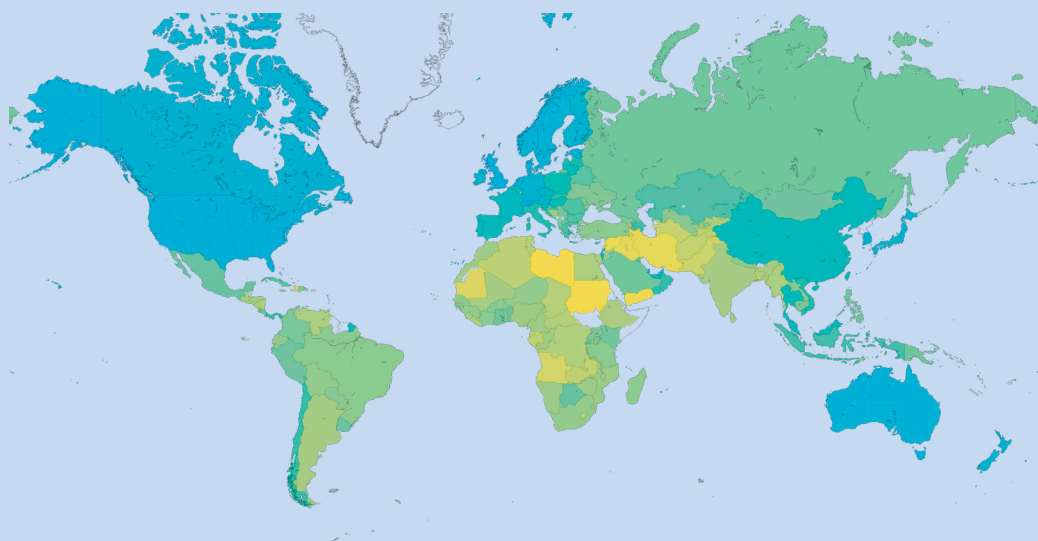


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ELITE QUALITY REPORT 2021

Ukraine: Elite transformational leadership is needed to create trust and institutional reform

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Ukraine: Elite transformational leadership is needed to create trust and institutional reform

Ukraine's elites have faced a number of severe challenges in recent years. These have ranged from the ineffectiveness of policies and traditional management approaches to unlock Value Creation in the economy, to national security concerns, including the loss of control over part of its national territory, as well as the loss of important traditional export markets in post-Soviet countries. Simultaneously, a strategic choice has been made to refocus its efforts on political and economic engagement with the EU. This pivot has set new requirements for public institutions, market infrastructure, and will test the ability of elite transformational leadership to address the remnants of the post-Soviet past.

The public administration establishment is trying to move away from the old, imposed management culture to a modern system that understands the development priorities of Ukraine. For instance, a set of reforms are now underway that apply to the financial sphere, the establishment of anti-corruption bodies (Ukraine has a poor EQx ranking for *Political corruption*, COR, i.1, rank # 103), the transparency of public procurement (*Institutional quality*, DBI, i.2, rank # 59), opening a land market, and the digitalization of public services. Moreover, in order to move towards integration with EU norms, the government carried out other essential and effective fiscal reforms in 2019 that are reflected in the country's indicators for *Fiscal decentralization* (FDE, iii.8, rank # 20), and *Administrative decentralization* (ADE, i.1, rank # 13). At the same time, and while reforms are implemented, the country's elites have fulfilled a cardinal task: to maintain democratic principles in domestic politics. This will be the foundation of the country's strategic development in the future, and hence progress in terms of Political Power (rank # 70) is expected.

In the EQx2021, Ukraine ranks # 78 out of the 151 countries assessed. However, for six EQx Indicators, the country is ranked among the top 20 countries, while it is in the top half for 46 Indicators and the bottom half for 42. A key to understanding the overall Elite Quality picture, is the size of the shadow economy, which, according to the World Bank, comprises up to 50% of Ukraine's GDP (Medina & Schneider, 2018). The economic elite system of the country is a balancing act that involves a wide range of players, from large business owners to individual entrepreneurs. Both the positive and negative aspects of this system need evaluation.

Ukraine ranks first for *Billionaires self-made as % of total billionaires* (BSM, iv.11, rank # 1), which indicates rapid development of the country's entrepreneurial and Value Creation potential in a relatively young (30-year-old) free market. On the other hand, the wealth of billionaires accounts for a significant share of the country's GDP (*Billionaires' wealth as % of GDP*, BIW, ii.5, rank # 115), indicating high degrees of Economic Power (rank # 102). At the same time, however, firm dominance is much lower than billionaire dominance. Ukraine is ranked relatively highly in terms of *Top 10 firms profitability* (PRO, ii.5, rank # 14), *Top 10 firms market cap as % of GDP* (FKG, ii.5, rank # 31), *Top 30 firms' revenues as % of GDP* (FRR, ii.5, rank # 12) and *Top 3 firms' revenues as % of GDP* (FRG, ii.5, rank # 36). These scores bring down the concentration of the power of elite business models reflected in the Firm Dominance Pillar (rank # 60).

A significant proportion of the employed population works in the informal economy, which has resulted in low performance in terms of the Labor Value Pillar (rank # 91). The Indicators for the *Labor force participation rate* (LFP, iv.12, rank # 117) and *Youth unemployment rate* (YUN, iv.12, rank # 108) stand out in this regard. Ukraine also suffers from the departure of its top talent and has a significant number of its citizens employed abroad. This partly explains the *Net brain drain* (BRN, iv.12, rank # 48).

The crisis of trust between different institutions remains a significant problem, as does the mistrust between business elites and non-elites – the citizens at large. Judicial reform has not been completed, and the stock market remains in its infancy. Access to capital remains expensive for most entrepreneurs who are therefore deterred from engaging in the Value Creation business models that the economy urgently needs. Low levels of trust reduce the quality of the business environment and the efficiency of the state and its public institutions, all of which has encouraged the development of a huge shadow economy that fosters value transfer and rent-seeking activities. The key to solving Ukraine's problems lies in addressing this underlying trust problem with institutional reforms that can encourage the development of new Value Creation business models. As this is achieved, foreign direct investments (*FDI net inflows as % of GDP*, FDI, iv.10 rank # 84) will naturally flow into this large European market (with a population of 42 million people) and contribute to the overall development of Ukrainian society.

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Ukraine

EQx2021 Country Scorecard

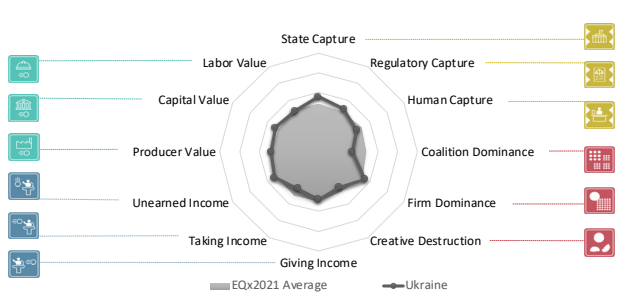
Population **44 million**
 GDP (nominal) **154 billion USD**
 GDP per capita **3'465 USD**



Level 1 - Index	EQx Rank / 151 76	EQx Score 47.3	Middle Quality Elites
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Level 2 - Sub-Indices & Index Areas	EQx Sub-Indices				EQx Index Areas							
	Power		Value		Political Power (i)		Economic Power (ii)		Political Value (iii)		Economic Value (iv)	
	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score	Rank / 151	Score
	85	45.3	76	48.2	70	50.9	102	42.5	92	47.0	77	48.9

Level 3 - Pillars		Rank / 151	Score
Political Power (i)	State Capture	44	56.2
	Regulatory Capture	71	50.5
	Human Capture	102	44.6
Economic Power (ii)	Coalition Dominance	127	34.2
	Firm Dominance	60	54.1
	Creative Destruction	79	40.9
Political Value (iii)	Giving Income	88	48.1
	Taking Income	121	42.4
	Unearned Income	58	51.6
Economic Value (iv)	Producer Value	89	48.1
	Capital Value	59	50.5
	Labor Value	91	48.0



Level 4 - EQx Indicators		Rank / 151	Score	
State Capture (i.1)	COR Political corruption	103	30.9	
	MOB Social mobility	17	76.4	
	PDE Political decentralization	49	63.4	
	ADE Administrative decentralization	13	83.5	
	PGL Political globalization	31	74.8	
	WPI Women's Power Index	67	50.3	
	RTC Government's responsiveness to change	88	38.7	
	EPR E-Participation Index	45	69.0	
	PFD Press freedom	73	54.1	
	COC Control of corruption	102	36.1	
Regulatory Capture (i.2)	DBI Institutional quality	59	60.5	
	CRO Crony capitalism	48	51.2	
	PMI Protecting minority investors	42	67.3	
	ECR Ease of challenging regulations	93	31.5	
	EDB Digital institutional quality			
	PRI Property rights	91	38.8	
	GSI Global Slavery Index	105	44.5	
	WBL Women, business and the law	72	54.4	
	LIN LGBT+ Inclusiveness	44	65.4	
	GRI Religion - Government Restriction Index	105	38.1	
Human Capture (i.3)	SHI Religion - Social Hostilities Index	133	16.9	
	WSB Women self made billionaires	12	41.1	
	HRI Human Rights Index	76	42.2	
	FDP Forcibly displaced population as % of population	127	49.6	
	AFI Academic Freedom Index	99	41.7	
	Coalition Dominance (ii.4)	IEE Top 3 industries exports as % of GDP		
		ECI Economic Complexity Index	38	65.5
		IVA Top 3 industries as % of VA	51	41.4
		CON Construction as % of GDP (dev. fm optimum)		
		MIL Military expenses as % of GDP (dev. fm optimum)	129	3.9
UNI Unionization rate (dev. fm optimum)		59	13.4	
CBC Collective bargaining coverage		35	42.9	
BSN Barriers in service & network sectors				
PRO Top 10 firms profitability		14	57.5	
SME SMEs per 1,000 people		85	40.1	
Firm Dominance (ii.5)	BIW Billionaires' wealth as % of GDP	115	44.1	
	FKG Top 10 firms market cap as % of GDP	31	55.1	
	FRG Top 3 firms revenues as % of GDP	36	57.0	
	FRR Top 30 firms revenues as % of GDP	12	65.1	
	TUL Listed firms turnover, long run 15 years			
	TUS Listed firms turnover, short run 3 years			
	ENT Entrepreneurship	63	40.8	
	VCK Venture capital finance	46	43.6	
	RND R&D as a % of GDP	46	48.1	
	ENR Firm entry ratio	55	53.6	
Creative Destruction (ii.6)	EXR Firm exit ratio			
	BCD Billionaire's creative destruction	47	33.1	
	IWE Index of Women Entrepreneurs			
	VCA Venture capital availability	111	27.4	
	GSE Governmental support to entrepreneurship			

		Rank / 151	Score
Giving Income (iii.7)	SNT Subsidies and transfers as % of expenses	85	27.2
	REG Regional redistribution as % of government budget	121	21.1
	EDU School life expectancy		
	GPS Expenditure on general public services as % of GDP (dev. fm optimum)	29	55.7
	INT Internet access	80	52.0
	NRI Network Readiness Index	59	50.8
	LEW Life expectancy women	63	56.3
	LEM Life expectancy men	79	40.9
	FSQ Global Food Security Index - availability, quality and safety	70	39.9
	COV COVID-19 excess deaths, age-adjusted		
Taking Income (iii.8)	COF COVID-19 fatality rate, age-adjusted	36	60.1
	CGD COVID-19 growth differential	69	52.6
	COM COVID-19 mortality rate, age-adjusted	79	39.9
	CLS COVID-19 lost schooldays	30	73.2
	OSI Online Service Index	67	58.0
	DCT Corporate tax rate (dev. fm optimum)	67	47.9
	HOM Homicide rate	76	32.5
	INE Top 10% share of pre-tax national income	25	78.5
	FDE Fiscal decentralization	20	57.3
	BTR Tax revenue as % of GDP (dev. fm optimum)	71	42.5
Unearned Income (iii.9)	DRT Battle-related deaths per 100,000 people	135	52.0
	GCI Global Cybersecurity Index	54	63.5
	SUI Suicide rate per 100,000 people	145	0.0
	SUB Death rates from substance use disorders per 100,000 people	142	0.0
	OCR Organized crime	106	30.5
	DUT Dutch disease propensity	81	43.4
	EPI Environmental Performance Index	54	53.8
	DBT Government debt as % of GDP	72	55.1
	TRF Trade freedom	54	63.8
	FDI FDI net inflows as % of GDP	84	44.2
Producer Value (iv.10)	BTF Barriers to FDI	57	47.1
	EGL Economic globalization	41	67.9
	HEI Health Efficiency Index		
	OFB Open for business	54	7.3
	ESG ESG company scores		
	RDR R&D as % of revenue Top 10 firms	25	45.4
	FSA Global Food Security Index - affordability	71	43.8
	PAT Number of patent applications per 100,000 people	35	44.3
	IPM Share of imports targeted by protectionist measures	94	58.2
	DGI Share of discriminatory government interventions as % of GDP	88	35.3
Capital Value (iv.11)	DNI Neutral interest rate (dev. fm optimum)		
	DOI Inflation (dev. fm optimum)	117	33.0
	GOL Gold demand as % of GDP		
	DMA M&A as % of investment - 3 yrs. rolling average (dev. fm optimum)		
	DKI Delta capital gains tax vs income tax	1	78.1
	UNC Unicorns per 1 million people	28	42.8
	BSG Billionaires self-made number per 1 million people	37	38.2
	BSM Billionaires self-made as % of total billionaires	1	81.1
	FMI Financial Markets Index	93	31.7
	UEM Unemployment rate	77	38.2
Labor Value (iv.12)	LFP Labor force participation rate	117	29.6
	WLP Delta real wage vs labor productivity increases		
	LDR Labor dependency ratio	81	54.7
	YUN Youth unemployment rate	108	41.1
	GWG Gender wage gap	35	66.5
	BRN Net brain drain	48	53.4
	LFR Labor force participation ratio - male vs female	88	52.5

The Elite Quality Report 2021 (EQx2021) provides Country Scores and Global Rankings for 151 countries © Foundation for Value Creation 2021