the regional economy, capable of providing a multiplier effect in the development of related sectors. The tourism industry in Ukraine is gradually recovering, demonstrating high growth rates of key financial indicators despite external challenges.

The correlation analysis confirmed the close relationship between the development of tourism enterprises and GDP growth, which emphasizes the strategic importance of the sector for balanced regional development. Institutional weakness in the field of cultural and nature tourism requires additional investment and support through government recovery programs. Salaries and tax revenues demonstrate stable positive dynamics, which is a sign of an increase in the socio-economic potential of the regions (Table 3).

Table 3. Key correlations

Showcases	Correlation coefficient (r)	Interpretation
Tourist tax – GDP	**0.88**	Strong positive dependence: tourism has a direct impact on economic activity.
Number of operators – GDP	**0.96**	The growth of entrepreneurial activity enhances the contribution to the regional product.
Salary – Year	**0.91**	Gradual improvement of working conditions and compensation in the industry.
Cultural Sites – Year	**–0.90**	Negative dynamics associated with the destruction and temporary inaccessibility of part of the cultural infrastructure.

Source: Developed by the author.

Fig. 2 shows that all major economic indicators (tourist tax, number of operators, salaries) have a strong positive correlation, while the number of cultural sites shows a negative trend due to the consequences of the war and the destruction of infrastructure.

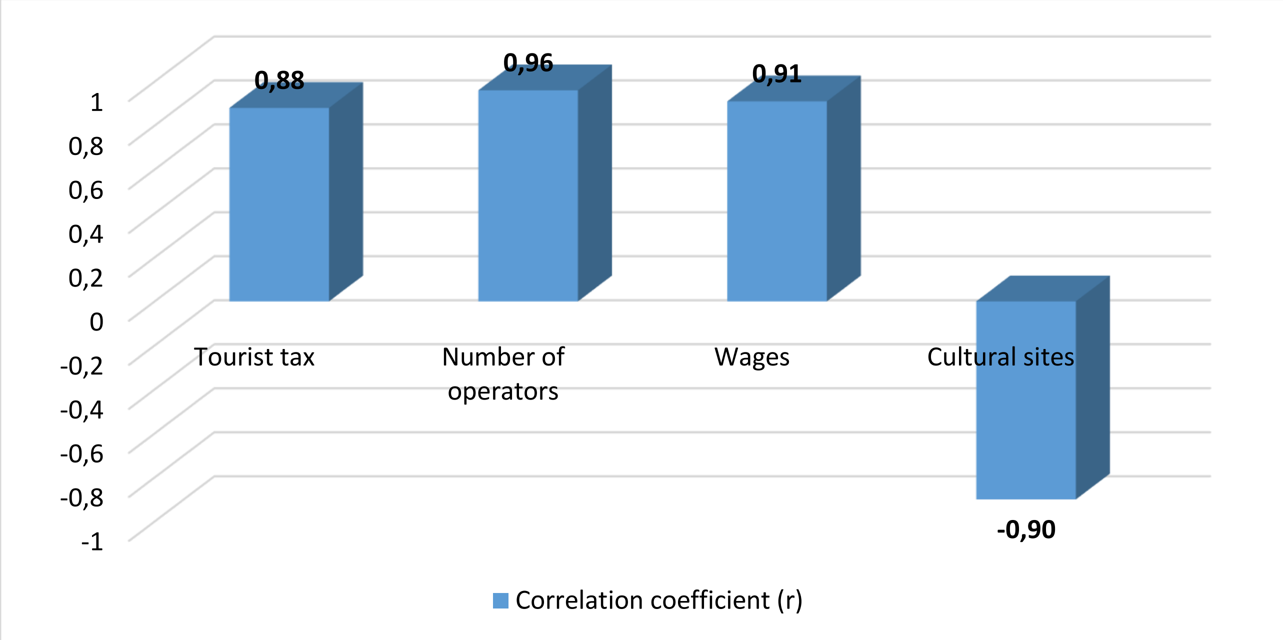

Figure 2. Correlation analysis of indicators of the tourism industry of Ukraine (2019–2023)
Source: Developed by the author.

The results of the correlation analysis confirmed the existence of close relationships between the key indicators of the development of the tourism and hospitality sector and macroeconomic indicators of regional growth. In particular, the high positive correlation between the tourist tax, the number of business entities and the gross regional product indicates a significant economic multiplier effect of tourism, while the negative dynamics of cultural infrastructure highlights structural imbalances and the need for targeted management intervention.

These patterns indicate that further growth of the sector is possible only if comprehensive sustainable governance mechanisms are implemented that combine economic incentives, environmental responsibility, social inclusion and institutional coordination. That is why the next stage of the study is the development of practical recommendations for the implementation of sustainable management mechanisms in the field of tourism and hospitality, aimed at strengthening balanced regional development [17; 18] (Table 4).

Table 4. Practical recommendations for the implementation of sustainable management mechanisms in the field of tourism and hospitality

Mechanism	Implementation tools	Expected effect
1. Institutional and organizational	Establishment of Regional Destination Management Centers (DMOs). Implementation of sustainable tourism strategies at the community level. Public-private partnerships in the field of tourism.	Coordination of the interests of business, government and communities. Reduction of managerial conflicts. Improving the effectiveness of strategic planning.
2. Economic and financial	Tax incentives for enterprises implementing "green" standards. Grants for eco-innovation and Green Key / ISO 14001 certification. Creation of Sustainable Tourism Development Funds.	Increasing the investment attractiveness of the industry. Reduction of costs and resource consumption. Hospitality employment growth.
3. Ecological and technological	The use of energy-efficient technologies in hotels and restaurants. Transition to renewable energy sources. Electronic Resource and Waste Monitoring Systems. Smart technologies for managing tourist flows.	Reducing the environmental burden. Rational use of resources. Increasing the reputational capital of the destination.
4. Social and humanitarian	Support for community-based tourism. Training programs for youth, women, veterans Promotion of cultural heritage through events and festivals.	Increasing employment and social inclusion. Strengthening local identity. Social stability and human capital development.

Mechanism	Implementation tools	Expected effect
5. Educational and communication	Educational programs on sustainable tourism in higher education institutions. Certification courses for DMO and hospitality managers. Information campaigns for tourists about responsible behavior.	Formation of environmental culture among workers and tourists. Improving the quality of services. Spreading the principles of sustainable development.
6. International cooperation	Participation in UNWTO, EU Green Deal, UNEP programs. Cross-border tourism clusters ("Green Carpathians", "Danube Region"). Cooperation with international foundations (USAID, GIZ, UNDP).	Access to funding and expertise. Expansion of tourist markets. Increasing the competitiveness of Ukrainian destinations.

Source: Developed by the author based on [2; 3; 5; 11].

The proposed mechanisms of sustainable management in the field of tourism and hospitality form a systematic approach to ensuring balanced regional development. Their implementation involves a combination of institutional, economic, environmental, social, educational and international instruments that operate in interconnection and mutual reinforcement.

6. Conclusions

Tourism and hospitality are important factors of balanced regional development, as they combine economic, social and environmental aspects of the growth of territories. The analysis showed that the tourism sector has a high multiplier effect, contributing to the growth of employment, the development of small businesses and revenues to local budgets.

The correlation analysis showed a close positive relationship between the tourist tax, the number of enterprises and GDP (r = 0.88–0.96), which confirms the significant role of the industry in the structure of the regional economy. At the same time, the negative correlation between the number of cultural sites and the year (r = –0.90) reflects the consequences of hostilities and the need to restore cultural infrastructure as a component of tourism potential. Empirical data for 2019–2023. indicate a gradual recovery of the industry after the pandemic and military challenges, in particular, an increase in the tourist tax by more than 80% and an increase in average wages in the hospitality sector by 30-40%. This indicates the resumption of business activity and a gradual increase in the socio-economic stability of the regions.

Based on the results of the study, the need to introduce mechanisms of sustainable management in the field of tourism and hospitality, covering institutional-organizational, financial-economic, environmental-technological, social, educational and international tools, is substantiated. Their implementation can ensure a balance between economic benefits, preservation of the natural and cultural environment and increasing the well-being of local communities.

The results obtained create the basis for further research, in particular in the direction of assessing the spatial effects of tourism, building models for sustainable development of destinations and quantitative forecasting of the impact of tourist flows on the regional economy in the post-war period.

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e-ISSN 3083-6018

SOCIAL DEVELOPMENT: Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Regional Features of the Development of the Resort and Recreational Sector and Health and Wellness Tourism: Resource Potential, Competitive Advantages, Development Opportunities

Oleksandr Nosyriev [1] *

[1] *National Technical University "Kharkiv Polytechnic Institute" (Ukraine). Associate Professor at the Department of Tourism and Hotel and Hospitality Business, PhD in Geographical Sciences, Associate Professor.*

* ***Corresponding Author,*** e-mail: oleksandr.nosyriev@khpi.edu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.12

Received: 9 November 2025
Accepted: 12 December 2025
Published online: 22 December 2025

ABSTRACT

The article examines the current state, key challenges, and development prospects of Ukraine's resort and recreational industry under prolonged socio-economic, demographic, and security pressures. The growing role of the sanatorium-resort and health-and-wellness sector is substantiated as a strategic component of the national healthcare system, social rehabilitation, and sustainable territorial development, particularly in the context of post-war recovery. The study synthesizes theoretical approaches of Ukrainian scholars to the analysis of resource potential, spatial organization, and institutional support of resort and recreational activities. The methodological framework is based on systemic, structural-functional, and regional approaches, combined with SWOT analysis as a tool for strategic industry assessment. The SWOT analysis identifies key strengths, weaknesses, opportunities, and threats affecting the development of the sector. Major competitive advantages include a substantial natural therapeutic resource base, historically established resort territories, the integration of medical, rehabilitation, and tourism components within the resort product, and growing domestic demand for health and rehabilitation services. At the same time, the study highlights systemic problems related to deteriorated infrastructure, uneven territorial development, limited investment resources, and insufficient integration into the international tourism market. Regional development features are analyzed, along with a case study of the Truskavets resort as an example of a functioning sanatorium-resort cluster. The expediency of adopting European experience in cluster development, resort branding, integration of sanatorium treatment into medical insurance systems, and the implementation of innovative technologies is substantiated. The findings may be applied in developing sectoral strategies, regional recovery programs, and management practices in health-and-wellness and medical tourism.

KEYWORDS

tourism, resort and recreational sector, sanatorium and SPA industry, health and wellness tourism, tourism product, regional development, SWOT analysis, competitiveness, resorts, medical tourism, natural therapeutic resources.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Регіональні особливості розвитку курортно-рекреаційної галузі та лікувально-оздоровчого туризму: ресурсний потенціал, конкурентні переваги, можливості розвитку

Олександр О. Носирєв [1] *

[1] *Національний технічний університет «Харківський політехнічний інститут» (Україна). Доцент кафедри туризму і готельно-ресторанного бізнесу, канд. геогр. наук, доцент.*

***Автор-кореспондент,** e-mail: oleksandr.nosyriev@khpi.edu.ua

СТАТТЯ

Дослідницька

DOI:
10.70651/3083-6018/2025.12.12

Отримана: 09.11.2025 р.
Прийнята: 12.12.2025 р.
Опублікована: 22.12.2025 р.

АНОТАЦІЯ

У статті досліджено сучасний стан, проблеми та перспективи розвитку курортно-рекреаційної галузі України в умовах тривалих соціально-економічних, демографічних та безпекових викликів. Обґрунтовано зростання ролі санаторно-курортної та лікувально-оздоровчої сфери як стратегічного елементу національної системи охорони здоров'я, соціальної реабілітації та сталого розвитку територій, особливо в контексті повоєнного відновлення регіонів. Узагальнено теоретичні підходи вітчизняних науковців до аналізу ресурсного потенціалу, просторової організації та інституційного забезпечення курортно-рекреаційної діяльності. Методологічною основою дослідження є системний, структурно-функціональний та регіональний підходи, а також застосування SWOT-аналізу як інструменту стратегічної діагностики галузі. Методикою SWOT-аналізу ідентифіковано ключові сильні та слабкі сторони, можливості й загрози розвитку курортно-рекреаційної галузі України. Визначено, що вагомими конкурентними перевагами є потужний природно-лікувальний потенціал, історично сформовані території лікувально-оздоровчого та курортного спрямування, поєднання медичної, реабілітаційної та туристичної складових курортного продукту, а також зростаючий внутрішній попит на оздоровчі й реабілітаційні послуги. Водночас встановлено наявність системних проблем, пов'язаних із зношеністю матеріально-технічної бази, нерівномірністю та диспропорційністю територіального розвитку, обмеженими інвестиційними ресурсами та недостатньою інтеграцією у міжнародний туристичний простір. Здійснено аналіз регіональних особливостей розвитку курортно-рекреаційної сфери та кейс-стаді курорту Трускавець як прикладу реалізації повнофункціональної моделі санаторно-курортного кластера. Обґрунтовано доцільність запозичення європейського досвіду кластеризації, брендування курортних територій, інтеграції санаторно-курортного лікування до системи медичного страхування та впровадження інноваційних технологій. Результати дослідження можуть бути корисними при формуванні стратегій розвитку курортно-рекреаційної галузі України, розробленні регіональних програм відновлення та модернізації курортів, а також у практиці управління лікувально-оздоровчим та медичним туризмом.

КЛЮЧОВІ СЛОВА

туризм, курортно-рекреаційна галузь, санаторно-курортне господарство, лікувально-оздоровчий туризм, туристичний продукт, регіональний розвиток, SWOT-аналіз, конкурентоспроможність, курорти, медичний туризм, природно-лікувальні ресурси.

1. Introduction

The current stage of socio-economic development of Ukraine is characterized by the growing role of the resort-recreational and sanatorium-resort sphere as an important tool for preserving and restoring the physical and psycho-emotional health of the population, improving the quality of life and ensuring sustainable development of territories. In the context of long-term crisis challenges caused by hostilities, demographic losses, increased stress levels and deterioration of citizens' health indicators, medical and health tourism acquires special public importance, transforming from an auxiliary segment of the tourism industry into a strategic component of the national system of social security and rehabilitation.

The relevance of the study of the development of the resort and recreational industry is also enhanced by the need to adapt domestic sanatorium-and-resort institutions to modern market conditions, growing consumer demands, processes of innovative modernization and European integration transformations. The uneven spatial development of resort areas, the obsolescence of the material and technical base, the limited investment resources and the insufficient integration of medical, recreational and tourist functions necessitate a scientifically grounded rethinking of the models of functioning of the sanatorium-resort economy of Ukraine.

At the same time, the availability of unique natural healing resources, historically formed resorts and the growing demand for health, rehabilitation and inclusive tourism products create prerequisites for the formation of a competitive national resort and recreational market. In this context, the analysis of regional features of the development of the sanatorium-resort sector, the assessment of its potential and the identification of promising areas of transformation, taking into account modern socio-economic, security and medical challenges, is of particular importance.

In view of the above, the study of the state, problems and prospects for the development of the resort and recreational industry of Ukraine, as well as the analysis of successful territorial models and cases of functioning of sanatorium-resort complexes, is timely and scientifically significant, as it contributes to the formation of systematic approaches to the restoration, modernization and strategic development of medical and recreational tourism in modern conditions.

2. Literature Review

The problems of development of the resort and recreational industry of Ukraine, its structural features, resource provision and prospects for functioning in modern socio-economic conditions are covered in the works of a significant number of domestic scientists. Particular attention in the research is paid to the role of the sanatorium-resort sector as a component of the tourism industry and an element of the system of health care and social rehabilitation of the population.

The theoretical foundations of the formation of recreational complexes and the prerequisites for their effective functioning are revealed in the studies of S. Markhonos and N. Turlo [8], which determine the key conditions for the creation of recreational systems, in particular, the availability of a resource base, developed infrastructure, socio-economic potential and regional specifics. Scientists emphasize that the development of recreational complexes contributes to the modernization of the material and technical base, improving the quality of recreational space and the effectiveness of medical and recreational functions.

Innovative aspects of the development of the resort and recreational sphere and the formation of new recreational facilities are studied by the team of authors M. Drobotova et al. [2]. The authors focus on the role of innovations in enhancing the quality of life for the population, revitalizing domestic tourism, and adapting the industry to modern challenges, particularly the growing demand for health and rehabilitation services.

The peculiarities of the transformation of tourist demand and the growth of the importance of the therapeutic and recreational component of the resort and recreational product are analyzed in the studies of P. Zakharchenko and S. Zhvanenko [17]. The authors associate these trends with the deterioration of the health of the population, the growth of psychological stress and the negative impact of the environment, which actualizes the need to introduce innovative approaches to the organization of sanatorium-resort services.

Ecological and spatial aspects of the development of recreational areas are covered by O. Nod [9], defining the ecologization of the economy, the preservation of natural resources and the expansion of the tourist and ecological network as fundamental directions for the development of the recreational sphere. Similarly, scientist S. Filiuk [3] emphasizes the need to take into account regional specifics when forming strategies for restoring tourist and recreational potential, emphasizing the relationship between the development of the industry and increasing investment attractiveness and quality of life of the population.

The current state of the resort and recreational industry and its social and rehabilitation function are analyzed in the works of H. Omelchak [11], who emphasizes the growing need for inclusive, hybrid and rehabilitation resort products. The prospects for the development of medical and health tourism and, at the same time, the existing challenges related to the quality of medical services and marketing promotion are considered by O. Dolynska [1].

The problems of material and technical modernization of sanatorium-resort institutions and the introduction of modern architectural and technological solutions are highlighted in the studies of K. Shmal and O. Khorosha [13]. The issue of regional competitiveness of resorts and the need for cooperation of industry entities to enter foreign markets is revealed by S. Zhvanenko [18].

The uneven territorial development of the resort and recreational industry and the prospects for redistribution of domestic tourist flows are investigated by N. Stupen [15], and innovative approaches to managing the development of the sanatorium-resort complex and medical tourism are analyzed in the works of K. Kostohlodova and V. Svitlychna [6]. The significant potential of medical and health tourism as a tool for socio-economic post-war recovery of the country is emphasized by L. Horbatiuk and V. Borysenko [5].

The team of authors [4] carried out a thorough analysis of the specifics of the subjects of sanatorium-resort activities in the context of their orientation, affiliation, socio-economic effect, impact on related areas, global role, subordination. The authors emphasize the disproportionality of the development of the market of sanatorium-resort services in the regional context and the heterogeneity of indicators of its functioning, which forms a different level of competitiveness of resort territories [4].

The theoretical and institutional foundations of the formation of the sanatorium-resort system of Ukraine are summarized in the classic works of G. Lendiel [7], who substantiates the need for comprehensive state regulation and integration of the resort and recreational industry into the general system of tourism development.

The researchers [16] considered the evolution of the resort town of Truskavets, investigated the history of the formation of the resort and modern medical and health and sanatorium-resort opportunities of the location in the context of the impact on the economic potential. The authors' team [12] also paid attention to the study of the recreational and tourist potential of small resorts of the Lviv region in modern realities. Also, the issue of strategic development of medical and health tourism was outlined in the author's study [10].

Thus, the analysis of scientific sources indicates a significant interest of researchers in the problems of development of the resort and recreational industry of Ukraine, which is due to its social, medical and economic significance. At the same time, the available research fragmentarily covers the issue of a comprehensive assessment of the prospects for the development of the industry in the face of modern challenges. This actualizes the expediency of using strategic analysis tools, in particular SWOT analysis, for a systematic generalization of strengths and weaknesses, opportunities and threats to the development of the resort and recreational industry of Ukraine.

3. Problem Statement

The purpose of the study is to assess the prospects for the development of the resort and recreational industry of Ukraine based on the use of SWOT analysis, as well as to substantiate strategic guidelines for increasing its competitiveness, investment attractiveness and adaptability to modern socio-economic and security challenges.

This goal is realized by generalizing theoretical approaches to determining the essence and role of the resort and recreational industry in the structure of the national economy; analysis of the current state and trends in the development of the resort and recreational sphere of Ukraine, taking into account regional differentiation; identification of key internal and external factors that have an impact on the functioning and development of the resort and recreational industry; use of the SWOT analysis methodology of the resort and recreational industry of Ukraine in order to determine its strengths and weaknesses, opportunities and threats; substantiation of promising directions and strategic priorities for the development of the resort and recreational industry in the context of the transformation of the national economy, post-war recovery and the growth of the role of domestic tourism.

4. Methods and Materials

The study uses a comprehensive methodological approach based on a combination of systemic, structural-functional and regional approaches to the study of the development of the resort and recreational industry of Ukraine. To generalize the theoretical foundations of the functioning of the sanatorium-resort economy, the methods of analysis and synthesis were used, which made it possible to identify the key factors in the formation of the competitiveness of resorts and their role in the structure of the national economy. The method of critical analysis and generalization of scientific sources is used in order to systematize scientific approaches to assessing the resort and recreational potential and determining modern trends in the development of medical and health and medical tourism.

To assess the prospects for the development of the resort and recreational industry, the SWOT analysis method was used, which made it possible to identify the strengths and weaknesses of the industry, as well as external opportunities and threats to its functioning in the context of socio-economic transformations and military challenges. The regional analysis was applied in order to take into account the spatial differentiation of resort and recreational resources and the peculiarities of the development of resorts in different regions of Ukraine. The case-study method was used for an in-depth analysis of the functioning of the Truskavets resort as a representative example of the implementation of a full-featured model of a sanatorium-resort cluster. In the process of the study, the methods of comparison and generalization were also used to compare the domestic and European experience in the development of resorts, as well as the method of graphical modeling to visualize the factors of development of the resort and recreational industry and the components of the resort's success in the market of medical and health and sanatorium-resort services. The totality of the applied methods ensured the complexity of the study, the validity of the results obtained and the possibility of forming practical recommendations to improve the efficiency of the functioning of the resort and recreational industry of Ukraine in the context of the transformation of the national economy.

5. Results and Discussion

The resort and recreational sector is an integral part of the service sector, which makes a significant contribution to the economy, contributes to the development of tourism and raising the standard of living of the population. It is constantly evolving to meet modern requirements and consumer demands. The development of the resort and recreational sphere through the formation of innovative recreational facilities and complexes will contribute to improving the quality of life of the local population through improving infrastructure, access to new services and expanding cultural services. opportunities, as well as the restoration of domestic tourism opportunities [2].

Scientists S. Markhonos and N. Turlo [8] draw attention to the fact that "the effective functioning of recreational complexes is possible only if there is a sufficient provision of recreational resources, material and technical base and an effective mechanism for their creation and functioning. The prerequisites for the creation of recreational complexes should be:

1) recreational resources;
2) tourist and recreational infrastructure in the region;
3) socio-economic potential for the functioning and recreational development of the territory;
4) manufacturing enterprises and enterprises in the service sector;
5) other regional features (religious features, traditions, crafts, etc.)" [8].

At the same time, "assistance in the creation of recreational complexes will lead to the preservation, innovative development and improvement of the material and technical base of the recreational complex of the region. Also, the qualitative potential of the recreational space will increase, the efficiency of health, preventive and therapeutic functions of the relevant enterprises of the recreational infrastructure will increase" [8].

It is important to emphasize that many strategic practices should be borrowed from the experience of Central European countries. Thus, Poland has successfully integrated balneology into the state health insurance (NFZ) system, which allows citizens to receive partial reimbursement of the cost of treatment in SCG institutions. Slovakia implements the "Návrat do života" program, under which military veterans undergo free physical and psychological rehabilitation in public resorts, and tour operators receive tax benefits when attracting clients to national health resorts. Hungary, on the other hand, has built a system of branding regions through geographical marking of waters (e.g., "Hévíz" or "Zalakaros"), which increases the export potential of spa services. For Ukraine, the use of a similar marketing and geographical model is promising: registration of national brands of waters and treatment zones (Naftusia, Skhidnytska-2, Khmilnyk–radon, Berezivska–zalizo) will allow to form a tourist map of Ukraine's health, increase awareness and export of wellness and medical tourism services.

It should be noted that the popularity of European countries among tourists is not unequal. The vast majority of tourist flows are directed primarily to Western European countries. The tourism sector is always marked by rather ambiguous characteristics and opportunities. Tourism as a multi-sectoral and multifunctional phenomenon is characterized by the highest level of elasticity relative to natural (ecological), general economic, social and political changes in any country – a potential destination. Classical tourism, especially in the direction of visiting foreign countries by our fellow citizens, contains trends in development, and such specific areas as medical and health tourism are quite difficult to perceive not only by compatriots, but also by foreign citizens visiting Ukraine. The strategy for the development of resorts in Ukraine can be more effective due to the formation of strategic alliances of regional authorities and tour operators, hospitality enterprises at the interregional level. One of the most pressing problems in the sanatorium-and-resort industry is a significant decrease in state funding and a decrease in the efficiency of management of specialized medical and health institutions. There is also a problem associated with the insufficient capacity of internal and external tourist flows, since tourists are simply not interested in choosing offers of treatment and health improvement on the territory of Ukraine.

Scientists P. Zakharchenko and S. Zhvanenko [17] note that "the specificity of modern tourist demand is manifested in an increase in interest in the therapeutic component of the resort and recreational product. This is due to global negative trends in the impact on the human body from the environment, a high degree of labor intensification, psychological stress, constantly deteriorating health indicators, and other negative manifestations of modern life. Currently, more and more tourists are striving to receive high-quality sanatorium-resort treatment" [17]. Therefore, "all these factors force enterprises of the resort and recreational sphere to change their attitude to the principle of organizing resort activities, pay attention to the improvement of sanatorium-resort services, the provision of high-quality medical and health services, psychological comfort, which is practically impossible without the use of innovations", the authors note [17].

Researcher O. Nod [9] notes that "the main fundamental directions of development of recreational areas are: ecologization of the economy and production processes, preservation of the environment and reproduction of recreational natural resources, creation of free recreational economic zones and expansion of the tourist and ecological network in Ukraine" [9].

Scientist S. Filiuk [3] rightly notes that "when choosing a strategy for restoring the tourist and recreational potential, it is necessary to take into account the regional specifics of the development of the tourist and recreational sphere. Therefore, it is necessary to develop a strategy that would simultaneously contribute to the socio-economic development of the territory and increase the regional competitive advantages of tourism industry entities for the long term. The strategy for the restoration of tourist and recreational potential should also harmoniously complement the socio-economic strategy for the development of the region and the country as a whole and contribute to the solution of priority socio-economic tasks, namely: strengthening scientific, technical and innovative potential; increasing the investment attractiveness and economic stability of the country; improving the quality of life of the population" [3].

Considering the current trends in the development of recreation and tourism in Ukraine, it can be noted that the summer season of 2025 showed the preservation of sustainable demand for domestic tourism in Ukraine. The tourist activity of the population is largely due to the need for physical, emotional and psychological recovery. Short-term travel within the country is seen as an effective tool for reducing the level of everyday stress and tension. Over the past four years, the western regions of Ukraine (Lviv, Ivano-Frankivsk, Zakarpattia, Chernivtsi and Ternopil) have been steadily holding leading positions in terms of tourist attractiveness. This is due to the combination of a relatively higher level of security, developed tourist infrastructure and significant natural and landscape potential. The Carpathian region, in particular the territories of Verkhovyna, Yaremche, Slavske and Bukovel, is focused mainly on active forms of tourism, in particular mountain hiking, cycling routes and health programs [14]. In 2025, there is an expansion of the range of tourist services, including SPA complexes, relaxation programs and gastronomic weekend tours. Transcarpathian region demonstrates the growing popularity of gastronomic tourism, in particular due to the development of integrated cultural, historical and tasting routes (winemaking, cheese making, local cuisine). Some territories, in particular Beregovo and Khust districts, were formed as centers of cycling tourism due to the creation of a network of safe bike paths and ecological trails. Lviv region implements the concept of gastronomic tourism through thematic routes to craft industries, which corresponds to the growing demand of the urban population for authentic cultural and culinary practices [14].

The central regions of Ukraine (Cherkasy, Zhytomyr, Poltava, Podillya regions) also intensified tourism activities in 2025. The main factors of attractiveness are relative safety, natural diversity, affordable pricing policy and favorable conditions for a relaxing holiday. Cherkasy region is distinguished by the development of water tourism on the Dnieper and its tributaries, as well as historical and cultural routes related to the Cossack heritage and the figure of Taras Shevchenko, which are especially in demand among the family segment of tourists. The Podilskyi region forms the trend of the so-called "small town routes", which combine historical and architectural monuments, sacred wooden architecture, protected areas and local cultural identity. Such destinations meet the demand for leisurely, meaningful and aesthetically oriented tourism. The city of Kyiv and the Kyiv region remain important centers of short-term tourist trips. Demand focuses on recreational areas, hiking and cycling routes, cultural and artistic events, and gastronomic tours. Thematic festivals and ethno-cultural events contribute to the integration of the natural, historical and service components of the tourist offer. Kyiv region demonstrates a steady growth dynamic of domestic tourism, especially during weekends and holidays [14].

Considering the peculiarities of the tourist situation in the Black Sea region, it can be noted that despite the existing security risks, the summer tourist season has been partially restored in Odesa in 2025. A limited number of beach areas operate subject to enhanced safety standards, including the arrangement of controlled bathing areas, rescue infrastructure and warning systems. At the same time, traditional resort locations of the Black Sea coast (Zatoka, Karolina-Bugaz) remain inaccessible to tourists. At the same time, Odesa is expanding alternative formats of domestic tourism, focusing on urban, cultural, museum and gastronomic routes, as well as event tourism [14].

Currently, the centers of sanatorium-resort and health tourism in Ukraine are mountainous and foothill regions of Transcarpathia, Ivano-Frankivsk and Lviv regions. In particular, Transcarpathia has unique climatic conditions, which are the most favorable for summer recreation. This is due to the fact that the region is surrounded by mountains from the north and east and, accordingly, has unique natural weather conditions. Due to hostilities in the regions and the danger of shelling, they are partially suitable for recreation and health improvement of Ukrainians. Thus, the Odesa region is part of the Black Sea recreational and tourist region. Due to its favorable geographical location and favorable climate, the region occupies one of the leading places among other regions of the region in terms of the number and volume of resort and recreational resources [5].

The eastern region is struggling with a number of problems: lack of investment, abandonment and reduction of the material and technical base, stereotypes about Donbas, etc. The main problem remained the long-term armed conflict, but recreations located in a territory relatively remote from the line of hostilities have a chance for the development of medical and health tourism, and are also urgently needed, since a significant part of the local population is affected, has health disorders and needs to be rebooted and rehabilitated with the help of recreation and tourism.

Currently, there is a steady demand for short-term trips, cultural and educational excursions, recreational and recreational practices and nature-oriented tourism in Ukraine. An important place is also occupied by gastronomic routes, festival and ecological tourism. In modern conditions, domestic tourism performs not only a recreational, but also a socio-economic function, contributing to the support of local economies, the development of territorial communities and the stabilization of the psycho-emotional state of the population. Despite the difficult circumstances, tourist activity in Ukraine demonstrates a gradual recovery and adaptation to new realities [14].

Researcher H. Omelchak emphasizes the medical and health function of tourism, which is the most popular in the modern conditions of our country. "The problem of preserving the physical and mental health of Ukrainians in modern conditions is becoming increasingly important. The main role in solving this problem is played by sanatorium-resort type institutions. Rational use of natural resources provides the core of the resort and sanatorium industries. Rehabilitation measures in the complex of sanatorium-resort treatment are optimally balanced and effective for recovery and rehabilitation. A potential part of health improvement methods is the healing properties of the climate, mineral waters, natural heat carriers, etc. Currently, the health of Ukrainians has deteriorated significantly. Stress, low environmental conditions, migration and an increase in the number of people with disabilities require an urgent solution to the issues of opportunities to implement a system of health improvement and rehabilitation for adults and children", the scientist notes [11]. Also, in her opinion, "the demand for a hybrid and inclusive resort product also influences the way urban hotel assets are conceptualized, leading to the urbanization of the resort's offering. The development of resorts should become an integral part of the overall concept of a healthy nation" [11].

Researcher O. Dolynska emphasizes that "many resorts specialize in specific areas, such as the treatment of diseases of the musculoskeletal system, respiratory tract, cardiovascular system, etc. Taking into account the growing demand for a healthy lifestyle and the growing interest in alternative methods of treatment, such as herbal medicine, Ayurveda, yoga and others, it can be predicted that medical and health tourism in Ukraine will have further positive development prospects" [1]. However, there are also a number of challenges that hinder the development of resorts and sanatorium-resort and medical institutions: "one of the biggest challenges is to improve the quality and standards of medical services. In order to attract more foreign tourists, it is necessary to provide high quality medical care, appropriate staff qualifications and modern equipment. Another important aspect is the marketing and promotion of medical and health services in Ukraine on the international market", the researcher emphasizes [1].

Scientists K. Shmal and O. Khorosha note that "there is a need to modernize old sanatoriums, create inclusive and accessible conditions for all groups of the population, and develop new concepts for restoring and maintaining health" [13]. "In some institutions of the Carpathian region, projects are being implemented using biophilic design and smart technologies. However, a significant part of the sanatoriums needs to be updated and adapted to modern requirements, which requires investments and an integrated approach to reconstruction", the authors note [13].

Also, the scientist S. Zhvanenko draws attention to the fact that "the presence of competition of health resorts among themselves within the framework of the regional resort and recreational complex means a general decrease in its competitiveness in external recreational markets in relation to this region. A significant increase in competitiveness is possible only if all resort and recreational organizations located in the region are represented on foreign markets as a united large territorial company. At the same time, the association of health resorts does not at all imply the loss of their legal or financial independence. As a rule, this process takes place through the joint concentration of resources in certain areas, for example, advertising at large exhibition venues or fairs for the sale of a resort and recreational product, joint actions to attract more vacationers, etc." [18].

In addition, the scientist N. Stupen, modeling the trends of the resort and recreational industry in Ukraine, notes that "the domestic resort and tourism sphere is characterized by a high level of uneven distribution of consumption of tourist and recreational services. In total, two regions of Ukraine (Lviv and Odesa regions) account for about 22.5% of organizations of the resort and tourism industry, which provide about 31.7% of the needs for resort and tourist services in the domestic market. One of the promising directions for the development of the resort and recreational industry is the redistribution of flows of tourists and vacationers in the domestic market, which will increase the efficiency of the entire industry" [15].

Researchers K. Kostohlodova and V. Svitlychna [6] note that "one of the important directions for the development of the sanatorium-resort complex is the introduction of innovative technologies. Sanatoriums must adapt to new market requirements and improve the quality of services through the use of modern methods of treatment, rehabilitation and diagnostics. Telemedicine plays an important role in this, which allows you to expand access to medical services and provide customers with convenient service. In addition, individualization of treatment programs based on the analysis of patients' health can increase the effectiveness of wellness procedures" [6]. Also, according to the researchers, "medical tourism is a promising niche for the development of Ukrainian sanatoriums. The natural healing resources of Ukraine, as well as the relatively low cost of services compared to other countries, create good prerequisites for attracting foreign tourists. The development of medical tourism involves not only improving the infrastructure, but also raising the standards of service provision, certifying institutions according to international standards, as well as expanding cooperation with international medical organizations" [6].

Scientists [5] note that "medical and health tourism is one of the segments of the tourism industry, which is aimed at improving the quality of life, popularizing the country's natural resources and improving and supporting the physical and psychological rehabilitation of the population. He focuses on the use of natural resources and medical services to restore and extend the life expectancy of Ukrainians. Even under martial law, the potential for the development of medical and health tourism, which has certain features and public importance, is quite powerful and can contribute to attracting investments, creating new jobs and actively supporting the local economy" [5].

The team of authors [4] emphasizes that "domestic subjects of sanatorium-resort activities are characterized by providing treatment and recreation of the population; belonging to medicine and tourism; production of social and economic effects; direct and indirect influence on related areas; promoting the recognition of the popularization of Ukraine in the global recreational process and in cultural and historical development. The current regulatory framework operates with an ambiguous typology" [4]. They also note that "in general, the market of sanatorium services in the regional context is characterized by disproportionality, asymmetry and heterogeneity", and "the totality of the regions of Ukraine according to individual indicators of the development of the sanatorium services market is heterogeneous, and the average values of these indicators in Ukraine are atypical" [4].

Considering the issues of state policy and development of the sanatorium-and-resort industry, the scientist G. Lendiel [7] rightly notes that the problems of the sanatorium-and-resort complex of Ukraine require comprehensive regulation at the national level. "The development of the sanatorium and resort business in Ukraine requires support, coordinated development within the entire tourism industry of the country. Resort and medical tourism are one of the priority areas for the development of domestic and foreign tourism in the country, one of the most stable species tourist markets. Existing and potential stocks of medical resources, taking into account their qualitative and quantitative characteristics, can be the basis for creating an innovative tourist product", the researcher emphasizes [7].

In order to comprehensively assess the state and prospects for the development of the resort and recreational industry of Ukraine, it is advisable to use SWOT analysis as a tool for strategic diagnostics, which allows you to systematize the internal strengths and weaknesses of the industry, as well as to identify external opportunities and threats to its further development.

Considering the strengths, it can be noted that the resort and recreational industry of Ukraine is characterized by a significant natural resource potential, which includes unique reserves of mineral waters, therapeutic mud, ozokerite, favorable climatic conditions and diverse landscapes. The presence of historically formed resorts (Truskavets, Morshyn, Khmilnyk, Myrhorod, Skhidnytsia, Berdyansk) provides recognition in the domestic market and forms the basis for further specialization of medical and health services. A significant advantage is the combination of medical and tourist components, which allows you to form a complex resort and recreational product. The relatively affordable cost of services in comparison with European resorts creates competitive advantages for both domestic and potential foreign consumers. In addition, the growing demand for rehabilitation, psychological and wellness programs actualize the social significance of the industry.

As for the weaknesses, it can be noted that the key weaknesses include the physical and moral deterioration of the material and technical base of most sanatorium-and-resort institutions, the low level of energy efficiency of buildings, limited accessibility for people with limited mobility and insufficient technological equipment. A significant part of the institutions does not meet modern standards of medical care, service and safety. Significant problems remain the uneven territorial development of resorts, fragmentation of management, insufficient level of state support and funding, weak marketing policy and low recognition of Ukrainian resorts in the international market. The lack of a unified strategy for development and coordination between industry entities reduces its overall competitiveness.

Table 1. SWOT analysis of the prospects for the development of the resort and recreational industry of Ukraine

Strengths	**Weaknesses**
Significant natural healing potential (mineral waters, therapeutic mud, ozokerite, climatotherapy, landscape therapy) The presence of historically formed resorts with established specialization (Truskavets, Morshyn, Khmilnyk, Myrhorod, Skhidnytsia, etc.) Combination of medical, rehabilitation and tourist components of the resort product Relatively affordable cost of medical and health services compared to European resorts Growing domestic demand for recovery, rehabilitation, and psychological recovery Social significance of the industry for post-war rehabilitation of the population	Physical and moral deterioration of the material and technical base of sanatorium-resort institutions Low level of energy efficiency of buildings and limited barrier-free infrastructure Insufficient level of technological equipment and modern medical equipment Uneven territorial development of the resort and recreational network Insufficient government support and limited investment resources Weak marketing policy and low visibility in the international market
Opportunities	**Threats**
Growth of domestic tourism and demand for health and rehabilitation services Integration of spa treatment into the health insurance system Development of medical, wellness and inclusive tourism Introduction of innovative technologies, telemedicine, personalized treatment programs Borrowing the experience of Central European countries (clustering, branding of resorts, certification of resources) Post-war reconstruction, attracting international investment and technical assistance	Hostilities and security risks, restriction of access to certain resort areas Macroeconomic instability and declining solvency of the population Increased competition from foreign resorts Outflow of qualified medical and service personnel Environmental risks and depletion of natural healing resources Risk of further degradation of infrastructure in the absence of systemic state policy

Source: Systematized by the author.

Among the key opportunities for the development of the resort and recreational industry, it should be noted the growth of domestic tourism and demand for health and rehabilitation services. A promising direction is the integration of sanatorium-resort treatment into the health insurance system, the development of medical and wellness tourism, as well as the introduction of telemedicine and personalized treatment programs.

Important opportunities are opened up by borrowing the experience of Central European countries in branding resort areas, certification of medicinal resources, creation of clusters and strategic alliances. The post-war reconstruction of the country, the attraction of international technical assistance and investments can become a catalyst for the modernization of the industry and the formation of innovative resort and recreational products.

The main external threats (Threats) remain hostilities and related security risks that limit the functioning of certain resort areas, especially in coastal and eastern regions. Macroeconomic instability, reduced solvency of the population, inflationary processes and migration losses have a negative impact.

Additional threats are increased competition from foreign resorts, the outflow of qualified medical and service personnel, as well as environmental risks associated with the irrational use of natural healing resources. In the absence of a systemic state policy, there is a risk of further degradation of part of the sanatorium-resort infrastructure.

The results of the SWOT analysis show that the resort and recreational industry of Ukraine has a significant potential for development, which can be realized under the condition of purposeful modernization, innovative renewal and strategic integration into the health care and tourism system. The use of existing strengths in combination with the implementation of external opportunities can compensate for internal weaknesses and minimize the impact of threats, forming the basis for the sustainable development of the industry in the medium and long term.

The functioning of the sanatorium-resort complex of Ukraine is based on the unique potential of natural and healing resources, which determines both the specialization of individual resort areas and the directions of medical services provision within the framework of medical and health programs. The key natural factors that form the basis of the activity of the sanatorium-resort economy are mineral waters, therapeutic mud, ozokerite, salt resources, climatic conditions and landscape-therapeutic factors, which in terms of their physicochemical characteristics, biological activity and therapeutic effect correspond to the level of leading European resorts. At the same time, the territorial location of sanatorium-resort institutions in Ukraine is characterized by unevenness: the most developed resort clusters were formed in regions with a concentration of natural healing resources (mineral waters, therapeutic mud, favorable climatic conditions), as well as in zones with established historical traditions of resort development, in particular in Truskavets, Morshyn, Khmilnyk, Berdyansk, Myrhorod and Skhidnytsia [12; 16].

A representative example of the introduction of a full-fledged functional model is the resort of Truskavets. Its tourist and resort infrastructure includes more than 70 facilities, including sanatorium-resort institutions, SPA-complexes, diagnostic and treatment centers, boarding houses and apart-hotels, which annually provide services to more than 350 thousand people. persons, among whom more than 10% are foreign visitors [12; 16].

The resort of Truskavets combines exceptional balneological potential, historically formed infrastructure, multi-level organization of medical services and a comprehensive system of recreation within a single territorial unit, which ensures the success of the resort in the market of medical and health and sanatorium-resort services (Fig. 1).

The functioning of the resort cluster is based on the complex interaction of medical and rehabilitation services, developed resort infrastructure, unique natural and healing resources (14 sources of mineral waters, in particular "Naftusya"), as well as specialized rehabilitation programs adapted to the needs of military personnel [12; 16].

The relevance of choosing Truskavets as a focal case is due to the fact that its spatial and functional structure allows illustrating the typological features of Ukrainian resorts, determining the efficiency of the use of natural resources and assessing the ability to adapt to the challenges of post-pandemic, military and socio-economic reality. The combination of ozokerite therapy, mineral baths, drinking treatment, climatotherapy and physical activity creates a unique five-component model of spa therapy in Truskavets, which has historically developed as a result of the institutionalization of folk healing practices and further scientific substantiation.

A significant part of Ukrainian resorts, like Truskavets, demonstrates the transition from the classic model of a "sanatorium with vouchers" to a modern multifunctional center with medical profiling, high-precision diagnostics, psychological support, diet therapy and social services. The favorable temperate continental climate of the Ukrainian Carpathians, the Black Sea region and Polissia provides conditions for climatotherapy, in particular during the off-season, which is especially important for the treatment of diseases of the respiratory system, immune system and psycho-emotional sphere. For example, Truskavets, Skhidnytsia and Kosiv have a high level of air saturation with ozone, phytoncides and negative air ions, which increases the overall adaptive reactivity of the body [12; 16]. Thus, the natural healing resources of Ukraine are the strategic basis for the development of the sanatorium-resort economy. Their combination with adapted medical programs, profiled infrastructure and science-based approaches to treatment forms a competitive multidisciplinary potential of the industry in both domestic and foreign medical tourism.

At the same time, most sanatoriums in Ukraine operate in obsolete buildings with a low level of energy efficiency, lack of barrier-free space and insufficient technological support. As of 2023, more than 60% of resort establishments in Ukraine do not have modern medical equipment, and more than 40% are not provided with proper thermalistics, which makes it impossible to use a number of procedures [12; 16].

Based on the above, the factors of development of the resort and recreational industry of Ukraine, which are reflected in Fig. 2. The proposed systematization reflects the complex nature of the formation and development of the resort and recreational industry of Ukraine, which is determined by the interaction of internal (endogenous) and external (exogenous) factors.

1. **Natural healing potential**
– unique mineral waters (Naftusia and other springs);
– established medical and health facilities;
– favorable climatic conditions;
– landscape and climate therapy;
– high bioactivity of natural resources.
•.

2. **Comprehensive five-component model of resort therapy**
– ozokerite therapy;
– mineral baths;
– drinking cure;
– climatotherapy;
– physical activity and recreation.

3. **Developed resort and sanatorium infrastructure**
– sanatoriums, SPA centers, diagnostic complexes;
– apart-hotels, boarding houses;
– transport and service accessibility;
– cluster organization of over 70 objects in the field of tourism and hospitality.

4. **Medical profiling and modern services**
– multi-level organization of medical services;
– high-precision diagnostics;
– rehabilitation programs for victims of military operations;
– psychological support, diet therapy, social services.

5. **Institutional and historical heritage of the resort**
– historically established resort tradition;
– scientific justification of medical practices;
– institutionalization of folk medicine;
– consumer trust and brand recognition of Truskavets.

6. **Adaptability to modern challenges**
– transformation from a classic sanatorium model to a multifunctional center;
– focus on domestic and international medical tourism;
– ability to operate in post-pandemic and wartime conditions;
– flexible response to socio-demographic changes in demand.

7. **Market results and effects**
– stable tourist flow (over 350,000 people annually);
– attraction of foreign visitors;
– formation of a diversified competitive product;
– enhancement of the resort's role in domestic and international medical tourism.

Figure 1. Components of the success of the Truskavets resort in the market of medical and health and sanatorium-resort services

Source: Developed by the author.

Internal factors of development include, first of all, the natural resource potential, which determines the medical and health specialization of resorts and covers the availability of mineral waters, therapeutic mud and favorable climatic conditions [10]. An important role is played by the material and technical base of resorts and the level of its modernization, on which the quality-of-service provision, the competitiveness of establishments and the possibility of introducing modern service standards depend. Qualified staffing and the level of professional training of personnel are also important, which forms the human capital of the industry and ensures the effective use of the recreational potential of the regions.

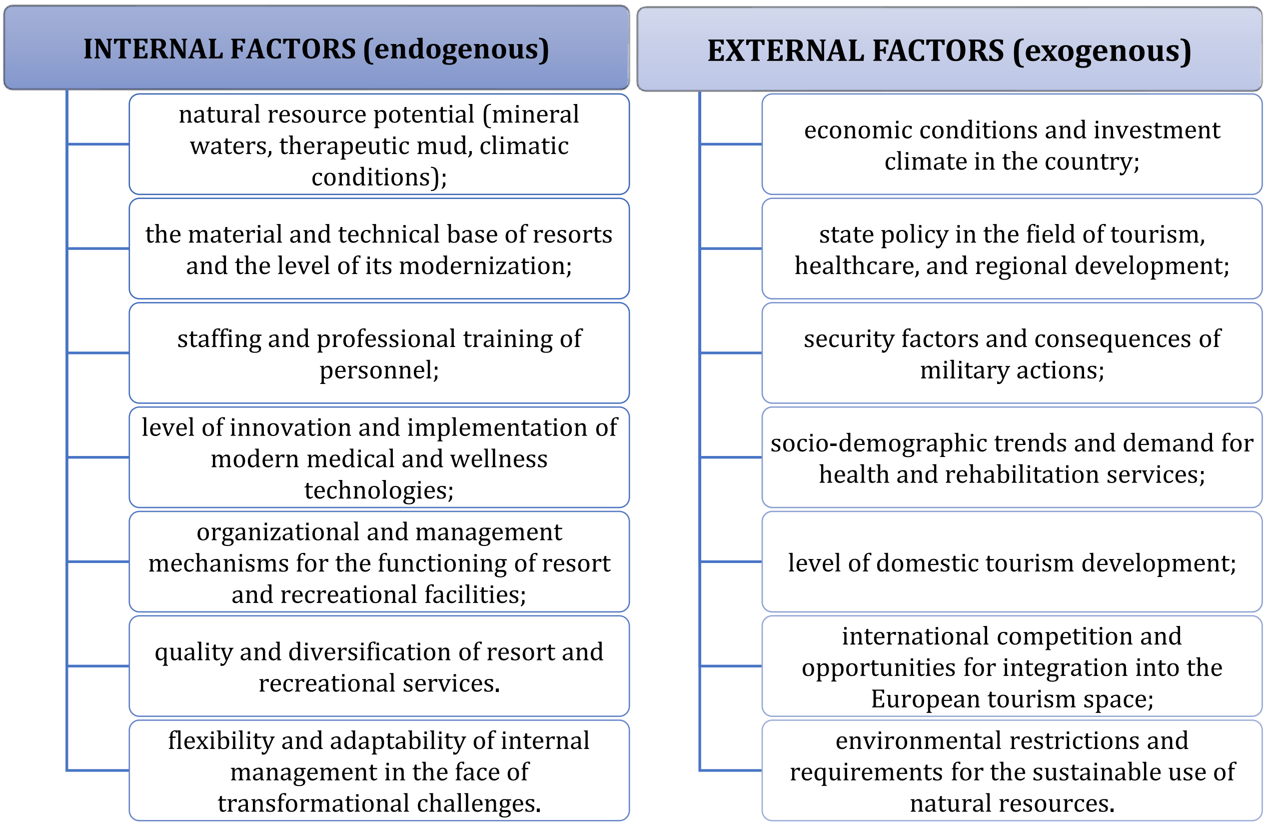

Figure 2. Factors of development of the resort and recreational industry of Ukraine
Source: Developed by the author.

Internal factors also include the level of innovation and the introduction of modern medical and wellness technologies, which allow expanding the range of resort and recreational services and adapting them to the growing needs of consumers. Organizational and managerial mechanisms of functioning of resort and recreational establishments determine the effectiveness of managerial decisions, the ability to strategic planning and coordination of activities in an unstable environment. Important characteristics of internal development are also the quality and diversification of resort and recreational services, as well as the flexibility and adaptability of internal management, which ensure the stability of the industry in the face of transformational socio-economic challenges.

External factors of development of the resort and recreational industry are formed under the influence of the macroeconomic and institutional environment. These include economic conditions and investment climate in the state, which determine the possibilities of attracting financial resources for the restoration and development of resort infrastructure. Security risks and the consequences of hostilities, which affect the spatial organization of the resort network and tourist flows, remain a significant deterrent in modern conditions.

The external environment is also determined by socio-demographic trends and the level of demand for health and rehabilitation services, which leads to the reorientation of resorts to the domestic consumer and the medical and rehabilitation segment. The level of development of domestic tourism, international competition and opportunities for integration into the European tourist space form strategic guidelines for increasing the competitiveness of the resort and recreational industry. At the same time, environmental restrictions and requirements for the sustainable use of natural resources determine the need to combine economic interests with the principles of sustainable development and long-term preservation of the natural and healing potential of Ukraine.

If we take care of the development and future of health and medical tourism, then we must admit that in our country the very concept of the formation of health tours needs to be changed. They should provide not only inpatient therapeutic and preventive measures, but also excursion and sports routes, entertainment programs, comfortable and client-oriented conditions. In other words, it is necessary to adapt the content of health services to the needs of a modern tourist.

6. Conclusions

As a result of the study, it has been established that the resort and recreational industry of Ukraine is characterized by a significant, but not fully realized potential, due to a combination of unique natural and healing resources, a historically formed network of resorts and a growing public need for recovery, rehabilitation and psychological recovery of the population. The use of SWOT analysis made it possible to identify key internal and external factors that determine the current state and prospects for the development of the resort and recreational industry, as well as to identify strategic opportunities for its recovery and modernization in the context of the transformation of the national economy.

It has been proved that the existing strengths of the industry, in particular the natural resource potential, the social significance of resort treatment, the growth of domestic demand and the integration of medical and health and tourism services, form the basis for increasing its competitiveness both in the domestic and in the promising foreign markets. At the same time, it has been established that weaknesses related to the physical aging of infrastructure, limited investment resources, low level of innovation and uneven regional development significantly hinder the realization of the existing potential and reduce the investment attractiveness of the resort and recreational sector.

It is substantiated that external opportunities for the development of the industry are primarily associated with the activation of domestic tourism, the formation of demand for the medical, rehabilitation and wellness components of the resort product, the attraction of international financial assistance in the process of post-war reconstruction, as well as the introduction of modern managerial and medical-tourism technologies. At the same time, the key threats remain security risks, macroeconomic instability, competition from foreign resorts, personnel shortages and potential environmental restrictions on the use of natural healing resources.

In general, the results of the study indicate that the further development of the resort and recreational industry of Ukraine requires a comprehensive strategic approach aimed at combining investment activation, infrastructural modernization, innovative renewal and strengthening of regional specialization of resorts. The implementation of the identified strategic guidelines will contribute to increasing the sustainability of the industry, increasing its socio-economic effect and forming a competitive resort and recreational product in the context of post-war recovery and long-term development of the national economy.

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Social Development: Economic and Legal Issues No. 12 (2025)

e-ISSN 3083-6018

SOCIAL DEVELOPMENT:
Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

The Transformation of the EU Common Security and Defence Policy in Response to Russia's War Against Ukraine

Oksana Baskakova [1 *]

[1] *Lviv National Polytechnic University (Ukraine). Assistant at the Department of Theory of Law and Constitutionalism.*

* ***Corresponding Author,*** e-mail: oksana.i.fedoriv@lpnu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.01

Received: 20 October 2025
Accepted: 25 November 2025
Published online: 10 December 2025

ABSTRACT

Russia's full-scale invasion of Ukraine in February 2022 has profoundly reshaped the security environment of Europe and triggered a fundamental reassessment of the European Union's role as a security actor. Traditionally characterized as a civilian and normative power, the EU has increasingly relied on instruments associated with military assistance and defence cooperation in response to the war. This shift has placed the Common Security and Defence Policy (CSDP) at the centre of the Union's external action and raised important legal questions regarding the scope, limits and evolution of EU competence in the field of security and defence. The article examines the transformation of the EU's CSDP in response to Russia's war against Ukraine from a legal perspective. It argues that the changes observed since 2022 do not result from formal treaty amendment but rather from the reinterpretation and intensified use of existing legal instruments within the framework of the Treaty on European Union. By tracing the historical evolution of the CSDP from its origins under the Maastricht Treaty through its consolidation under the Lisbon Treaty, the article highlights the traditionally cautious and intergovernmental nature of EU security and defence cooperation prior to 2022. Particular attention is devoted to the legal significance of the measures adopted following Russia's full-scale invasion, including the Strategic Compass for Security and Defence, the expanded use of the European Peace Facility and the establishment of the EU-led Military Assistance Mission in support of Ukraine (EUMAM Ukraine). The analysis demonstrates that these instruments have enabled the EU to provide unprecedented military assistance to a partner state while formally remaining within the existing treaty framework, notably the constraints imposed by Article 41(2) TEU. At the same time, the reliance on off-budget mechanisms and non-legally binding strategic instruments raises questions concerning accountability, coherence and democratic oversight within the EU legal order. The article concludes that Ukraine functions not as an exception but as a catalyst for a broader transformation of the CSDP. This transformation reflects a shift from a primarily crisis-management-oriented policy towards a more robust security role, with significant implications for the future development of EU security and defence law.

KEYWORDS

EU Common Security and Defence Policy, European Union, Russia's war against Ukraine, European Peace Facility, EUMAM Ukraine, Strategic Compass, EU security and defence law.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Трансформація спільної політики безпеки та оборони ЄС у відповідь на війну Росії проти України

Оксана І. Баскакова [1 *]

[1] *Національний університет «Львівська політехніка» (Україна). Асистент кафедри теорії права та конституціоналізму.*

* ***Автор-кореспондент,*** e-mail: oksana.i.fedoriv@lpnu.ua

СТАТТЯ

Дослідницька

DOI: **10.70651/3083-6018/2025.12.01**

Отримана: 20.10.2025 р.
Прийнята: 25.11.2025 р.
Опублікована: 10.12.2025 р.

АНОТАЦІЯ

Повномасштабне вторгнення Російської Федерації в Україну у лютому 2022 року докорінно трансформувало безпекове середовище в Європі та зумовило переосмислення ролі Європейського Союзу як суб'єкта безпеки. Традиційно позиціонуючись як цивільна та нормативна сила, ЄС у відповідь на війну дедалі активніше залучає інструменти, пов'язані з військовою допомогою та оборонним співробітництвом. Унаслідок цього Спільна політика безпеки та оборони (СПБО) опинилася в центрі зовнішньої діяльності Союзу, що актуалізувало низку правових питань щодо обсягу, меж і напрямів еволюції компетенцій ЄС у сфері безпеки й оборони. У статті здійснюється правовий аналіз трансформації СПБО Європейського Союзу у відповідь на війну Росії проти України. Обґрунтовується теза, що зміни, які відбулися після 2022 року, не є наслідком формального перегляду установчих договорів, а зумовлені переосмисленням та інтенсивнішим застосуванням уже наявних правових інструментів у межах Договору про Європейський Союз. Простежуючи еволюцію СПБО від її витоків у Маастрихтському договорі до інституційного закріплення в Лісабонському договорі, авторка демонструє традиційно обережний та міжурядовий характер європейського співробітництва у сфері безпеки й оборони до 2022 року. Окрема увага зосереджується на правовому значенні заходів, ухвалених після повномасштабного вторгнення Росії, зокрема Стратегічного компасу з питань безпеки та оборони, розширеного використання Європейського фонду миру та створення Місії Європейського Союзу з надання військової допомоги Україні (EUMAM Ukraine). Доведено, що зазначені інструменти надали ЄС можливість здійснювати безпрецедентну за масштабами військову підтримку держави-партнера, формально залишаючись у межах чинного договірного регулювання, зокрема обмежень, передбачених статтею 41(2) Договору про Європейський Союз. Водночас активне використання позабюджетних механізмів і стратегічних документів ненормативного характеру актуалізує питання підзвітності, узгодженості та демократичного контролю в правопорядку ЄС. У висновках аргументується, що Україна виступає не винятком, а каталізатором ширшої трансформації СПБО. Така трансформація відображає перехід від політики, орієнтованої переважно на кризове управління, до більш активної та відповідальної безпекової ролі Європейського Союзу, що має істотні наслідки для подальшого розвитку права безпеки та оборони ЄС.

КЛЮЧОВІ СЛОВА

спільна політика безпеки та оборони ЄС, Європейський Союз, війна Росії проти України, Європейський фонд миру, EUMAM Україна, Стратегічний компас, право ЄС у сфері безпеки та оборони.

1. Introduction

Russia's full-scale armed aggression against Ukraine has led to an unprecedented intensification of support measures adopted by the European Union (EU), particularly in the field of security and defence. Although the EU has traditionally been perceived as a civilian and normative power, its response to the war has increasingly relied on instruments associated with military assistance and defence capacity-building. As a result, the EU's Common Foreign and Security Policy (CFSP) and, more specifically, its Common Security and Defence Policy (CSDP) have assumed a central role in shaping the Union's external action since 2022.

The illegal annexation of the Crimean Peninsula by the Russian Federation in 2014, followed by the full-scale invasion launched in February 2022, together with the proliferation of armed conflicts in other regions, have revealed the defining features of the contemporary security environment confronting the EU – instability, uncertainty and the erosion of the post-Cold War security order. For the EU, Russia's war against Ukraine does not merely constitute a serious breach of international law; it also represents a direct and sustained threat to European security, challenging the assumptions on which the Union's security and defence policy was previously constructed.

The full-scale invasion of Ukraine on 24 February 2022 brought the issue of the EU's strategic autonomy to the forefront of legal and political debates surrounding the CFSP and the CSDP. The conflict exposed structural limitations of the EU's security architecture, which had largely been designed for civilian crisis management and post-conflict stabilisation rather than for responding to a high-intensity interstate war at the Union's borders. In response, the EU adopted a series of measures that indicate a qualitative shift in its approach to security and defence. These include the implementation of the Strategic Compass, the expanded use of the European Peace Facility to finance military assistance to Ukraine and the establishment of the EU-led Military Assistance Mission (EUMAM Ukraine). From a legal perspective, these developments are of particular importance because they have taken place without any formal revision of the EU Treaties. Instead, the transformation of the CSDP has occurred through evolving institutional practice, reinterpretation of existing legal provisions and the innovative use of available instruments. This evolution raises several doctrinal questions concerning the legal nature of the CSDP, the limits of EU competence in the field of defence, the interaction between CFSP instruments and budgetary mechanisms under the Treaty on the Functioning of the European Union, as well as issues of coherence and accountability within the EU legal order.

Against this background, this article examines the transformation of the EU's Common Security and Defence Policy in response to Russia's war against Ukraine. It seeks to analyse the legal foundations of this transformation by tracing the historical development of the CSDP and assessing the legal significance of the measures adopted since 2022. By focusing on the legal implications of the EU's evolving security posture, the article aims to contribute to the scholarly debate on the future trajectory of the CSDP and the role of the EU as a security actor in an increasingly unstable international environment.

2. Literature Review

Academic literature on the EU's Common Security and Defence Policy (CSDP) has traditionally approached the policy as a legally distinct and institutionally constrained component of EU external action. Early doctrinal accounts focus on the gradual emergence of the CSDP from the intergovernmental Common Foreign and Security Policy established by the Maastricht Treaty, emphasising the preservation of Member State sovereignty and the limited transfer of competences in the field of defence [9; 15]. These studies highlight that, despite the formal recognition of CSDP tasks, the policy was designed primarily for crisis management rather than for addressing high-intensity armed conflict.

A significant body of scholarship examines the legal consolidation of the CSDP following the Lisbon Treaty. Legal analyses stress that Articles 42–46 TEU clarified the objectives and instruments of the CSDP while maintaining its exceptional constitutional status, including unanimity-based decision-making and restricted judicial review [12]. In this regard, the literature consistently notes the importance of Article 41(2) TEU as a structural constraint on EU military action, shaping the predominantly civilian orientation of CSDP missions prior to 2022.

Another strand of literature addresses capability development and defence cooperation, particularly through Permanent Structured Cooperation (PESCO). These studies interpret PESCO and related initiatives as mechanisms of differentiated integration aimed at enhancing military capabilities without transforming the EU into a defence union [14]. The war in Ukraine is often identified as a factor accelerating these processes, while not fundamentally altering their legal basis.

More recent contributions focus specifically on the implications of Russia's war against Ukraine for the CSDP. Legal scholars underline that the EU's post-2022 response represents a qualitative change in practice rather than in formal law, achieved through the reinterpretation of existing instruments and the expansion of off-budget mechanisms. At the same time, policy-oriented analyses point to a gradual shift away from democracy-support objectives towards more pragmatic security cooperation, raising questions about accountability and oversight [11].

Finally, Ukraine-specific studies emphasise that EU–Ukraine security cooperation prior to 2022 was largely limited to civilian missions and capacity-building measures, despite the legal possibilities opened by the Association Agreement [1]. The literature thus reveals a clear gap between the CSDP's pre-war legal design and its post-2022 operational reality. Addressing this gap through a legal analysis of the CSDP's transformation constitutes the central contribution of the present article.

3. Problem Statement

Russia's full-scale invasion of Ukraine has exposed significant tensions within the legal framework of the EU's Common Security and Defence Policy (CSDP). Although the CSDP remains formally intergovernmental and constrained by explicit treaty limits, the EU has adopted measures since 2022 that substantially expand its role in security and defence, including large-scale military assistance to a third state. This development raises a core legal problem: how such measures can be reconciled with the existing treaty architecture without formal amendment.

The growing reliance on off-budget mechanisms and non-binding strategic instruments further complicates the legal assessment of the CSDP's evolution. These practices blur the distinction between political coordination and legally operative action, creating uncertainty as to accountability, coherence and the long-term balance between Member State sovereignty and collective EU security action. Clarifying this tension is essential for understanding the nature of the CSDP's transformation.

4. Methods and Materials

This article is based on doctrinal legal analysis typical of EU law scholarship. It examines the relevant provisions of the Treaty on European Union [9] governing the CFSP and the CSDP, with particular attention to their interpretation in light of post-2022 practice. The study also analyses Council decisions, strategic documents and operational mandates in order to assess how existing legal instruments have been applied and adapted.

A structural approach is used to evaluate the interaction between treaty norms, institutional practice and policy instruments, allowing for an assessment of legal change without formal treaty revision. In addition, the analysis draws on contemporary academic literature and official EU documentation issued by the Council, the European External Action Service and the European Parliament. This combination of sources enables a focused legal assessment of the CSDP's transformation in response to Russia's war against Ukraine.

5. Results and Discussion

The Common Security and Defence Policy (CSDP) of the European Union has evolved through a gradual and legally cautious process, reflecting the inherent tension between deeper integration in the field of security and the continued primacy of Member States in matters of defence. From its earliest stages, the development of the CSDP has been shaped less by revolutionary institutional change than by incremental adaptation to emerging security challenges, mediated through treaty reforms and Council practice rather than supranational law-making [9].

The origins of the CSDP can be traced to the establishment of the Common Foreign and Security Policy under the Maastricht Treaty of 1992 [17]. Although the treaty envisaged the "eventual framing of a common defence policy," security and defence cooperation remained firmly intergovernmental in nature. Decision-making authority was retained by the Member States, and the policy lacked autonomous operational capabilities. As scholarly analysis has noted, this design reflected both political sensitivities surrounding sovereignty and the continued reliance on NATO as the primary framework for collective defence in Europe [15].

Throughout the 1990s and early 2000s, the limitations of this model became increasingly apparent. The conflicts in the Western Balkans exposed the EU's inability to respond effectively to crises in its immediate neighbourhood without external support. In response, the Union began to develop operational instruments aimed at crisis management rather than collective defence. This shift culminated in the emergence of the European Security and Defence Policy, later renamed the CSDP, with a focus on the so-called Petersberg Tasks, encompassing humanitarian missions, peacekeeping and crisis management operations [9].

A decisive legal consolidation of the CSDP occurred with the entry into force of the Lisbon Treaty in 2009 [16]. The treaty formally integrated the CSDP into the Treaty on European Union and clarified its objectives and scope. Article 42(1) TEU established that the CSDP "shall provide the Union with an operational capacity drawing on civilian and military assets," while simultaneously reaffirming the intergovernmental nature of the policy. Importantly, Article 42(2) TEU explicitly preserved the "specific character" of national security and defence policies, thereby confirming that the EU's role in this domain would remain complementary rather than substitutive [12].

One of the most significant legal constraints shaping the pre-2022 development of the CSDP was the prohibition contained in Article 41(2) TEU, which excludes expenditure arising from operations with military or defence implications from the EU budget. This provision effectively limited the Union's capacity to engage in activities involving the provision of weapons or direct military assistance. As a result, the operational practice of the CSDP prior to Russia's full-scale invasion of Ukraine was characterised by a predominance of civilian missions and non-combat military operations, such as training, advisory and monitoring missions [1].

Despite these constraints, the CSDP gradually expanded its operational footprint. The EU launched a range of civilian and military missions in regions such as the Western Balkans, Africa and the Middle East, often under mandates focused on stabilisation and post-conflict reconstruction. Military operations, including EUFOR Althea in Bosnia and Herzegovina, were conducted based on Council decisions adopted under the CFSP framework and frequently relied on cooperation with NATO. These missions, however, remained limited in scope and intensity, reflecting both legal caution and political divergence among Member States [9].

The institutional reforms introduced by the Lisbon Treaty, including the establishment of the position of High Representative and the European External Action Service, were intended to enhance coherence in EU external action. Nevertheless, the CSDP remained largely insulated from supranational oversight. The jurisdiction of the Court of Justice of the European Union over CFSP matters is explicitly restricted, and the European Parliament's role is confined primarily to consultation and political scrutiny. This institutional configuration reinforced the exceptional legal character of the CSDP within the EU legal order [12].

The annexation of Crimea by the Russian Federation in 2014 constituted a critical moment for the EU's security policy. While the event underscored the fragility of the European security environment, it did not immediately lead to a fundamental transformation of the CSDP. Instead, the EU's response remained largely within the established legal framework, focusing on sanctions, diplomatic measures and enhanced cooperation with partner states, including Ukraine. CSDP engagement with Ukraine prior to 2022 centred primarily on civilian security sector reform and advisory missions, rather than military assistance [1].

The adoption of the EU Global Strategy in 2016 marked an attempt to reassess the Union's security ambitions in light of a deteriorating strategic environment. The strategy introduced the concept of strategic autonomy and called for greater responsibility on the part of Europeans for their own security. This vision was operationalised through initiatives such as Permanent Structured Cooperation (PESCO) and efforts to strengthen the European defence industrial base. However, these measures were largely implemented through legal bases outside the core CFSP framework and did not fundamentally alter the CSDP's operational or normative orientation [14].

Academic commentary prior to 2022 consistently emphasised the cautious and incremental nature of the CSDP's evolution. While the policy enabled the EU to act as a crisis manager and security partner, it stopped short of equipping the Union with the legal instruments necessary to respond to high-intensity interstate warfare. Council practice reflected this restraint, with missions authorised for limited purposes and financial mechanisms carefully designed to comply with treaty constraints [12; 15].

In sum, before Russia's full-scale invasion of Ukraine, the CSDP represented a policy of constrained ambition. Anchored in an intergovernmental legal framework and shaped by explicit treaty limitations, it evolved incrementally through practice rather than constitutional transformation. Although Russia's actions since 2014 exposed significant weaknesses in the European security architecture, they did not immediately dismantle the prevailing legal paradigm. It was only the events of February 2022 that would fundamentally challenge the established understanding of the CSDP's role, scope and legal foundations.

Russia's full-scale invasion of Ukraine on 24 February 2022 constitutes a decisive turning point in the development of the EU's Common Security and Defence Policy (CSDP). Unlike earlier crises that shaped the CSDP incrementally, the war confronted the European Union with a high-intensity interstate armed conflict directly affecting its security environment. This situation challenged the foundational assumptions underlying the CSDP, which had previously been oriented towards crisis management, stabilisation and civilian security assistance rather than collective defence–related action [15].

From a legal perspective, the significance of Russia's war lies not in formal treaty change, but in the reinterpretation and expanded use of existing CSDP instruments. The scale and nature of the conflict exposed the functional limitations of a security policy constrained by intergovernmental decision-making, budgetary prohibitions under Article 41(2) TEU, and a traditionally narrow understanding of the EU's role in military affairs. As noted in legal scholarship, the pre-2022 CSDP framework was not designed to respond to sustained armed aggression by a state actor against a partner country in Europe [12].

The invasion also accelerated a shift in the EU's threat perception, transforming Russia from a strategic partner into a systemic security challenge. This redefinition had direct legal consequences for the application of the CSDP, as it justified a more robust interpretation of the Union's responsibility to contribute to European security. In this context, Ukraine ceased to be viewed merely as a recipient of civilian assistance or security sector reform and emerged as a focal point of the EU's evolving defence posture [1].

Consequently, Russia's war against Ukraine functioned as a catalyst for legal and institutional change within the CSDP. While the treaty framework remained formally intact, the conflict triggered a qualitative shift in how existing legal bases were operationalised, setting the stage for unprecedented measures in the subsequent evolution of EU security and defence policy.

One of the most salient responses by the European Union to the deteriorating security environment precipitated by Russia's full-scale invasion of Ukraine was the adoption of *the Strategic Compass for Security and Defence* in March 2022. Although the Strategic Compass does not constitute a legally binding instrument in the strict sense of EU primary or secondary law, it represents a politically significant framework for shaping the Union's security and defence trajectory over the coming decade. The document was formally endorsed by the Council of the European Union on 21 March 2022 and later supported at the European Council level, reflecting broad political consensus among Member States on the need to adapt the Common Security and Defence Policy (CSDP) to contemporary threats [4; 8].

The Strategic Compass was developed against the backdrop of intensifying geopolitical competition, hybrid threats and the immediate security challenge posed by the war in Ukraine. It provides a shared threat analysis and articulates a common strategic vision aimed at enhancing the EU's capacity to act decisively in crises, invest in defence capabilities, secure resilience and strengthen strategic partnerships. The document covers a range of security and defence domains, structured around core pillars including Act, Secure, Invest and Partner, which collectively aim to guide the EU's security and defence policy through to 2030 [4; 8].

Importantly, the Strategic Compass does not alter the legal basis of the CSDP nor create binding legal obligations for the Union or its Member States. Rather, it functions as a political roadmap and action plan that consolidates existing policy commitments and identifies concrete objectives to enhance coherence, cooperation and operational readiness across multiple security sectors. As such, its effectiveness depends on the voluntary implementation of its measures by Member States and EU institutions. This non-legally binding character situates the Strategic Compass within the broader practice of EU strategic policy guidance, similar to past soft-law instruments that shape policy direction without modifying treaty mandates [4; 8].

By providing a shared assessment of threats and a coordinated plan of action, the Strategic Compass has contributed to a more unified strategic culture among EU Member States and has underscored the urgency of strengthening the CSDP in response to Russia's aggression. Nonetheless, the document's legal force remains a political guideline, reflecting the Member States' continued emphasis on intergovernmental decision-making in defence matters.

A central legal innovation underpinning the EU's post-2022 security posture is *the European Peace Facility (EPF)*. Established by the Council on 22 March 2021, the EPF was designed to enhance the Union's ability to prevent conflicts, preserve peace and strengthen international security, while simultaneously expanding the practical reach of CFSP/CSDP action [2].

From a legal-constitutional perspective, the EPF matters because it is financed outside the EU budget and funded through direct Member State contributions (based on a GNI key) [2]. This structure is not merely technical: it operationalises the treaty constraint in Article 41(2) TEU, which excludes expenditure arising from operations with military or defence implications from the Union budget. Consistent with that logic, the EPF constitutes a CFSP instrument that enables the Union to finance military-related external action without altering the Treaties. The EPF's legal basis is explicitly grounded in the Treaty on European Union, including Articles 28(1), 41(2), 42(4) and 30(1) TEU, as reflected in Council Decision (CFSP) 2021/509 establishing the Facility [3].

Institutionally, the EPF consolidates financing into two pillars: an operations pillar supporting the common costs of EU military CSDP missions and operations, and an assistance measures pillar enabling the Union to support partner countries and organisations with military and defence-related equipment, infrastructure and technical support [2]. This dual structure is particularly important for doctrinal analysis because it links classical CSDP operations to a broader "capacity-building" logic that can be activated rapidly when political conditions permit, including for partners facing acute threats.

Following Russia's full-scale invasion of Ukraine, the EPF became the EU's principal channel for rapid military support to Ukraine [2]. The Council describes EPF-funded assistance measures as covering both lethal and non-lethal supplies, including items such as protective equipment, fuel, ammunition and missiles, and reports that billions of euros were mobilised for Ukraine's military and defence needs under this framework. The European Parliament's research briefing similarly emphasises that, although the EPF was conceived as a global instrument (including support for partners in the EU's neighbourhood and beyond), the post-February 2022 period marked a shift toward large-scale military aid to Ukraine as a defining use case [6].

A distinctive legal feature of the EPF is the integration of monitoring and compliance safeguards. The Council stresses that EPF support operates in compliance with international human rights law and international humanitarian law [7]. The EEAS factsheet further highlights risk assessment and mitigating measures, monitoring of beneficiary commitments, and the possibility of suspension or termination by the Council in case of infringement or abuse, with channels allowing civil society reporting on violations [7]. These elements are doctrinally significant because they frame military assistance not as purely discretionary foreign policy, but as an instrument embedded in a conditionality-and-compliance logic that seeks to reconcile security action with the EU's legal commitments and external action principles.

In sum, the EPF illustrates how the EU has adapted its CSDP toolkit through an off-budget CFSP mechanism that both respects treaty constraints and enables unprecedented forms of military assistance – without formal treaty amendment – thereby contributing to the broader transformation of EU security and defence practice after 2022 [3].

The establishment of *the European Union Military Assistance Mission in support of Ukraine (EUMAM Ukraine)* represents one of the clearest operational manifestations of the CSDP's post-2022 transformation. In contrast to the pre-invasion CSDP pattern – largely centred on civilian missions and limited-scope military advisory operations – EUMAM Ukraine was conceived as a large-scale training mission designed to strengthen the Ukrainian Armed Forces' capacity to regenerate and to conduct operations effectively. The EEAS frames the mission's strategic objective in explicitly defensive terms:

supporting Ukraine's ability to defend its territorial integrity within internationally recognised borders and to deter further aggression [11].

From a legal standpoint, EUMAM Ukraine is firmly anchored in the EU's primary-law framework for the CSDP. Council Decision (CFSP) 2022/1968 of 17 October 2022 establishes the mission based on Articles 42(4) and 43(2) TEU, confirming that it is a non-executive CSDP mission adopted through CFSP decision-making procedures. The Decision also records that Ukraine formally requested EU military support and identified priority training needs, ranging from basic and collective training to specialised training in areas such as medical support, logistics, CBRN protection, engineering support, cyber security and cyber defence [5].

EUMAM Ukraine is equally significant for what it illustrates about the EU's legal "toolbox" in practice. The mission does not alter treaty competences, yet it operationalises the CSDP's military dimension at a scale that would have appeared politically unrealistic prior to 2022. As a Delors Centre analysis emphasises, the mission was designed to maximise the utility of military assistance provided to Ukraine by improving interoperability, training on Western systems and standardising approaches among participating Member States – thereby acting as a coordination mechanism as well as a training platform [13].

Finally, EUMAM Ukraine underscores the increasingly integrated nature of the EU's security response. The EEAS situates the mission within the Union's broader "integrated approach" in support of Ukraine, alongside other strands of EU action (including military equipment support and sanctions) [10]. In doctrinal terms, this is important: it shows how a CSDP mission can function as an operational hinge between CFSP instruments and Member State contributions, strengthening the EU's role as a security actor without formally shifting the constitutional balance of competences.

6. Conclusions

Russia's full-scale invasion of Ukraine has profoundly altered the context in which the European Union's Common Security and Defence Policy operates. Without amending the EU Treaties, the Union has nevertheless recalibrated the practical meaning and scope of the CSDP through the reinterpretation and intensified use of existing legal instruments. This development confirms that the evolution of the CSDP is driven less by formal constitutional change than by institutional practice shaped by external security shocks.

The analysis demonstrates that the pre-2022 CSDP was characterised by legal restraint, reflecting both treaty-based limitations and political caution among Member States. The prohibition of military expenditure under Article 41(2) TEU, the intergovernmental nature of decision-making and the focus on civilian crisis management defined the outer boundaries of EU action in security and defence. Russia's war against Ukraine exposed the functional limits of this model, prompting a shift in how those legal constraints are interpreted rather than removed.

In this regard, the European Peace Facility has emerged as a central legal enabler of the EU's transformed security posture. Its off-budget structure allows the Union to support military assistance within the CFSP framework while remaining formally compliant with treaty restrictions. The use of the EPF for large-scale military support to Ukraine constitutes a qualitative departure from earlier practice and signals a more assertive understanding of the EU's role as a security provider.

Similarly, the establishment of EUMAM Ukraine illustrates how the CSDP's operational dimension has expanded without altering its legal foundations. By deploying a large-scale military training mission in support of a partner state engaged in active hostilities, the EU has moved beyond the traditional civilian-oriented model of CSDP missions. This evolution underscores the increasing readiness of the Union to translate political commitments into operational action.

Finally, the Strategic Compass, despite its non-legally binding nature, has played an important norm-shaping role in consolidating a shared strategic outlook among Member States. Together, these developments suggest that Ukraine functions not as an exception, but as a catalyst for the broader transformation of the CSDP. The long-term implications of this shift – particularly in terms of accountability, coherence and the balance between national sovereignty and collective action – will remain central questions for EU security and defence law in the years to come.

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e-ISSN 3083-6018

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Social Dimension of Climate Policy and International Law: ESG and the Integration of Corporate Reporting into Sustainable Development Governance

Roman Yedeliev [1] *

[1] *Taras Shevchenko National University of Kyiv (Ukraine). Associate Professor at the Department of International Law, PhD in International Law.*

* ***Corresponding Author,*** e-mail: yedeliev@knu.ua

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.03

Received: 26 October 2025
Accepted: 29 November 2025
Published online: 12 December 2025

ABSTRACT

This article investigates how evolving frameworks of corporate social responsibility and environmental, social and governance regulation shape the social dimension of climate policy in the European Union, the United States and Ukraine. It traces the gradual shift from corporate social responsibility as a voluntary, reputational practice towards its juridification and integration into climate and sustainable development governance. The analysis is based on qualitative doctrinal and structured comparative methods and focuses on legal and policy instruments. In the European Union, corporate social responsibility has progressively evolved into a dense system of binding environmental, social and governance obligations, forming an emerging acquis on corporate sustainability. A set of EU legal acts transforms sustainability reporting and due diligence into legal duties, extends responsibility along global value chains and operationalizes concepts such as double materiality and just transition. Corporate social responsibility and environmental, social and governance obligations are not confined to a single policy field but cut across company law, environmental and climate policy, and the protection of fundamental rights, thereby linking corporate governance with climate mitigation, environmental protection and social justice. By contrast, in the United States, the dominant trajectory remains one of voluntary, market- and reputation-driven corporate social responsibility and climate engagement. Ukraine occupies a hybrid position between these models: as a candidate for EU membership, it is required to approximate its legislation to the EU acquis in the fields of company law, environment and climate change, and fundamental rights, including through the phased introduction of sustainability reporting based on European Sustainability Reporting Standards and the broader integration of environmental, social and governance considerations into corporate and public governance. The analysis demonstrates that the social dimension of climate policy is not an ancillary concern but a constitutive element of contemporary climate governance. Corporate social responsibility can contribute meaningfully to climate neutrality and sustainable development only when embedded in legal and institutional arrangements that render the social and human-rights consequences of climate transition visible, reportable and, to some extent, enforceable. In this sense, the transformation of corporate social responsibility into binding environmental, social and governance obligations in the European Union, the persistence of predominantly voluntary approaches in the United States and the cross-sectoral, capacity-dependent challenges faced by Ukraine offer contrasting, yet interconnected, pathways for integrating social justice and human rights into climate policy.

KEYWORDS

international law; climate policy; Paris Agreement; climate neutrality; EU law; sustainable development; environmental, social and governance; Corporate Sustainability Reporting Directive; Corporate Sustainability Due Diligence Directive; corporate social responsibility.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК: економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Соціальний вимір кліматичної політики та міжнародне право: ESG та інтеграція корпоративної звітності у врядування сталого розвитку

Роман С. Єделєв [1] *

[1] *Київський національний університет імені Тараса Шевченка (Україна). Доцент кафедри міжнародного права, канд. юрид. наук.*

*** Автор-кореспондент,** e-mail: yedeliev@knu.ua

СТАТТЯ

Дослідницька

DOI: 10.70651/3083-6018/2025.12.03

Отримана: 26.10.2025 р.
Прийнята: 29.11.2025 р.
Опублікована: 12.12.2025 р.

АНОТАЦІЯ

У статті аналізується, як еволюція рамок корпоративної соціальної відповідальності та регулювання у сфері екологічного, соціального та корпоративного управління формує соціальний вимір кліматичної політики в Європейському Союзі, Сполучених Штатах Америки та Україні. Показано поступовий перехід від корпоративної соціальної відповідальності як добровільної, репутаційної практики до її «юридизації» та інтеграції у механізми врядування у сфері клімату та сталого розвитку. Дослідження ґрунтується на доктринальному та структурованому порівняльному аналізі й зосереджується на нормативно-політичних актах. У праві ЄС корпоративна соціальна відповідальність трансформується в розгалужену систему обов'язкових зобов'язань у сфері екологічного, соціального та корпоративного управління, що формує новий acquis у сфері корпоративної сталості. Комплекс актів ЄС перетворює звітність зі сталого розвитку та due diligence на юридичні обов'язки, розширює відповідальність на глобальні ланцюги постачання і забезпечує справедливий перехід. Зобов'язання у сфері корпоративної соціальної відповідальності та екологічного, соціального та корпоративного управління містяться в корпоративному праві, екологічній та кліматичній політиках, сфері захисту прав людини, пов'язуючи корпоративне управління з пом'якшенням наслідків зміни клімату, охороною довкілля та соціальною справедливістю. Натомість у США домінує модель добровільної, ринково- та репутаційно зумовленої участі бізнесу в корпоративній соціальній відповідальності та кліматичних ініціативах. Україна посідає гібридну позицію: як держава-кандидат на вступ до ЄС вона має наближати своє законодавство до acquis у сферах корпоративного права, довкілля, зміни клімату та фундаментальних прав, зокрема через поетапне запровадження звітності зі сталого розвитку на основі Європейських стандартів звітності зі сталого розвитку та ширшу інтеграцію підходів у сфері екологічного, соціального та корпоративного управління у корпоративне й публічне врядування. Показано, що соціальний вимір кліматичної політики не є другорядним аспектом, а становить конститутивний елемент сучасного кліматичного врядування. Корпоративна соціальна відповідальність може сприяти досягненню кліматичної нейтральності та сталого розвитку лише за умови вбудованості в правові та інституційні механізми, які роблять соціальні та правозахисні наслідки кліматичного переходу видимими, такими, що підлягають відображенню у звітності, і принаймні частково – підконтрольними з точки зору виконання. У цьому зрізі трансформація корпоративної соціальної відповідальності в обов'язкові зобов'язання у сфері екологічного, соціального та корпоративного управління в ЄС, збереження переважно добровільних підходів у США та крос-секторальні виклики й виклики інституційної спроможності, з якими стикається Україна, постають як різні, але взаємопов'язані траєкторії інтеграції соціальної справедливості та прав людини в кліматичну політику.

КЛЮЧОВІ СЛОВА

міжнародне право; кліматична політика; Паризька угода; кліматична нейтральність; право ЄС; сталий розвиток; екологічні, соціальні та управлінські фактори; директива про корпоративну звітність зі сталого розвитку; директива про належну перевірку сталого розвитку компаній; корпоративна соціальна відповідальність.

1. Introduction

The UN Guiding Principles on Business and Human Rights (UNGPs), adopted by the UN Human Rights Council in 2011, established a global framework for corporate responsibility in the field of human rights. Although they represent “soft law” and are not subject to ratification, the UNGPs have become a reference point for national action plans and legal reforms worldwide. They articulate the complementary duties of states to protect, and of businesses to respect, human rights, and they encourage companies to adopt human rights due diligence throughout their global value chains. In parallel, the recognition of the human right to a clean, healthy and sustainable environment has further strengthened the expectation that non-state actors, and especially large corporations, should contribute to the prevention and mitigation of environmental harm and climate change.

At the same time, international and national climate regulations largely fail to address the liability of corporations and other non-state actors, despite their decisive role in achieving climate neutrality by the middle of the twenty-first century [1]. International climate law remains primarily state-centred, and most domestic climate frameworks regulate corporate conduct indirectly, through emission trading schemes, carbon pricing or sectoral standards. This results in a persistent accountability gap between the scale of corporate contributions to climate change and the limited instruments available to address the social and human-rights implications of corporate climate (in)action. The debate on corporate social responsibility (CSR), business and human rights, and environmental, social and governance (ESG) standards has therefore moved to the forefront of discussions on the social dimension of climate policy.

Over the last decade, the European Union has responded to this gap by gradually transforming CSR from a predominantly voluntary concept into a set of binding legal duties. Through the European Green Deal and related climate and sustainable finance legislation, the EU has constructed an emerging acquis on corporate sustainability, which links climate mitigation and adaptation, human rights, and corporate governance. Instruments such as the EU Taxonomy, the Sustainable Finance Disclosure Regulation, and the new corporate sustainability reporting and due diligence regimes seek to harden corporate transparency and responsibility obligations, including for the social consequences of climate transition. This evolution is accompanied by an explicit emphasis on “double materiality”, requiring companies to report not only on financially material risks, but also on their impacts on society and the environment.

By contrast, in the United States, the dominant model has remained largely voluntary and market-driven. Climate-related commitments by businesses, cities, states and universities, including climate neutrality pledges and climate action plans, have played an important role in sustaining ambition in the absence of comprehensive federal regulation. Yet these initiatives rely mainly on reputational incentives, investor pressure and civil society scrutiny rather than on enforceable legal duties. This divergence between an EU “hardening” approach and a US “soft” or bottom-up approach raises important questions about the effectiveness, legitimacy and distributive consequences of different models of corporate responsibility in climate governance.

For Ukraine, these debates acquire particular urgency in the context of post-war reconstruction and European integration. As a candidate country, Ukraine is progressively aligning its legal system with the EU acquis in areas such as company law, environment and climate change, and fundamental rights. This includes the gradual introduction of sustainability reporting based on European Sustainability Reporting Standards (ESRS) and the broader integration of ESG criteria into public policy and corporate practice. However, Ukrainian institutions – including state-owned enterprises and higher education institutions – face significant capacity constraints and legal uncertainty when attempting to operationalise CSR and ESG in a way that supports both climate neutrality and social resilience.

Against this background, this article examines how different models of corporate social responsibility and ESG regulation shape the social dimension of climate policy in the European Union, the United States and Ukraine. It explores the extent to which the emerging EU framework on corporate sustainability addresses the accountability gap in climate governance, how it contrasts with the predominantly voluntary approach in the United States, and what challenges and opportunities it creates for Ukraine as a state in transition and a candidate for EU membership. Particular attention is paid to the role of public entities and universities as both addressees and producers of ESG standards. The analysis aims to clarify the legal and institutional conditions under which CSR can evolve from a voluntary commitment into an effective component of climate and sustainable development governance, without neglecting its social and human-rights implications.

2. Literature Review

Recent scholarship highlights a gradual convergence between corporate responsibility, human rights and climate governance. The UN Guiding Principles on Business and Human Rights (UNGPs) are widely treated as the central soft-law framework for articulating state duties to protect and corporate responsibilities to respect human rights, including through due diligence in global value chains [2]. At the same time, climate law remains predominantly state-centred, and several authors underline that international and national climate regimes only partially address corporate accountability, despite its centrality for achieving climate neutrality [1]. Classic debates on corporate purpose, in particular Friedman's claim that the social responsibility of business is to increase its profits [3], continue to serve as a counterpoint to contemporary attempts to embed environmental and social considerations into corporate governance. Critical studies of transnational corporate misconduct and environmental harm further expose the limits of existing remedial mechanisms and litigation strategies in what has been described as the "corporate anthropocene" [4].

In the context of the European Union, the literature emphasises the evolution from voluntary corporate social responsibility towards more structured regimes of reporting and due diligence. Scholars point out that directives on non-financial and, more recently, sustainability reporting, together with legislation on sustainable finance and taxonomy, create a normative environment in which transparency and accountability requirements are increasingly linked to the objectives of climate policy and the green transition. The focus here is less on providing exhaustive descriptions of individual acts and more on analysing how they fit into a broader EU strategy of aligning corporate activity with sustainable development goals and climate neutrality.

A distinct strand of scholarship examines the legal trajectory by which corporate self-regulation and voluntary CSR commitments are transformed into duties of sustainability due diligence and disclosure. Mares traces how EU initiatives on corporate sustainability gradually shift the emphasis from voluntary codes of conduct to legally binding obligations, particularly in relation to climate policy and supply chains [5]. Baumüller and Sopp explore the concept of double materiality and its implications for the shift from "non-financial" to genuinely sustainability-oriented reporting, showing how this reconceptualisation affects both the content of disclosures and their intended audiences [6]. Baumüller and Grbenic analyse the transition from predominantly voluntary non-financial reporting to a mandatory reporting regime under the proposed Corporate Sustainability Reporting Directive (CSRD), focusing on the legal and practical implications for companies [7]. In these works, the European Sustainability Reporting Standards (ESRS) and related instruments are understood as tools that operationalise and specify broad transparency obligations in the field of corporate sustainability.

Beyond the private sector, the literature points to the growing importance of integrated and "popular" reporting formats in the public sector. Cohen and Karatzimas introduce the concept of integrated popular reporting as a vehicle for communicating complex financial and non-financial information to a broad range of stakeholders [8]. Manes-Rossi examines alternative reporting formats as a potential response to accountability dilemmas in public management, including in public authorities and state institutions [9]. This scholarship extends CSR and ESG debates beyond corporations, bringing into focus public entities and higher education institutions as actors that are likewise accountable for the social and environmental impacts of their activities.

An additional normative layer is provided by the recognition by the United Nations General Assembly in 2022 of the human right to a clean, healthy and sustainable environment [10]. In combination with the UNGPs, this development reinforces the trend towards human-rights-based approaches to environmental and climate law, and lends further support to the view that both corporate and governmental obligations in the climate field should be assessed through a human-rights lens rather than solely in terms of economic efficiency or environmental indicators.

Taken together, this body of scholarship maps a normative and institutional shift from voluntary CSR to binding ESG obligations and shows how corporate governance, human rights and climate policy increasingly intersect. At the same time, there remains relatively limited comparative research that systematically examines the social dimension of climate policy across different regulatory models – in particular in the European Union, the United States and Ukraine – and that considers the roles of both private and public actors, including universities. The following analysis seeks to address this gap by focusing on how these CSR/ESG regimes shape the construction of the social component of climate governance in the three jurisdictions.

3. Problem Statement

This article addresses the following research problem: how different models of CSR and their transformation into binding ESG obligations shape the social dimension of climate policy and sustainable development in the European Union, the United States, and Ukraine. The analysis focuses on sustainability reporting standards and practices in both the private and public sectors, with particular emphasis on the CSRD and the ESRS, as well as on corresponding, predominantly voluntary, approaches in the United States and the emerging framework in Ukraine.

The purpose of the study is to clarify the role of CSR- and ESG-based reporting in structuring social justice, accountability and human-rights considerations within climate governance. To this end, the article compares the EU's *acquis*-driven model of mandatory sustainability reporting with the largely market- and reputation-driven model in the United States, and examines Ukraine's hybrid position as a state in transition and a candidate for EU membership. Special attention is given to the challenges of implementing CSRD- and ESRS-inspired requirements in Ukraine in the context of legal approximation to the *acquis communautaire* and post-war reconstruction, including the need to balance climate neutrality, social resilience and accountability in both state and corporate governance.

This perspective adds a social and human-rights lens to debates that have predominantly focused on environmental and financial aspects of CSR/ESG integration.

4. Methods and Materials

This article employs qualitative legal and policy analysis, combining doctrinal and structured comparative methods. It proceeds from the conceptual triad of CSR, business and human rights, and climate governance, and examines how CSR is transformed into binding ESG obligations. The core material consists of international soft-law and human-rights instruments (including the UNGPs and the UN recognition of the human right to a clean, healthy and sustainable environment) and EU primary and secondary law on climate, sustainable finance and corporate reporting (the European Green Deal, the European Climate Law, the EU Taxonomy Regulation, the Sustainable Finance Disclosure Regulation, Directive 2014/95/EU, the Corporate Sustainability Reporting Directive and the related European Sustainability Reporting Standards, as well as the Corporate Sustainability Due Diligence initiative). These acts are analysed in their systematic interrelation as parts of an emerging acquis on corporate sustainability.

A second layer of material is formed by national and subnational policy practices in the United States and Ukraine. For the United States, the focus is on voluntary climate and sustainability commitments by states, cities and universities. For Ukraine, the analysis relies on the EU approximation framework (company law, environment and climate, fundamental rights) and on recent policy steps towards ESG reporting, including the 2024 Strategy for the Introduction of Sustainability Reporting and plans to phase in ESRS-based reporting. The article also draws on academic scholarship, case studies of corporate misconduct and expert assessments of business and higher education readiness for ESG reporting, using them as interpretative rather than empirical data sources.

Methodologically, the article compares (i) the predominantly voluntary, bottom-up model of CSR and climate action in the United States; (ii) the increasingly mandatory, top-down ESG framework of the European Union; and (iii) Ukraine's hybrid position as a candidate country integrating CSR/ESG requirements into post-war reconstruction and legal approximation. The comparison covers both private and state-owned enterprises and the higher education sector. The inquiry is normative and conceptual and does not involve original quantitative or survey-based research.

5. Results and Discussion

CSR has its origins in the United States, where this concept became the subject of heated debate in the 1960s and 1970s. A well-known criticism is the Nobel laureate Milton Friedman, who in 1970 argued that the only social responsibility of business is to maximize shareholder profits [3]. And although its position has long been considered excessively narrow, it was in the United States that CSR developed mainly in the field of the environment: the development of environmental legislation and voluntary corporate initiatives to reduce emissions partially compensated for state scepticism about international obligations, which later manifested itself in the refusal to ratify the 1997 Kyoto Protocol and withdraw from the Paris Agreement in 2017 and 2025. Meanwhile, at the global level, CSR manifested itself in cases, where social and environmental responsibility were inextricably linked. An illustrative example was the activities of the American company Firestone in Liberia, which since the 1920s controlled the world's largest rubber plantations and was repeatedly criticized for labour exploitation, the use of child labour, and environmental degradation [11]. Such examples have shown that CSR cannot be reduced to economic or social issues alone, as it encompasses a wider range of business influences.

In this context, since the 1990s, the concept of CSR has been actively spread in the European Union, where it has acquired a social dimension and was first enshrined in the Lisbon Strategy of 2000. It is important that it was at this time that the EU acquired international climate obligations under the Kyoto Protocol, which were reflected in the policy documents on the environment, in particular in the Sixth Environment Action Programme [12]. There, CSR was defined as a tool to increase competitiveness, which at first glance meant additional costs for business, but in European discourse it was interpreted as a long-term advantage: investments in social and environmental responsibility were supposed to strengthen consumer confidence, open access to new markets, reduce regulatory risks and stimulate innovation [13]. Further development took place through the adoption of a number of policy documents of the European Commission: Green Paper 2001 "Promoting a European framework for Corporate Social Responsibility" [14], the creation of the European CSR Alliance in 2006, and the new strategy of 2011, which defined CSR as "the responsibility of enterprises to influence society" and integrated it into the Europe 2020 strategy [15]. The turning point was the adoption of Directive 2014/95/EU on non-financial disclosures, which obliged large companies to report on social and environmental aspects of their activities [16]. Modern initiatives – the European Green Deal [17] and the 2022 CSRD [18] – have consolidated the evolution of CSR from voluntary practice to the mandatory integration of ESG factors into corporate strategies. This creates an analytical basis for further consideration of the CSR in the light of EU climate policies, where corporate responsibility is seen as an integral element of achieving climate neutrality.

Modern initiatives of the EU demonstrate a systemic shift in approaches to CSR. The European Green Deal has set a strategic benchmark for achieving climate neutrality by 2050, emphasizing the need for sustainable business models, transparency and long-term sustainability. The European approach to corporate social responsibility has gradually evolved from voluntary business self-regulation to legally binding mechanisms integrated into climate governance. As Radu Mares notes, "the EU's legal trajectory demonstrates how sustainability *due diligence* has gradually shifted from voluntary corporate self-regulation to mandatory requirements enshrined in the climate governance system" [5]. It is important that this transition took place in close connection with international human rights standards, in particular the UNGPs, where the concept of human rights *due diligence* was first introduced. Further development of this logic was enshrined in the 2022 UN General Assembly Resolution 76/300 "The human right to a clean, healthy and sustainable environment", which for the first time recognized the human right to a clean, healthy and sustainable environment as a universal right [10]. In this context, the modern EU regulatory framework combines environmental protection, climate change and human rights, extending CSR to a comprehensive system of ESG commitments. Conversely, CSR as corporate voluntariness is not able to ensure effectiveness without an appropriate regulatory environment – both in the field of climate and human rights [5].

An important stage in this evolution was the adoption of Directive (EU) 2022/2464 on corporate reporting on sustainable development (CSRD), which significantly expanded companies' obligations to disclose information on ESG factors [18]. Unlike the previous Non-Financial Reporting Directive (NFRD Directive), which only applied to large public-interest entities, the CSRD covers a much wider range of entities, including medium-sized and some small companies. According to the European Sustainability Reporting Standards adopted in 2023 (Commission Delegated Regulation (EU) 2023/2772), companies' reporting must be comprehensive and cover three key dimensions [19]. The environmental dimension includes data on climate change, pollution levels, the state of water and marine resources, the conservation of biodiversity, as well as resource efficiency and the development of a circular economy. The social dimension refers to the observance of workers' rights both within the company itself and in its supply chains, the analysis of the impact on local communities and the enforcement of consumer rights. The management dimension, in turn, covers the role of corporate governance bodies in ensuring the supervision of sustainable development issues, compliance with business ethics standards, prevention of corruption, as well as in the implementation of risk management and internal control systems.

The CSRD not only details the content of non-financial reporting, but also significantly expands the range of entities to which it applies. While the NFRD Directive obliged reporting only to large companies that are subjects of public interest, the new regulation covers all large companies in the form of limited liability companies, as well as insurance companies and banks. For the first time, the obligations also apply to subsidiaries from third countries, if their parent companies report to the EU, which should ensure a "level playing field" for European companies. According to the European Commission, the number of enterprises that must prepare sustainability reports will increase from about 11,600 to 49,000, which is additionally due to the integration of the requirements of the SFDR and the Taxonomy Regulation [20].

The CSRD Directive extends transparency requirements to both private and state-owned companies, forming uniform rules for corporate reporting. However, these requirements are of particular importance for state-owned enterprises (SOEs), as they perform a dual role: on the one hand, they act as ordinary market participants; on the other, they are accountable to the public as entities pursuing the public interest. In this context, there is a need for reporting formats that are consistent with European ESG criteria and at the same time reflect the specificities of the public sector [8; 9]. In this context, the concept of Integrated Popular Reporting (IPR) is considered as a tool that can provide a form of reporting that is understandable to citizens, combining financial indicators with indicators of sustainable development and social value.

The adoption of the CSRD consolidated the transition of the CSR from a voluntary to a mandatory component of the *acquis communautaire*. EU member states must transpose the directive into national law, and candidate countries (in particular Ukraine) must adapt these standards in the process of approximation to the *acquis*. Thus, CSR in the EU has been transformed into a mandatory integration of ESG factors into corporate strategies, enshrined in EU law.

In addition, the European Union is expanding the scope of corporate responsibility through the initiative of the Corporate Sustainability Due Diligence Directive (CSDDD) [21]. Already in the 2018 Sustainable Finance Action Plan the EU set the objective of increasing transparency and long-termism in financial activities and, for the first time, explicitly referred to due diligence in supply chains. Against this background, the CSDDD initiative presented by the European Commission in 2020 became a logical next step in the evolution of sustainable finance policies: it seeks to integrate ESG requirements not only into corporate reporting, but also into companies' internal risk management practices along global value chains.

It is important to stress that the CSRD is not an isolated instrument, but part of a broader Responsible Business Conduct package aimed at integrating sustainable development principles into economic activities. For investors, two acts play a central role: the Sustainable Finance Disclosure Regulation (2019) and the Sustainable Finance Taxonomy Regulation (2020), which sets criteria for classifying economic activities as environmentally sustainable. The Taxonomy offers a common reference framework for identifying "green" activities and helps to prevent manipulation and greenwashing in sustainable finance. The CSDDD extends ESG requirements from transparency obligations to the management of risks in global supply chains. Taken together, these acts gradually transform CSR from a voluntary practice into a mandatory component of the EU *acquis*.

Thus, the CSDDD not only significantly expanded the scope of corporate reporting but also fixed a new quality standard. One of the key innovations was the clear consolidation of the principle of "double materiality", which obliges companies to consider both the impact of sustainability factors on financial performance and the impact of their activities on the environment and society [6].

An important element of the Responsible Business Conduct package is the EU Taxonomy Regulation (2020), which defines which types of economic activities can be considered "sustainable" and "green" [22]. The taxonomy creates common criteria for investors and companies, limiting the possibility of arbitrary interpretation of CSR practices and providing a legal framework for green investments. This decision was motivated by the need to reduce the EU's energy dependence in the context of geopolitical challenges, but at the same time it shows that even in the field of CSR and ESG regulation, trade-offs between environmental integrity and economic feasibility are inevitable. By contrast, environmental organisations criticised such an approach as entailing a risk of "greenwashing" and a departure from the principles of sustainable development. Thus, the example of taxonomy demonstrates that CSR in the EU is gradually turning into a mandatory decision-making system, where ESG standards are shaped not only by economic logic, but also by political and security considerations.

In the United States, the trajectory is different. Hundreds of colleges and universities have adopted voluntary climate neutrality commitments and Climate Action Plans, particularly within initiatives such as Second Nature's Climate Leadership Network, and many of these efforts have been framed as supporting the implementation of the 2015 Paris Agreement [23]. However, at the federal level, the policy turned out to be inconsistent: in 2017, the Donald Trump administration announced its withdrawal from the Paris Agreement (which came into force in 2020), and also actually distanced itself from the implementation of the Sustainable Development Goals (SDGs). Under these conditions, it is the subnational actors – states, cities, and universities – that have taken on the role of "conductors" of climate policy. Thus, California, New York, and Washington created the United States Climate Alliance (2017), hundreds of cities joined the We Are Still In initiative, and universities (for example, the University of Pittsburgh) integrated climate neutrality into their strategies through Second Nature's Climate Leadership Commitments.

This process illustrates that in the United States, CSR remains largely voluntary, acting as an instrument of reputational and social responsibility. Universities, states, and cities acted similarly to corporations, making commitments to communities and publicly reporting on progress, even without federal coercion.

In Ukraine, corporate social responsibility has long remained a predominantly voluntary practice implemented by international companies and large business groups. However, the state's European integration course is gradually shifting the emphasis towards mandatory reporting on sustainable development.

In the EU *acquis*, CSR and non-financial (sustainability) reporting are not grouped in a single, self-standing chapter. Instead, they are embedded across several key areas that are relevant for Ukraine's legal approximation. First, they appear in Chapter 6 "Company Law", which covers corporate reporting, accounting and auditing. It is within this chapter that Ukraine is expected to implement Directive 2014/95/EU (NFRD), Directive (EU) 2022/2464 (CSRD) and Delegated Regulation (EU) 2023/2772 (ESRS), all of which establish mandatory sustainability reporting and ESG-related disclosure duties for companies. Second, CSR has an environmental dimension that falls within Chapter 27 "Environment and Climate Change", since the environmental pillar of sustainability reporting is directly linked to the objectives of the European Green Deal, the EU Taxonomy Regulation (EU) 2020/852 and related climate legislation. Third, there is a fundamental-rights dimension reflected in Chapter 23 "Judiciary and Fundamental Rights": the envisaged corporate sustainability due diligence duties under the CSDDD initiative connect CSR with the protection of human rights, in line with the UNGPs. In this sense, for Ukraine, CSR and ESG obligations constitute a genuinely cross-sectoral task: they are anchored primarily in company law but are at the same time closely intertwined with the *acquis* on environmental policy and human rights.

In 2024, the government adopted the Strategy for the Introduction of Sustainability Reporting by Enterprises, which provides for the phased implementation of the requirements of the European Reporting Standards (ESRS) [24] and adopted draft amendments to the Law "On Accounting and Financial Reporting" [25]. According to the new rules, large enterprises and parent companies of large groups will be required to submit sustainability reports along with the financial statements. Subsequently, the requirement will also apply to medium-sized and small companies with securities admitted to exchange circulation starting from 2028–2030 [*26*]. However, the level of readiness of Ukrainian businesses remains limited: there is a lack of ESG data collection methodologies, human resources expertise, and institutional capacity, which complicates the fulfilment of new obligations [*27*].

In the field of education, ESG reporting in Ukraine is still predominantly declarative and voluntary. Some higher education institutions adopt their own sustainable development policies, but their practical implementation is complicated by a shortage of resources and the lack of legally defined requirements. As Ukrainian researcher Seletska notes, the formation of ESG reporting in Ukrainian universities is appropriate but requires regulatory support and integration into the system of state policy for sustainable development [28].

In the European Union, the role of education in the implementation of CSR and ESG is more systematic and integrated into sustainable development policies. The European Green Deal and the European Climate Law (Regulation (EU) 2021/1119) extend climate neutrality requirements to all sectors, including education. EU universities and research institutions are obliged to integrate the principles of sustainable development into their strategies, report on the carbon footprint and implement the principles of the "green campus". Horizon Europe, Erasmus+ Green Charter funding programs and EU Green Deal missions supporting university alliances and the creation of climate-neutral campuses play a significant role in this. As a result, EU educational institutions become not only policy targets, but also active agents in the formation of ESG practices that have both reputational and legally binding grounds.

Thus, Ukraine is at the stage of transition from voluntary CSR practices to the implementation of mandatory CSRD/ESRS standards, which requires legislative reforms, methodological support for business and integration of educational institutions into sustainable development policy. From a social perspective, if this transition remains incomplete or merely formal, issues such as working conditions, the impacts of reconstruction and decarbonisation projects on local communities, and the protection of vulnerable groups risk remaining insufficiently visible in ESG reporting and largely outside effective accountability mechanisms. In contrast, in the EU, CSR has already evolved into mandatory ESG integration, including in the education sector, where universities play the role of key actors in climate transformation and demonstrate climate reporting practices as part of the *acquis communautaire*.

At the same time, summing up, it can be argued that the CSRD Directive not only expands the scope of corporate reporting and introduces the principle of double materiality, but also establishes mechanisms for assessing the equivalence of sustainability standards for issuers from third countries. However, the EU's final decisions in this area remain open, as the European Sustainability Reporting Standards (ESRS) are still in the process of being finalized. This causes additional legal uncertainty and time pressure for states outside the EU. For Ukraine, as a candidate country, the issue of harmonization of national standards with EU standards is not only a technical challenge, but also a necessary condition for gradual integration into the European legal space in the field of ESG reporting. As Baumüller and Grbenic point out, "the extension of the scope of the CSRD to companies from outside the EU raises significant difficulties and uncertainties, in particular regarding the assessment of the equivalence of third-country standards" [7]. Conversely, despite these challenges, most researchers recognize that the implementation of the CSRD is an important step forward towards strengthening corporate transparency and forming uniform sustainability standards in the European Union [7].

6. Conclusions

Corporate social responsibility can no longer be understood as a purely voluntary, reputational practice detached from law. Under the influence of the UNGPs and the emerging human right to a clean, healthy and sustainable environment, CSR has been progressively juridified and integrated into climate and sustainable development governance. Responsibility for the social and human-rights implications of climate action and inaction is increasingly allocated not only to states, but also to corporate and public actors.

In the European Union, CSR has evolved into a dense system of binding ESG obligations that forms an emerging acquis on corporate sustainability. The trajectory from early CSR policy documents through the Non-Financial Reporting Directive to the Corporate Sustainability Reporting Directive and the European Sustainability Reporting Standards has transformed sustainability disclosure from a marginal, narrative exercise into a comprehensive, legally enforceable regime. This framework is reinforced by sustainable finance instruments such as the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation, which seek to channel financial flows towards climate and environmental objectives and to limit greenwashing, as well as by the Corporate Sustainability Due Diligence Directive, which extends corporate responsibilities along global value chains. Together, these measures embed the expectation that companies account not only for financially material risks, but also for their impacts on workers, communities and ecosystems, and they operationalise the idea of a "just transition" linking climate neutrality with social protection.

The dominant trajectory in the United States is markedly different. Corporate responsibility and climate engagement remain largely voluntary and driven by market and reputational incentives. States, cities and universities have assumed a prominent role in adopting climate neutrality commitments and Climate Action Plans, particularly in periods of federal ambivalence towards the Paris Agreement and the Sustainable Development Goals. These initiatives demonstrate the capacity of subnational and non-state actors to sustain and even raise climate ambition but also reveal the limits of a model in which accountability depends primarily on investor expectations and civil-society scrutiny rather than on general, legally binding duties. The accountability gap in international climate law therefore persists even as voluntary commitments proliferate.

For Ukraine, the move from voluntary CSR practices towards mandatory ESG integration opens both opportunities and constraints. As a candidate state, Ukraine is required to approximate its legal framework to the EU acquis in the fields of company law, environment and climate change, and fundamental rights, including through the gradual introduction of sustainability reporting based on ESRS. The Strategy for the Introduction of Sustainability Reporting by Enterprises and draft amendments to accounting and reporting legislation indicate a clear commitment to this direction. At the same time, the cross-sectoral character of CSR and ESG obligations – spanning corporate governance, environmental regulation and human-rights protection – accentuates existing deficits in institutional capacity, methodological guidance and human resources in the private sector, state-owned enterprises and higher education institutions. Formal legal approximation, while necessary, is insufficient without parallel investment in administrative, professional and educational infrastructures.

The comparison between the EU, US and Ukrainian approaches suggests that the social dimension of climate policy is shaped not only by the presence or absence of binding obligations, but also by the configuration of regulatory techniques, institutional capacities and prevailing narratives. The EU trajectory illustrates the potential of a coherent legal architecture that links climate mitigation, environmental protection and human rights, but also raises concerns about complexity, compliance costs, distributional impacts and the risk of political compromise, as exemplified by debates surrounding sustainable finance and the Taxonomy. The US model highlights both the dynamism of voluntary, bottom-up initiatives and their structural limitations in closing the accountability gap. Ukraine, situated between these models and engaged in post-war reconstruction, exemplifies the challenges of translating ambitious, externally generated standards into a legal and institutional environment marked by resource constraints.

Overall, CSR can contribute meaningfully to climate neutrality and sustainable development only when embedded in legal and institutional arrangements that recognise and operationalise its social and human-rights dimensions. Mandatory sustainability reporting and due diligence regimes have the potential to render the social consequences of climate transition visible and to strengthen accountability of corporate and public actors, provided that they balance entrepreneurial freedom with rights protection, take account of global supply-chain realities and avoid reproducing inequalities between and within states. In this perspective, the social dimension of climate policy is not an ancillary concern but a constitutive element of contemporary climate governance, and CSR – transformed into binding ESG obligations – becomes a structural component of that governance rather than a discourse of voluntary benevolence.

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Social Development: Economic and Legal Issues No. 12 (2025)

e-ISSN 3083-6018

SOCIAL DEVELOPMENT: Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Azerbaijani Nationality Law and the Current Status of Karabakh Armenians in Azerbaijan

Onur Anamur [1, 2 *]

[1] *Europinion Institute for Research (United Kingdom). Researcher.*

[2] *Atlantic Forum (The Netherlands). Managing Editor of Atlantic Forum's Our Views.*

*** *Corresponding Author,*** e-mail: onuranamur@gmail.com

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.10

Received: 5 November 2025
Accepted: 7 December 2025
Published online: 20 December 2025

ABSTRACT

In September 2023, Armenians left Nagorno-Karabakh in the wake of Azerbaijan's reconquest of the region. Armenians stated that they did not trust that they would be done right by Azerbaijan's laws or administrators. The Azerbaijani government stated that Karabakh Armenians were citizens of Azerbaijan and would enjoy the same rights and protections as any other citizen of Azerbaijan. The future status of Armenians and their property in Nagorno-Karabakh is one of the key questions in the ongoing negotiations. The question then is: Are Karabakh Armenians citizens under Azerbaijani law and what are the legal and political implications of this? To answer this question, the article first provides a history of Azerbaijan's nationality law, with reference to the Karabakh question. This history, which is contextualized in the political and legal circumstances of the time, also illustrates something of the prevailing attitudes and approach in Azerbaijan as well as Azerbaijan's legislative and constitutional character. The article then proceeds to consider the present legal and political implications, in terms of individuals, interstate relations, and international law. This exercise being complete, the article concludes that Azerbaijani nationality law formally accommodates Karabakh Armenians, but that the law allows the government great implementational discretion. The article observes that this creates uncertainty – and that if one is asking what might or is likely to happen next, the political motives of the Azerbaijani government must be considered. The article proceeds to consider those motives and posits some scenarios of what a future settlement might be like and the implications, be it for individuals, Armenia-Azerbaijan relations, and international law.

KEYWORDS

Armenia, Azerbaijan, international law, Karabakh, nationality law, South Caucasus.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Закон Азербайджану про громадянство та поточний статус карабаських вірмен в Азербайджані

Онур Анамур [1, 2 *]

[1] *Інститут досліджень «Юропініон» (Великобританія). Науковий співробітник.*

[1] *Атлантичний форум (Нідерланди). Керуючий редактор "Our Views" Атлантичного форуму.*

**** Автор-кореспондент,*** e-mail: onuranamur@gmail.com

СТАТТЯ

Дослідницька

DOI: **10.70651/3083-6018/2025.12.10**

Отримана: 05.11.2025 р.
Прийнята: 07.12.2025 р.
Опублікована: 20.12.2025 р.

АНОТАЦІЯ

У вересні 2023 року вірмени залишили Нагірний Карабах після його відвоювання Азербайджаном. Вірмени заявили, що не вірять у дотримання їхніх прав з боку азербайджанських законів чи адміністраторів. Уряд Азербайджану заявив, що карабаські вірмени є громадянами Азербайджану і користуватимуться тими ж правами та захистом, що й будь-який інший громадянин Азербайджану. Майбутній статус вірмен та їхнього майна в Карабаху є одним з головних питань поточних переговорів. Отже, постає питання: чи є карабаські вірмени громадянами за азербайджанським законодавством і які з цього випливають правові та політичні наслідки? Щоб відповісти на це питання, стаття спочатку подає історію азербайджанського закону про громадянство у зв'язку з карабаським питанням. Ця історія, яка розглядається в контексті тогочасних політичних та правових обставин, також ілюструє панівні настрої та підходи в Азербайджані, а також законодавчий та конституційний характер країни. Далі в статті розглядаються поточні правові та політичні наслідки для окремих осіб, міждержавних відносин та міжнародного права. Стаття доходить висновку, що азербайджанський закон про громадянство формально враховує карабаських вірмен, але водночас надає уряду значну дискрецію у його застосуванні. У статті зазначається, що це створює невизначеність, і що для прогнозування ймовірних майбутніх подій необхідно враховувати політичні мотиви азербайджанського уряду. Далі стаття розглядає ці мотиви та пропонує декілька сценаріїв майбутнього врегулювання та їхні наслідки для окремих осіб, вірменсько-азербайджанських відносин та міжнародного права.

КЛЮЧОВІ СЛОВА

Вірменія, Азербайджан, міжнародне право, Карабах, закон про громадянство, Південний Кавказ.

1. Introduction

Karabakh has long been ethnically mixed. When Soviet rule began, the Azeri population predominated in much of the region but not in its mountainous center, which had an overwhelming Armenian majority – on whose account the Soviets established the autonomous oblast of Nagorno-Karabakh (literally Mountainous Karabakh) within the Azerbaijani Soviet Socialist Republic. Both the administrative boundaries and the demography would remain unchanged throughout the Soviet period. However, the twilight of Soviet rule sparked considerable contention in the region, particularly a separatist movement seeking the transfer of the oblast from Azerbaijan to Armenia.

The legal and essential story, thus, starts with Azerbaijan's declaration of independence on October 11th, 1991, in response to which the government of Nagorno-Karabakh held its own referendum for independence from both Azerbaijan and the Soviet Union on December 10th, which local Azeris, who made up 20% of the autonomous oblast, boycotted. Nevertheless, it was announced that the yeas won the referendum with 99.98% of the vote, with a popular turnout of 82.17%. Nagorno-Karabakh proceeded to declare its independence on January 6th, 1991. Yet Azerbaijan had revoked Nagorno-Karabakh's autonomy on November 27th, 1991; it recognized neither the referendum nor the declaration of independence. So began the First Karabakh War.

The separatists won that war. By force of arms, they not only established their *de facto* independence in the autonomous oblast of Nagorno-Karabakh itself but also conquered almost all the rest of Karabakh. These territories became the breakaway Republic of Artsakh – reviving the name of a roughly coterminous province of Ancient Armenia. Azeris, making up the majority outside of the Autonomous Oblast, were displaced wholesale and fled to the Azerbaijani government-controlled territory. The war ended with a quadripartite (Russia, Armenia, Azerbaijan, and Artsakh) ceasefire signed in Bishkek on May 5th, 1994. Yet, Azerbaijan, despite military defeat, never *de jure* recognized the loss of either the former autonomous oblast or the rest of Karabakh. Karabakh's *de facto* independence has never had any legal consequence whatsoever for Azerbaijan.

2. Literature Review

Nationality law in post-Soviet Azerbaijan has been primarily formed and regulated by three key documents: the Declaration of Independence of 1991, the Constitution of 1995, and the Nationality Law of 1998. These documents have undergone amendments, and the regime they established underwent a major revision after approximately 2010; however, all of them remain in force. This section relates to the original provisions of these documents.

Azerbaijan adopted the so-called 'zero option' regarding citizenship, whereby all residents of the territory became citizens of the new state [21]. However, the zero option was never explicitly stated; it was a net effect of the consequences of the developments in Azerbaijan following independence. So, it was not a simple matter of everybody in Azerbaijan getting citizenship of the new state.

The first of these developments was the promulgation of the Declaration of Independence on October 18th, 1991. Article 8 identified the people of Azerbaijan, whom it declared sovereign, as all citizens "within and outside the Azerbaijan Republic subject to Azerbaijan's laws" [17], and Article 19 accepted equality before the law for all and customary international human rights law; but the document never set forth a specific definition of citizenship.

What it did do, per Article 4, was keep Azerbaijan's Soviet constitution of 1978 in operation until the promulgation of a new, post-Soviet constitution – insomuch as it did not contradict new laws. So in effect, independence transformed the 'hard' 1978 constitution into a 'soft' one: the constitution remained, but the legislature, as the ultimate authority, became able to override it. Of course, the 1978 Constitution had not discussed the question of nationality; in 1978, everybody had been a Soviet citizen, and the constitution applied to all Soviet citizens residing in the Azerbaijani Soviet Socialist Republic.

As a result, much was left unclear. Clearly, somebody who, on the day of independence, had been in his village in Azerbaijan and had remained there since was a resident and part of the people's citizenry as defined by the declaration of independence.

But what about those who lived abroad or were absent on the day of independence? It had been Soviet practice to appoint new graduates to postings all throughout the Union for a few years' time;

many white-collar Azerbaijanis, newly graduated or not, lived and worked elsewhere in the Soviet Union. Meanwhile, during the tumult of independence, many members of ethnic minorities had departed – they may have hoped only temporarily. This exodus especially affected cosmopolitan Baku. The most famous departee is probably world chess champion Gary Kasparov.

In effect, there was a legal vacuum. In practice, individual questions of citizenship defaulted to the executive, which administered the voter rolls. These circumstances lasted a long time – at least until 1995, when Azerbaijan's first post-Soviet constitution came into force. During this limbo period, Azerbaijan held five legislative elections. Indeed, it is a fact that these elections, combined with the language of the 1978 constitution and the declaration of independence, whereby Azerbaijan implicitly adopted the zero option. The period in question was formative in more ways than one; the combination of legal murkiness and practical executive authority has since remained a lasting characteristic of nationality law in Azerbaijan.

The next development in nationality law in Azerbaijan occurred with the promulgation of the first post-Soviet constitution in 1995. This constitution brought in more guarantees. It made citizenship irrevocable. It also ensured that all those born in Azerbaijan after independence were considered nationals. As such, this constitution indeed [5; 13] instituted the broadest application of *jus soli* in Europe outside Ireland. This followed the example of the Azerbaijan Democratic Republic, the regime of Azerbaijan before the Soviet takeover, which its successor, Azerbaijan, considered itself to be, but there might have been something else behind all this.

By 1995, Heydar Aliyev replaced the pan-Turkic nationalist Ebulfez Elchibey as the president of Azerbaijan. Aliyev was a former KGB officer and a figure more strongly associated with Moscow. Aliyev's government, as well as people from the numerous non-Azeri communities in Azerbaijan, had reason to stress a territorial, rather than ethnic, conception of Azerbaijan and Azerbaijani nationality. This territorial conception – as opposed to ethnic Azeri nationalism, Turkish nationalism, or pan-Turkism – has been called *Azerbaijanism* [21]. One of its effects has been that Azerbaijan has never provided citizenship for Azeris outside its borders. This contrasts with the example of many other post-Soviet states, which did give citizenship to members of the titular nationality left outside their borders.

The last of the three documents to come into play was in 1998 with the promulgation of Azerbaijan's very own nationality law. The law did a few important things.

First and most importantly, the law automatically counted as citizens only those residing in Azerbaijan as of January 1st, 1992, who had maintained their residency since. Residence in 1992 was to be demonstrated by the *propiska*, the infamous Soviet internal passport, which doubled as civil registration. The Azerbaijani nationality law of 1998 stipulated that individual unable to present a *propiska* as of January 1, 1992, were required to register with the government within a year to maintain their residency and citizenship, or risk losing their citizenship or residency status.

This might have been particularly problematic for ethnic Azeris, generally from Georgia or Karabakh, who had come to Azerbaijan during the collapse of the Soviet Union. To prevent this, the law expressly guaranteed and confirmed the citizenship of all refugees who had come between 1st January 1988 and 1st January 1992. This also suggests that the authorities thought the chances of Azeris returning to Georgia, not to mention Karabakh, were slim. Why guarantee the citizenship of these people if it was thought they could return to where they came from?

However, the law disappointed many other ethnic Azeris. In the Soviet Union, urban centers were attractive and often needed workers. So, the requirement that people be registered in some place in Azerbaijan in January 1992 excluded many Azeris. This was not just a problem for Azerbaijanis living in Moscow or somewhere else in the former Soviet Union. It affected many people who were actually in Azerbaijan on January 1st, 1992. In Soviet times, despite restrictions on internal migration, people often lived in places where they were not registered. They may have been *limitchiki* – that is, authorized to live somewhere they were not registered to for work or married to somebody who was registered – or they may even have been just downright undocumented.

Indeed, in Azerbaijan, many people suffered from the lack of recognition of citizenship. Mark 'lack of recognition'; the law did not make the removal or denial of citizenship automatic; it left it to the government's discretion and initiative – and as it transpired, the government did not proceed to strike people off the list, as it were, once the deadline had passed. Instead, those who failed to register ended up in a quasi-state of limbo: they were neither declared citizens nor non-citizens. Yet, many of these people eventually obtained Azerbaijani citizenship, becoming recognized or naturalized through various methods. Enfranchisement and naturalization accelerated, especially after Azerbaijan joined the Council of Europe.

Yet Azerbaijan did not control Karabakh, and this process did not take place there. Karabakh Armenians must thus be considered the worst losers of the nationality law; it effectively stripped them of their citizenship. For even if Armenians had the required *propiska*, how could they go over to government territory to register? Aside from what it would signify for the separatist cause, the demarcation line between Azerbaijan and the breakaway republic was a military frontier. Moreover, even if they had gone to the Azerbaijani government territory to register, Azerbaijan, having lost control over Karabakh, would have no record of their continued residency. Nor would any documentation from the Nagorno-Karabakh government be of any help; having been authored by a state that Azerbaijan did not recognize but regarded as a rebel entity, it would have had no legal validity in Azerbaijani eyes.

3. Problem Statement

Following Azerbaijan's 2023 reconquest of Nagorno-Karabakh, a central conflict emerged between the government's claim that local Armenians are full citizens and the Armenians' deep distrust, which prompted their mass exodus. The core problem this article addresses is the resulting uncertainty: it investigates whether Karabakh Armenians are truly citizens under Azerbaijani law and what the legal and political implications of this ambiguous status are.

4. Methods and Materials

The study applies qualitative and doctrinal research methods. It is based on an analysis of international legal instruments, national legislation of the Republic of Azerbaijan, and case law of the European Court of Human Rights concerning citizenship, statelessness, and minority rights. Secondary sources include academic literature on nationalism and statehood, analytical policy reports, and country assessments produced by international organizations. In addition, materials from reputable media outlets and official databases were used to contextualize recent political developments in the South Caucasus. Methods of comparative legal analysis, document analysis, and case-law review were employed to identify patterns, assess compliance with international standards, and formulate analytical conclusions.

5. Results and Discussion

The question of the impact of Azerbaijan's nationality law in the separatist region of Karabakh would have largely been moot until recently. Legal responsibility is predicated on actual control. Moreover, citizenship is a relationship between a state and an individual. International law is generally silent on the matter.

Despite this general silence, international conventions forbid rendering people stateless, and Azerbaijan could have but chose not to recognize the citizenship of Karabakh Armenians. There is the counterexample of Georgia: it has long recognized the citizenship of people in the breakaway republics it claims but does not control.

However, in the case of Karabakh, even this never came into play because Azerbaijan never actually formally denaturalized anybody. Essentially, Azerbaijan did not account for them as citizens because they could not prove their citizenship; however, Azerbaijan did not deny their citizenship. Affected individuals in Azerbaijan itself might, in practice enjoyed some public services for citizens or residents, but not others. As a hypothetical example, people might have been treated at the hospital but been unable to get a passport. This policy created a substantial problem in Azerbaijan, but it would have been difficult for the affected to bring suit in response in international fora.

International law safeguards the rights of persons as well as certain rights bestowed upon states, such as the right not to be attacked by a neighboring state, with some exceptions. It does not interfere in procedural matters of domestic courts or legislation. International law prescribes a few universal rights. It does not grant people rights those states may legally withhold. So, Azerbaijan only had to refrain from violating any rights that would result in the violation becoming legitimate or creating potential refugees. Refugees are people who have been so abused that they are absolutely justified in leaving their own country and their welfare has become the business of other states. Since refugees bring responsibilities – often challenging ones – for other states, they inherently constitute the internationalization of a problem; therefore, refugees, unlike citizenship, are a proper matter for international law. In that light, someone affected could not take up their case internationally unless physically dispossessed, displaced, or starving.

2002, however, was a momentous year: Azerbaijan joined the Council of Europe. Members of the Council are required to have signed the European Convention on Human Rights. This document stimulates considerably more rights than guaranteed by the UN. Jurisdiction over the European Convention on Human Rights is held by a special court in Strasbourg. It has been claimed that the court interprets the Convention liberally, for instance, by former Supreme Court Justice of the United Kingdom, Lord Sumption [19]. It thus does not seem too surprising that Azerbaijan's newfound adherence to the Council corresponded to domestic administrative reform. No later than 2002, Azerbaijan's constitution was amended to give the president the powers to "settle the issues of citizenship" and "decide issues on granting political asylum" – incidentally, this also meant that the dualism theoretical right to nationality and actual enjoyment of it, which had existed since the very beginning of Azerbaijan's independence, got some codification.

As a result of all this, there was a great decline in the number of undocumented people in Azerbaijan. Those who were unable to register in government-held Azerbaijan were gradually absorbed into the citizenry through naturalization at worst – but of course, the process of documentation and re-documentation did not take place in Karabakh, over which Azerbaijan lacked control.

In retrospect, this was prudent. The Strasbourg court would come to rule in 2012 in *Kuric and Others vs. Slovenia* that it was unfair for Slovenia to keep Mr. Kuric, who had been a resident of Slovenia since before Slovene independence, off the register of citizens, even if Mr. Kuric had failed to comply with the relevant registration deadline [6; 12]. The court found it to be a violation of the rights under the European Convention of Human Rights to private life, effective remedy, and non-discrimination, as protected under Articles 8, 13, and 14, respectively. This stance of the Court, particularly that a lack of citizenship is a violation of the right to private life, was, in part, affirmed in 2018 in *Hoti v. Croatia* [9]. It must, however, be observed that in *Hoti v. Croatia,* Hoti's violation of private life was predicated on Mr. Hoti's effective statelessness [20]. Mr. Hoti could not achieve stable residency in Croatia because he could not become a Croatian citizen; he could not become a Croatian citizen because he could not demonstrate to the Croatian authorities that he had renounced his Albanian citizenship; the Albanian authorities would not permit him to renounce his Albanian citizenship because they did not consider Mr. Hoti to be an Albanian citizen in the first place.

Messrs. Kuric and Hoti found themselves in a situation similar to that of stateless persons in Azerbaijan after independence: they were either stateless or treated as such. If Mr. Hoti was prevented from acquiring citizenship by external forces, but Mr. Kuric could have become a Slovenian citizen, had he only registered on time, immediately after independence. If Mr. Kuric, someone who resided in government-controlled territory was excused for – or more precisely, still had a right to an effective remedy despite – not having registered, surely, in the eyes of the Strasbourg court, the Armenians of Karabakh who found themselves in a breakaway state would have even more of an excuse in failing to comply with Azerbaijan's registration mandate than Mr. Kuric did with Slovenia's.

It must, however, be observed that the court intervened on behalf of Mr. Kuric and Mr. Hoti because they found themselves subjected to the conditions of statelessness where they actually lived. Karabakh Armenians are not currently in Azerbaijan; for the most part, they reside in Armenia, where they may enjoy citizenship. So, although the court may even better understand their failure to register with Azerbaijan, the court might opine that, as there is no actual violation taking place on the ground, it has no mandate to intervene.

Here, though, the scholastic legal analysis must end: it is hard to imagine a body as committed to the spirit of the European Convention of Human Rights and the body of international law as a whole opt to refrain from judgement through such casuistry – one must in some sense admit Lord Sumption's assessment that the court is partisan is correct; the question is whether this partisanship is unwarranted or unwarranted, where different interpretations are possible – and because the very openness to interpretation on theoretical grounds, one can imagine governments being at variance on the question of the court's intervention as well.

Anyhow, as time went by, the political landscape changed, and Azerbaijan's nationality laws became more stringent. In 2008, the nationality law was amended: the five years required for naturalization now had to be consecutive. Naturalization also now requires that people have been legally and permanently resident and have an income.

This prompted amendments in Azerbaijan. Their primary effect was to grant the executive even greater discretion regarding citizenship and nationality.

On May 30th, 2014, the nationality law was changed. Children born to a foreign parent no longer got citizenship through *jus soli* (though foundlings or children whose parents were stateless still did). This contradicted the constitutional guarantee of jus soli, but Azerbaijan's judiciary interpreted the amendment as a restriction rather than a negation thereof. At the same time, the change criminalized getting another nationality without informing the government. It also made voluntary acquisition of another nationality, serving under another state, damaging the national interest, and fraudulent naturalization punishable by the loss of citizenship, as adjudicated by the courts. Another amendment on December 30th, 2014, required repatriates older than fourteen and all newly naturalized persons to swear allegiance. A further amendment on December 4th, 2015, added extremism and terrorism to the above list. These clearly breached Article 53 of the Constitution, which explicitly states that citizenship is irrevocable. The conflict was ultimately resolved by the repeal of Article 53 through a constitutional amendment, which was approved in a referendum on March 20, 2016.

Yet in other ways, amendments made citizenship more inclusive. The president became able to restore citizenship [14]. Anybody who had been a citizen of Azerbaijan or the Azeri SSR and had not left the country became eligible to sue for recognition as stateless and to become a citizen by naturalization. Additionally, the date of arrival of refugees became considered the day they began residency in Azerbaijan. This last reduced the time required for naturalization. Nevertheless, considerable discretion was left to the authorities. For instance, the courts became able to deny the naturalization applications of those considered to have acted against Azerbaijan's security and welfare.

On the whole, today, nationality is a highly discretionary matter in Azerbaijan, with the executive having ultimate authority. A discretionary policy toward nationality is not in conflict with international law. As mentioned, citizenship is not a question subject to much in terms of international law. The right to nationality under the Universal Declaration of Human Rights remains nominal at worst and qualified at best. The European Convention of Human Rights does not establish a firm right to acquire a nationality either, as made evident in *Karassev v. Finland* [11]. Yet it must be stressed that there is likewise nothing to formally bar Armenians from citizenship either in Azerbaijan's laws, nor would Azerbaijan be permitted to have such a law under the European Convention on Human Rights. The decision of the Strasbourg court in Genovese v. Malta evidences this [8].

According to Azerbaijan's current legal framework, the Karabakh Armenians, in general, are citizens of Azerbaijan. Those in Karabakh on January 1, 1992, and ever since have been citizens, as per the Nationality Law. Those born there between 1992 and 2014 are citizens per *jus soli*. The children of any of these categories of people are also Azerbaijani; the same is true of all foundlings and children born to exclusively stateless parents. These individuals may not currently be considered citizens, but only because their identity documents are invalid – an administrative issue. If President Aliyev, with ultimate say over citizenship and asylum cases, chooses to recognize their papers, despite their being authored by a state Azerbaijan never recognized, he may. People falling outside these categories, too, can become recognized as Azerbaijani citizens, but through naturalization, much like the unregistered after 1998. Of course, in practice, this might be difficult. It depends on the attitude of the authorities – but it must be stressed that Azerbaijan cannot make being Armenian itself a formal bar to citizenship, as the right to non-discrimination per the European Convention of Human Rights makes clear.

Nevertheless, legally speaking, the only people without a path to Azerbaijani citizenship or legal residency are those born before 1992, without association to the former categories of persons, and who moved to Karabakh after Azerbaijan lost control over it. The most salient category of people who fit that definition are Armenians from outside Karabakh who settled in the breakaway republic after its establishment. But even they could get citizenship. As mentioned, according to Azerbaijan's constitution, the president has the ultimate say over citizenship and asylum cases, and in extraordinary cases, he may even grant naturalization. The reintegration of a lost territory can clearly be considered an extraordinary situation.

Aliyev has stated that Karabakh Armenians are citizens; the official stance is for the full reintegration of Armenians. The only caveat is when it comes to perpetrators of massacres and war crimes and the like: Azerbaijan has expressed its intention to prosecute them. The most salient of such people are those accused of atrocities during the first Karabakh War.

It is therefore interesting that Azerbaijan called the final offensive of the Karabakh conflict an anti-terrorism operation. It must be remembered that Azerbaijani law permits revoking the citizenship of people considered to have worked against the public interest or engaged in terrorism. If the separatists were terrorists, their citizenship could be revoked. In that case, a great many – virtually anybody involved somehow with separatism – are confronted with the danger of denaturalization and, consequently, expulsion.

It must therefore be remarked that it is legally possible that masses of Armenians be denaturalized. However, it is hard to imagine that Azerbaijan's courts would take such action on their own initiative. Indeed, but for a few oddities, the courts have seldom pursued denaturalization – as they must for denaturalization to actually happen – even in normal cases. For instance, many who have other nationalities have kept their Azerbaijani citizenship. Prosecutors have simply not brought a case against them. Several Artsakh leaders are currently imprisoned in Azerbaijan. They have not been prosecuted with a view to their denaturalization either [2].

All this, however, is beside the point: clearly, the question of the Armenians' citizenship is not a legal but a political one, and it lies with President Aliyev. This is not just de facto, given the constitutional state of Azerbaijan. Still, de jure: according to Azerbaijan's constitution, questions of citizenship and asylum, however much they are adjudicated in practice by the courts, are constitutionally the president's province. And Presidential authority on these questions is unassailable. Even if the President were not able – as he is – to overrule the courts on these questions, he could even, legally and expediently, re-naturalize those they denaturalize. Indeed, by law, the normal conditions for naturalization are dispensable in "exceptional cases" [21].

All in all, Aliyev has declared that the Armenians of Karabakh are citizens of Azerbaijan. For so long as he keeps his word, then Karabakh Armenians are securely citizens of Azerbaijan. So, if President Aliyev abides by his declarations and says Karabakh Armenians are Azerbaijani citizens, their status in Azerbaijan should be quite secure, whatever the resentment resulting from thirty years of ethnic conflict in Azerbaijani society at large.

The question, then, is whether Aliyev and Azerbaijan can be trusted to keep their word. After all, in question is a state with a hard-nosed and powerful presidency, a pliant judiciary, and a legislature so unfussy that it promulgates unconstitutional laws and only thereafter goes on to change the constitution, and a legal framework for mass denaturalization is in place [21].

Yet none of this means Azerbaijan should necessarily be distrusted. One must remember that different polities are constituted differently and produce equilibria and stable outcomes in different ways [10]. So, to assess the question of whether Azerbaijan's government will keep its word or if it is interested, as often accused, in pursuing ethnic cleansing, one must consider its motives.

Whenever somebody pursues ethnic cleansing, they do so either for the sake of ethnic cleansing itself or for the sake of some other objective. There can be two reasons why somebody would want to ethnically cleanse a territory for its own sake: ideology and hatred.

Ideologically, the combination of the nation-state and democracy often happens to be a call for the institution of an overwhelming national majority in a state, for two purposes: that a nationality's mores and views may dominate a society, and that that nationality can dominate the government of that society.

The population of Azerbaijan is approximately 10 million, of which 91.6% are ethnic Azeris [3]. The Karabakh Armenians number about a quarter of a million. Azeris are assured of demographically dominating Azerbaijan, come what may. It is unlikely that a minority can overthrow the Azerbaijani state. As such, neither the Azerbaijani state nor Azerbaijani society requires ethnic cleansing for the sake of their security and perpetuation.

Might the Azerbaijanis like to ethnically cleanse the territory due to simple hatred? There may, of course, be many who might find the idea appealing. The Azeris themselves were expelled by the Armenians a few decades ago. Yet it must be remembered that these two nationalities recently lived within the same state and often in the same communities – and, historically, cohabitation has been the rule, not the exception. The last period of cohabitation lasted nearly a century. Though perhaps most importantly of all, in the modern world, people often think of ethnic cleansing as wrong – this includes people from nations involved in ethnic strife []. Thus, military victory, the restitution and reconstruction of old property, and the punishment of the leaders blamed for injustice, together should go a long way in assuaging the thirst for revenge on the part of the Azeris. The Azerbaijani regime, meanwhile, should be strong enough to hold back those still dissatisfied.

The motive, then, that Azerbaijan might have for ethnic cleansing is not ethnic cleansing for its sake, but rather potential Armenian unrest. Artsakh's soldiers were gunned down in great numbers by Azerbaijani drones. Artsakh never got to join Armenia and never enjoyed a moment's comfort, being a breakaway republic. Baku might well think that the Armenians, if left there, resentful, if not vengeful, toward Azerbaijan, might continue to agitate, despite their republic's demise. Then Karabakh would remain a restive province and a continuing flashpoint, and maybe a violent one; after all, the mountainous terrain is suitable for guerrilla activity and insurrection. Reason suggests that avoiding such a situation is the primary motive of the Azerbaijani Government. What, then, is to become of the Karabakh Armenians?

It is unlikely that President Aliyev would change tune to go about denying or stripping citizenship left, right, and center – at least not unilaterally. Besides the above, Aliyev has publicly given his word, and his word is his defense against accusations of ethnic cleansing. In recent years, rather than debasing international law have manifested its opprobrium and damnatory force – alongside that of global public opinion. If leaders of states in relatively stronger positions are condemned – and are likely to be punished, should they ever lose power – how can one expect Aliyev, the leader of a much smaller state and a figure who has thus far acted in a largely pragmatic, calculating, and moderate manner on the international stage, to undertake such a risk?

If mass denaturalization does occur, this would probably be by means of a treaty between Azerbaijan and Armenia. An exchange of territory, at least of the parties' respective enclaves, is sure to happen. This might be accompanied by an exchange of populations with Azeris and Armenians losing the citizenship of the state they no longer want to be associated with and acquiring that of the state they identify with.

After all, upon Artsakh's surrender, almost all Armenians left Karabakh, seemingly with the endorsement of both Armenian and Artsakh authorities. It is a question of keeping Armenians – or, in the case of former Azerbaijani residents of Armenia, Azerbaijanis – out of their ancestral land rather than driving them out of it. And under the current international situation, one would expect few political, as opposed to legal and moral, objections. Those made would likely be by revanchist factions or the former leaders of the vanquished breakaway republic. As such, the parties may well opt to break international law, but probably only if they could come to a deal over it – and a deal might happen. The Armenian prime minister has not been very favorable to the Karabakh separatists. And the Armenian government, much like the Azerbaijani one, might wish to extinguish the claims of Azeris in the territory it controls. Politicians are often ambitious people. They may want to bring home a clean break and go for the first option in the interest of resolving things once and for all.

Yet, the influence of international law and the force of opinion among affected individuals clearly work against such an arrangement. A compulsory population exchange would conflict with international law. None has happened legally since 1948. Since 1945, there has been a significant shift in international law. State sovereignty has been restricted such that states nowadays basically lack the legal authority to deprive individuals of their hearth and home because of ethnicity or religion or the like. The most explicit interdiction is in the Rome Statute. Azerbaijan has not signed that, but the essential prohibition is to be deduced from the Geneva Convention of 1949, to which it has subscribed. Moreover, the question of the statutory source of the prohibition on ethnic cleansing is beside the point: the prohibition on ethnic cleansing must now be considered part of customary international law. By and large, customary international law binds both old states and new states that had no part in its establishment. It particularly binds Azerbaijan, as Article 19 of its declaration of independence explicitly commits Azerbaijan to the general corpus of international law.

Whether population exchanges are necessarily bad is debatable, but population exchanges are currently illegal – and the law matters. No solution that spurns international law can ultimately be secure; it is to hang Damocles' sword over one's head. Violations of law and decency can be used as an excuse, justification, or rallying cry against the party accused of committing them, and those who utilize them are not necessarily the parties originally aggrieved but might represent much greater powers. Big states maybe can afford to worry less about the violations they commit. They are generally less vulnerable to everything. Small states might not be so secure. Azerbaijan is a small state.

Perhaps likelier than a settlement that directly violates international law is an open-ended and murky one, which nominally respects it but in practice allows Azerbaijan to disregard it in accordance with its interests. Armenia, too, might also find such arrangements useful to stymie the reclamation of the claims of its former Azerbaijani residents.

Southern Serbia might provide something of an example of how to honor a custom more in the breach than in the observance. In southern Serbia, there are the municipalities of Medveđa and the two municipalities of the Preševo Valley. These areas have a significant Albanian population, and Albanians are a clear majority in the Preševo Valley itself. These Albanians are full citizens of Serbia. Yet, it is reported that Serbia is discriminating against them to rid the area of its Albanian population or get a deal dividing Kosovo between Serbia and Albania. The ostensible motive is the strategic economic geography of the area: a great road south from Belgrade goes through it.

A report, *Albanian Minority on Hold: Preševo, Bujanovac and Medveđa as Hostages of the Serbia and Kosovo Relations,* goes into some detail on this. The forms of discrimination it identifies can be categorized into three types: economic, cultural, and administrative.

Culturally, the report finds a lack of Albanian-language newspapers and radio in the districts. Economically, the report finds that Albanians are underemployed in the civil service. This may be the most direct form of discrimination, affecting access to services, representation, and livelihoods. Rural underdevelopment also incentivizes emigration for economic reasons.

The form of discrimination the report identifies that is most significant and relevant to the situation in Karabakh is administrative discrimination. This is principally done through the practice of passivation. Passivation changes the official status of a person to a non-resident. Passivized persons are struck off the population register – so they cannot vote, get a passport, or get health insurance. The legal basis is Article 18 of the Law on Residence of Citizens in Serbia, which allows the Ministry of Internal Affairs of Serbia to verify whether a citizen is living at their official address. In practice, this means a police visit, often unannounced, according to the report. If the police conclude that the person in question lives elsewhere, they passivize the address. While sometimes passivation is done without a visit taking place.

The Interior Ministry does not give written notice of passivation. According to the report, generally the information is relayed orally or placed on a bulletin board. This makes appealing hard, and the deadline for appeal is eight days. People often learn that they have been passivized at the hospital or clinic, or when they are trying to renew their identification card, passport, or pay property tax. According to Deutsche Welle, once people are taken off the register, as a rule, they do not get back on it [18].

The situation in Presheva/Preševo valley resembles the situation in Karabakh, but it differs in four ways:

1. In Karabakh, in effect the whole Armenian population has been passivized, not just certain individuals.
2. While the Preševo Albanians are being actively subjected to passivation, the passivation of the Armenians is not the object of an active policy but the consequence of the interplay of many legislative actions within the context of a decades-long conflict.
3. The Armenians in question are the people of the former breakaway republic of Artsakh, which was formally unrecognized by even Armenia and came to an end with a war only a few years ago. In contrast, Albanians in Serbia do not claim citizenship of another state.
4. Serbia is often viewed as more of a democracy than Azerbaijan is, but it is arguably less strategic than Azerbaijan. Serbia is surrounded by NATO and is economically less significant. Azerbaijan, on the other hand, is a major source of hydrocarbons and can serve as a transit route between Europe/Turkey and Central Asia/China, while lying between Russia and Iran.

Since the whole population has been passivized, the situation faced by individual Azerbaijan Armenians is different from that of individual passivized Serbian Albanians. As Azerbaijan has never had an explicit policy and the reconquest of the breakaway republic occurred only a couple of years ago, on the one hand, Azerbaijan seems less blameworthy in its ways. Yet on the other hand, Azerbaijan is likelier to be held up to scrutiny: it is perceived to be less of a democracy, and there is a politically active Armenian diaspora in Western countries.

If, as it is argued, Azerbaijan lacks an inherent motive for ethnic cleansing and a straightforward and formal abjuration of the right to return is problematic, it follows that Azerbaijan will either allow a full return of Armenians in good faith or it will adopt a policy like Serbia's, which formally accepts the Armenians' right of residency – and in Azerbaijan's case, even citizenship – but somehow stymies the practical enjoyment of these.

Since there are reasonable grounds to expect that the presence of a substantial Armenian community could be troublesome in Azerbaijan's view, especially when so little time has passed since the end of the conflict and the relations between Azerbaijan and Armenia have not yet been fully normalized, a situation like in Serbia seems the likelier scenario to occur. The lack of a response by Presidents Aliyev and Trump and Prime Minister Pashinyan to a question about the return of the Armenian community to Karabakh also supports such a conclusion [1].

It must be observed that implementing a policy like Serbia's should be relatively easy. For one, to mention it again, the Armenians currently lack documentation; they could be denied re-entry into Karabakh due to a lack of papers. Yet such a straightforward policy is unlikely; it would be too obvious a circumvention and tantamount to the mass denaturalization discussed above. But one might well expect a more targeted denial of re-entry. One must remember that participation in terrorism can legally lead to denaturalization in Azerbaijan. If supporting a separatist entity falls under terrorism, as Azerbaijani courts might well see it, many Karabakh Armenians are likely to have fallen foul of Azerbaijani law. This could be used to block the return of many who might or might not have fought, especially fighting-aged men. The ostensible aim would be state security, and, after a war, this would not be the most incomprehensible thing in the eyes of the international community. Not only would this block the return of fighting-age men, those likeliest to start an insurgency, but it would discourage the return of the Armenian population at large: if returning to Karabakh meant having to live without their men, other Armenians might not come back either.

There is also the matter of property. Property rights are far weaker in Karabakh in Serbia. There was no private property in the Soviet Union. The succeeding national governments inherited public property. Therefore, in post-Soviet breakaway regions such as Abkhazia, South Ossetia, Transnistria, and Nagorno-Karabakh, individuals lack internationally recognized titles to property. Consequently, there is no mechanism to stop *voluntary* emigration from entailing the abandonment of property. The right to return to one's home, stemming from the prohibition of ethnic cleansing, does not necessarily mean an absolute right to go on living in the very same building with the same proprietary arrangements. Nationalization is a common practice in many countries and is widely recognized as legitimate. In Karabakh, in the process of being reconstructed for the return of Azeris, people's houses might be destroyed or converted to other buildings, and people whose houses are no longer there might think returning is not worthwhile. Indeed, for many, considerations of property might trump those of citizenship or residency. People often care more for their possessions than their political rights or homeland. Ernst Gellner famously argued that modern nationalism is less about one's nation and native soil than about social and economic mobility in the modern world [7].

Moreover, the settlement itself might establish a mechanism restricting the transfer of property rights to the descendants of the dispossessed. For instance, a refusal to move back to Karabakh because one would have to live without one's husband and son might be officially regarded as voluntary abandonment of property and thus entail the extinguishment of one's claim to it. (Although if done too brazenly, this can have all sorts of diplomatic ramifications.) Armenia and Azerbaijan might also succeed in getting people to abandon their property in the other state if they continually discourage people from living in the other state. Such abandonment and emigration would, strictly speaking, be voluntary.

Some of the above seem sure to happen, but how much – the extent to which international law will be openly abjured as opposed to how much it will merely be subject to practical circumventions – will depend on the stance of the international community.

6. Conclusions

Formal abjuration on one hand, and practical circumvention on the other, may have the same consequences for individuals; they are both violations of international law, but there is a great difference between them from the standpoint of international law. A murky and open-ended solution is preferable to one that formally abjures international law, because practical circumventions and incongruities can be, and often are, eventually scrapped whenever the parties come to heed the law again. Circumventions and incongruities can also, and often do, fade away as the political situation which occasioned them changes – and things in Karabakh are sure to change. The Nagorno-Karabakh conflict is the primary issue between Azerbaijan and Armenia. While the Presevo valley constitutes a strategic link to the rest of the Balkans for Serbia, for Azerbaijan, Nagorno Karabakh leads nowhere but to Armenia. So, once the current questions are resolved, there is no reason not to expect cordial interstate relations. Those, consequently, would conduce to better ethnic relations and thereby also incentivize scrapping the impediments Azerbaijan happens to have against the Armenian population. It is not rational to continue a policy against international law unnecessarily, especially if it is embarrassing or hampers investment or profit.

In a recent interview with The Rest is Politics, the Greek Cypriot president Nikos Christodoulides suggested a new model of diplomacy in the Near East: parties would start with and resolve issues where they can agree, and then move on to the more intractable questions, making these latter questions easier in the process. This contrasts with the previous trend in regional diplomacy of nothing being agreed until everything was [15]. The agreement and the subsequent arrangements regarding Karabakh may be the first instance of such a new approach in regional diplomacy [16].

After all, the less blatant the violations and incongruities of an arrangement, the easier it is to backtrack from them; whereas more blatant violations and incongruities make more dramatic reckonings likelier, which may then take terrible proportions. Perhaps one must again turn to Cyprus for an illustration of this truth. There was a movement on the Greek side to join Greece and a radical move to this end: a coup by the militant Nikos Samson. This made the Turkish response in turn radical; desperate times calling for desperate measures, Turkey felt it could not but invade. The resulting division has still not been overcome. As for the Caucasus, it is an even more sensitive region than the Eastern Mediterranean.

"Magnanimity in victory and goodwill in peace," to quote Churchill [4], are not merely virtues valued for their own sake. Rather, they reflect an understanding that, without a degree of cordiality in international relations – most clearly institutionalized in international law – the international system is reduced to the rule of the big stick, with no certainty as to who will wield the larger one tomorrow, a reality the Karabakh separatists have come to understand all too well.

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Social Development: Economic and Legal Issues No. 12 (2025)

e-ISSN 3083-6018

SOCIAL DEVELOPMENT: Economic and Legal Issues

https://www.eu-scientists.com/index.php/sdel

Constitutional and Legal Principles of Jury Functioning: A Comparative Study

Iryna Kunenko [1] *

[1] *Koretsky Institute of State and Law of the National Academy of Sciences Ukraine (Ukraine). Doctoral Student, PhD in Law, Associate Professor.*

* ***Corresponding Author,*** e-mail: i.kunenko@gmail.com

ARTICLE INFO

Research Article

DOI: 10.70651/3083-6018/2025.12.13

Received: 11 November 2025

Accepted: 12 December 2025

Published online: 23 December 2025

ABSTRACT

In contemporary constitutional law, citizen participation in the administration of justice through jury and lay judge institutions is traditionally regarded as a form of implementing the principle of popular sovereignty in the judicial sphere. However, domestic constitutional law scholarship lacks a comprehensive comparative legal analysis of constitutional models for regulating jury trials, which complicates determining optimal pathways for developing this institution in Ukraine. The purpose of this study is to clarify the features of constitutional regulation of the jury trial institution in foreign countries, identify the main models of such regulation, and determine the specifics of the Ukrainian constitutional model of popular participation in the administration of justice. The article systematizes three main approaches to the constitutional enshrinement of popular participation in justice: direct establishment of jury trials as an element of the judicial system with definition of its status and competence; formulation of a general principle of administering justice on behalf of the people without specifying institutional forms; absence of special constitutional provisions with delegation of regulation to ordinary legislation. Two main models of lay judge participation are identified: the classical Anglo-American model with clear separation of functions between jurors and professional judges, and the continental model of a unified panel of professional judges and lay assessors. It is established that states of the Anglo-American legal tradition constitutionally guarantee jury participation in both criminal and civil cases, while European and post-Soviet countries limit their jurisdiction primarily to criminal cases. An analysis of constitutional provisions on jury trials in the USA, Canada, Great Britain, Spain, Belgium, Greece, Denmark, Hungary, Austria, and post-Soviet states is conducted. It is concluded that Ukraine occupies an intermediate position in the system of global approaches, as the Constitution does not limit jury jurisdiction to criminal cases only, creating potential for introducing their participation in civil proceedings. Constitutional enshrinement provides the jury institution with enhanced legal protection and links it to the fundamental principles of popular sovereignty and democratic organization of state power.

KEYWORDS

jury trial, constitutional regulation of justice, lay assessors, judicial system.

e-ISSN 3083-6018

СОЦІАЛЬНИЙ РОЗВИТОК:
економіко-правові проблеми

https://www.eu-scientists.com/index.php/sdel

Конституційно-правові засади функціонування суду присяжних: порівняльний аналіз

Ірина С. Куненко [1*]

[1] *Інститут держави і права імені В. М. Корецького Національної академії наук України (Україна). Докторант, канд. юрид. наук, доцент.*

*** Автор-кореспондент,** e-mail: i.kunenko@gmail.com

СТАТТЯ

Дослідницька

DOI: **10.70651/3083-6018/2025.12.13**

Отримана: 11.11.2025 р.
Прийнята: 12.12.2025 р.
Опублікована: 23.12.2025 р.

АНОТАЦІЯ

У сучасному конституційному праві участь громадян у здійсненні правосуддя через інститути присяжних та народних засідателів традиційно розглядається як форма реалізації принципу народного суверенітету у судовій сфері. Водночас у вітчизняній науці конституційного права відсутній комплексний порівняльно-правовий аналіз моделей конституційного регулювання суду присяжних, що ускладнює визначення оптимальних шляхів розвитку цього інституту в Україні. Метою дослідження є з'ясування особливостей конституційного регулювання інституту суду присяжних у зарубіжних країнах, виявлення основних моделей такого регулювання та визначення специфіки української конституційної моделі участі народу у здійсненні правосуддя. У статті систематизовано три основні підходи до конституційного закріплення участі народу у правосудді: безпосереднє закріплення суду присяжних як елементу судової системи з визначенням його статусу та компетенції; формулювання загального принципу здійснення правосуддя від імені народу без конкретизації інституційних форм; відсутність спеціальних конституційних положень з передачею регулювання звичайному законодавству. Виокремлено дві основні моделі участі непрофесійних суддів: класична англо-американська модель з чітким розмежуванням функцій присяжних і професійного судді, та континентальна модель єдиної колегії професійних суддів і народних засідателів. Встановлено, що держави англо-американської правової традиції конституційно гарантують участь присяжних як у кримінальних, так і в цивільних справах, тоді як європейські та пострадянські країни обмежують їх юрисдикцію переважно кримінальними справами. Проведено аналіз конституційних положень про суд присяжних у США, Канаді, Великій Британії, Іспанії, Бельгії, Греції, Данії, Угорщині, Австрії та пострадянських державах. Робиться висновок, що Україна займає проміжне становище у системі світових підходів, оскільки Конституція не обмежує юрисдикцію присяжних лише кримінальними справами, що створює потенціал для запровадження їх участі у цивільному судочинстві. Конституційне закріплення надає інституту присяжних підвищений правовий захист та пов'язує його з фундаментальними принципами народного суверенітету та демократичної організації державної влади.

КЛЮЧОВІ СЛОВА

суд присяжних, конституційне регулювання правосуддя, народні засідателі, судова система.

1. Introduction

The constitutions of a number of states enshrine the participation of representatives of the people in the administration of justice through the institutions of the jury and people's assessors. In the science of constitutional law, such participation is traditionally considered as a form of implementation of the principle of popular sovereignty, a mechanism of democratic legitimation of the judiciary and an additional guarantee of ensuring a balance between the interests of the state and human rights. as an institutional mechanism of democratic control over the administration of justice and as a guarantee against excessive concentration of state power in the judicial sphere [13, p. 23].

The constitutional regulation of the institution of a jury trial is characterized by a significant variety of models formed within different legal traditions. In modern conditions, this institution is of particular importance in the context of strengthening the requirements for the independence of the judiciary, the openness of judicial proceedings and public confidence in court decisions. In the domestic constitutional and legal doctrine, the study of the jury trial was carried out mainly in procedural, historical, legal and organizational-structural aspects, while the issues of constitutional regulation of this institution in the comparative legal dimension require further scientific understanding to determine the optimal model of its functioning in the legal system of Ukraine.

In this regard, the need for a comparative legal study of the constitutional principles of regulating the institution of a jury trial, determining its main models and clarifying the specifics of the Ukrainian constitutional model of people's participation in the administration of justice, taking into account modern world trends, is actualized.

2. Literature Review

A fundamental contribution to the understanding of the political and legal nature of the jury trial was made by A. de Tocqueville, who in his classic work of 1895 substantiated the thesis of the jury trial as a tool for the democratization of society and the education of civic responsibility [22]. Among modern researchers, special attention should be paid to the works of J. M. Van Dyck, who considers the jury trial as a mechanism of "final protection" of a person from state arbitrariness and additional legitimation of court decisions [25]. This concept allows us to interpret the constitutional consolidation of the jury trial not only as a procedural guarantee, but as a fundamental element of the system of checks and balances. H. A. Vargas analyzes the trial by jury in the context of the public right of citizens to participate in the exercise of state power, emphasizing the constitutional and legal nature of this institution [26]. Ph. Traest highlights the historical and political background to the introduction of the jury trial in Belgium, emphasizing its role as a guarantee against state injustice [23]. This study demonstrates the relationship between the constitutional consolidation of the jury trial and the political context of its implementation. In his monograph, N. Vidmar conducted a comparative analysis of jury trial systems in different countries of the world, revealing common and distinctive features of their functioning [27]. V. P. Hans focuses on the various jury trial systems in the world, examining their functional features and efficiency [12].

In domestic studies, the jury trial is considered as part of the constitutional democracy and legal order of Ukraine, focusing on the issues of formation, activity and legal status of jurors. Thus, I. M. Zharovska emphasizes that the jury court ensures the representation of public values in court decisions and contributes to the formation of the legal culture of citizens, analyzing the modern legislation of Ukraine, procedural regulation [29]. V. Kovalchuk considers the jury trial as an institution of direct democracy in the Ukrainian legal space, emphasizing that although the participation of citizens in justice is constitutionally enshrined, its practical implementation is significantly limited, which requires the introduction of the classical model and the improvement of procedural support [15].

The analysis of dissertations allows us to distinguish theoretical, legal and practical aspects of the functioning of the jury trial. I. R. Volosko examines the historical foundations of the formation and development of the jury trial in Ukraine, in particular, the peculiarities of the formation of the system and its transformation in the context of legal reforms [28]. The works of A. A. Solodkov are devoted to the theoretical foundations and practice of jury proceedings, in particular, the analysis of the role of juries in criminal proceedings and the problems of their application in the Ukrainian legal field [19; 20].

A generalized review of the literature demonstrates that the jury trial is considered as an important institution of constitutional democracy, which ensures the participation of citizens in the administration of justice, but the practical mechanisms of its constitutional and legal consolidation in national legislation require further scientific understanding and improvement.

3. Problem Statement

Despite the presence of a significant array of scientific works devoted to the institution of jury trial, in modern legal doctrine, research of this institution is mostly carried out through the prism of constitutional, legislative and by-laws, as well as the practice of their application. At the same time, the systematic analysis of the constitutional regulation of the jury trial as an independent institution of constitutional democracy remains limited, especially in the comparative legal aspect.

Within the framework of this scientific article, the task is to investigate the constitutional and legal nature of citizens' participation in the administration of justice through the institution of a jury trial, to outline the importance of this institution for ensuring democratic justice, to identify the main models of its constitutional consolidation in foreign countries and to determine the features of the Ukrainian approach to the functioning of the jury trial.

The implementation of this task involves clarifying the content and scope of constitutional norms that regulate the trial by jury, identifying common and distinctive features of foreign models and formulating generalized conclusions about the role of this institution in the system of constitutional guarantees of democratic justice.

4. Methods and Materials

In the process of research, a complex of general scientific and special legal methods of cognition was used. In particular, the system method is used to analyze the institution of a jury trial as an element of the mechanism for implementing the principle of democracy in the field of exercising judicial power. The comparative legal method is used to identify common and distinctive features of constitutional models of consolidation of the institution of jury trial in states of different legal traditions. To study the content and scope of constitutional norms regulating the participation of the people in the administration of justice, the formal legal method was used, which made it possible to analyze the structure, formulations and legal significance of the relevant provisions of the constitutions. The structural-functional method is used to clarify the role of the jury in the system of constitutional guarantees of democratic justice.

The theoretical basis of the study is the works of domestic and foreign scientists in the field of constitutional law and the theory of state and law, devoted to the problems of people's participation in the administration of justice. The normative framework is formed by the constitutions of Ukraine and foreign countries, which enshrine the institutions of the jury or people's assessors, and the research materials include doctrinal sources and the results of comparative legal research in this area.

5. Results and Discussion

Depending on the degree of normative specification of the participation of the people in the administration of justice in the basic law of the state, the following approaches to constitutional regulation can be distinguished: 1) direct consolidation of the jury trial as an element of the judicial system, determination of its status, competence and scope of application; 2) formulation of the general principle of the administration of justice on behalf of the people without specifying the institutional forms of such participation, which determines their further regulation at the level of ordinary legislation; 3) the absence of special provisions on the participation of jurors or people's assessors, in which the admissibility and parameters of the involvement of non-professional judges are determined exclusively by the legislator or are not determined at all.

The first approach is characteristic of the states of the Anglo-American legal tradition, where the jury trial has historically been formed as a fundamental constitutional guarantee and has received a detailed consolidation at the level of the basic law. The second approach is inherent in the majority of continental European states, which recognize the principle of popular participation in justice, but delegate the definition of specific forms of its implementation to the legislator. The third approach is observed in states where the participation of the people in justice is either absent at all, or is implemented exclusively at the legislative level without constitutional consolidation of the principle of popular sovereignty in the judicial sphere.

In comparative constitutional law, there are two main models of participation of non-professional judges – the classical model (the Anglo-American system) and the continental model (European) [19; 23; 27]. The classical model of a jury trial is based on a clear functional separation of competence between a jury panel and a professional judge. Within this model, the jury independently makes a verdict on the guilt or innocence of the accused without the participation of a judge, while a professional judge, on the basis of such a verdict, carries out the legal qualification of the act and determines the type and measure of punishment. The jury's verdict, as a rule, is unmotivated and can be canceled only in case of significant violations of procedural law, which leads to its increased stability in the system of court decisions [16; 17]. This model was historically formed in the legal orders of the Anglo-Saxon legal family and developed in the constitutional and legal systems of the United States, Canada and Great Britain. Some of its elements were also received in a number of continental states, in particular in Spain, where the jury has a normatively defined procedure for adopting a reasoned verdict.

The continental model is characterized by the unity of the panel of judges, which is made up of professional judges and representatives of the people, who participate in all stages of the process and exercise their powers for a specified period of time. This panel not only jointly decides on the issue of guilt or innocence, but also on the issue of qualification of crime and punishment. That is, non-professional judges participate in the consideration of the case together with professional judges as equal members of the court [27, p. 726]. Such non-professional judges who participate at all stages of the proceedings are referred to in the legislation of foreign countries as "lay judges" or "Schöffen", the latter being a German term translated as "lay assessors" or "special members" [18, p. 67].

From the point of view of subject matter jurisdiction in comparative law, two models of the application of the jury trial are clearly distinguished. The first model involves the participation of juries in both criminal and civil cases. It is characterized by the fact that juries participate in criminal cases to establish guilt and in civil cases to establish factual circumstances and responsibility, and the competence of jurors in civil cases is usually dispositive. This model is typical primarily for the USA, Canada and partly Great Britain. The second, more common model in Europe involves the involvement of juries only in criminal proceedings, usually in cases of serious crimes. Limiting the participation of juries exclusively to criminal cases has constitutional and theoretical significance, since it indicates that in most European legal orders, the jury trial is not considered as a general mechanism for the democratization of justice, but is perceived as a special tool of public supervision over the implementation of criminal prosecution by state bodies.

A special place among the states with the classical model of a jury trial is occupied by Great Britain, whose legal system is not based on a single written constitutional act. At the same time, the right to a trial by jury is traditionally recognized as a fundamental constitutional principle of common law, which originates from the Magna Carta of 1215 and retains its constitutional significance in the modern legal order [10, p. 156]. In the current English judicial system, juries are primarily involved in indictable offences in the Crown Court, as well as, in exceptional cases, in certain categories of civil cases, in particular cases of libel or unlawful deprivation of liberty. The normative formalization of this principle at the level of statutory law is carried out, in particular, by the Law on Juries of 1974, which determines the procedure for the formation and participation of juries in the administration of justice [14].

In other states of the Anglo-American legal tradition, the institution of a jury trial was directly enshrined at the level of written constitutions. Thus, in the United States of America, the most extensive constitutional regulation of this institution is contained in the Basic Law: Article III, Section 2 establishes the obligation to consider criminal cases by a jury; Amendment VI guarantees the right to a speedy and public trial by impartial juries in criminal proceedings; Amendment VII provides for the right to a trial of civil cases by a jury provided that the established property threshold is exceeded [8; 13]. In Canada, the right to a jury trial is enshrined in Article 11 of the Canadian Charter of Rights and Freedoms of 1982 and is guaranteed in criminal cases in which a sentence of imprisonment of five years or more is possible [2]. Thus, the classical model of jury trial is characterized by a high level of autonomy of the jury, a clear delineation of procedural roles and, in a number of states, detailed constitutional regulation of the scope of its application in both criminal and civil proceedings.

Among the member states of the European Union, only a few countries have enshrined the institution of people's participation in justice in the Basic Law. Thus, Article 150 of the Constitution of Belgium establishes a jury trial in all criminal cases and in cases of political crimes and crimes of the press [1]. As K. Van den Wyngaert notes, the introduction of a jury trial in Belgium was motivated by political considerations as a guarantee against state injustice [24, p. 31]. Article 97 of the Constitution of Greece establishes the possibility of citizen participation in justice through a system of mixed courts, where three professional judges and four lay assessors together participate in the consideration of serious criminal cases [5]. Section 65 of the Danish Constitution provides for the mandatory participation of citizens through the institution of lay assessors in criminal proceedings [3], and the Basic Law of Hungary establishes that lay judges also participate in the administration of justice in cases determined by law [21].

Particular attention should be paid to the experience of Austria, where Article 91 of the Federal Constitutional Law introduces a dualistic model of popular participation in justice. Part 1 of this article enshrines the general principle: "The people must participate in the administration of justice." Part 2 constitutionalizes the classical model of jury trial (Geschworenengerichte) for crimes for which severe punishment can be imposed, as well as for all political crimes, where the question of the guilt of the accused is decided by the jury independently of professional judges. At the same time, Part 3 provides for the Schöffengerichte model of the court of assessors (Schöffengerichte) for other criminally punishable acts, if the measure of punishment may exceed the limit defined by law, where citizens and professional judges form a single panel [11]. Such a differentiated approach allows the Austrian constitutional system to flexibly combine the political function of popular control, implemented through classical juries in the most socially significant cases, with the procedural efficiency of mixed courts for less serious torts. The constitutional model of Spain combines the recognition of juries as a democratic element of the judiciary with a continental approach to the organization of justice, which determines the limitation of the scope of their application to criminal proceedings and the subordination of the detailed regulation of this institution to ordinary legislation [7].

In post-Soviet countries, except for Ukraine, the participation of the people in the administration of justice is determined by the constitutions of Kazakhstan, Kyrgyzstan, Belarus and Russia. Thus, part 3 of Article 59 of the Basic Law of Georgia establishes that the consideration of cases by general courts is carried out with the participation of a jury in cases and in the manner determined by law [4]. And part 2 of Article 75 of the Constitution of the Republic of Kazakhstan provides that in cases provided for by law, criminal proceedings are carried out with the participation of jurors [7]. Article 58 of the Basic Law of the Kyrgyz Republic stipulates that everyone has the right to have a case heard by a court with the participation of jurors in cases provided for by law, and Article 94 provides for the right of citizens to participate in the administration of justice [6]. The analysis of the constitutional provisions of the post-Soviet states indicates the dominance of the model of the general principle of people's participation in justice with the delegation of the specification of the forms and procedure of such participation to an ordinary legislator.

In Ukraine, the constitutional principles of people's participation in the administration of justice are enshrined in Articles 124 and 127 of the Constitution of Ukraine. Part 4 of Article 124 of the Basic Law establishes: "The people directly participate in the administration of justice through a jury." Article 127 of the Constitution specifies the organizational forms of such participation, determining that "in cases determined by law, justice shall be administered with the participation of a jury" [9]. Generalization of the content of these constitutional provisions allows us to single out several fundamental features of the Ukrainian model. Firstly, the Constitution of Ukraine does not specify the subject jurisdiction of juries, not limiting their participation exclusively to criminal cases. Article 124 establishes that the jurisdiction of the courts extends to any legal dispute and any criminal charge, and in cases determined by law, the courts also consider other cases. This distinguishes the Ukrainian model from most European states. Secondly, the Constitution delegates to the legislator the definition of specific cases of jury participation in the administration of justice ("in cases determined by law"), which is typical for the continental approach to the regulation of this institution. Thus, Ukraine occupies an intermediate position between the Anglo-American and continental models of constitutional regulation of jury trials.

It should be noted that the constitutional consolidation of the participation of the people in the administration of justice is not a generally accepted world practice. The analysis of the Basic Laws of the

European Union and post-Soviet countries shows the existence of a significant group of states in which the participation of citizens in the administration of justice has not received direct constitutional consolidation, but is implemented at the level of ordinary legislation, as a rule, on the basis of laws on the judiciary and procedural codes. Such states include, in particular, Germany, France, Sweden, as well as a number of post-Soviet countries. The absence of constitutional consolidation does not mean the absence of the institution of popular participation in justice as such. In Germany, for example, the institute of Schöffen is widely used – non-professional judges who, together with professional judges, form a single panel and participate in resolving both factual and legal issues. A similar practice exists in France, where lay jurors (jurés populaires) participate in the adjudication of the most serious criminal offences before the Cour d'assises. Such a model of legal regulation provides the legislator with maximum flexibility in determining the parameters of popular participation in justice, allowing this institution to be adapted to changing social needs without the need to amend the constitution. At the same time, it deprives the institution of jury of increased constitutional and legal protection, which may lead to its weakening or even abolition in the event of a change in the political situation.

6. Conclusions

The comparative legal analysis indicates the absence of a universal model of constitutional consolidation of the participation of the people in the administration of justice, as a result of which different approaches to the regulation of the institution of jury trials have been formed in the world legal order. Only some states, primarily the countries of the Anglo-American legal tradition, have constitutionalized the jury trial as an independent element of the judicial system with a clear definition of its status, scope and procedural role, which led to the formation of a classical model with the separation of powers between the jury and the professional judge. In most European and post-Soviet states, the continental approach dominates, in which the participation of non-professional judges is limited to criminal proceedings and detailed at the level of ordinary legislation. Ukraine occupies an intermediate position between these models, combining the constitutional recognition of the participation of the people in the administration of justice with the delegation to the legislator of the definition of specific forms of its implementation, which creates the potential for further development of the institution of the jury as a component of democratic justice and a mechanism for increasing public trust in the judiciary.

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