

SERVICE SECTOR IN THE STRUCTURE OF THE NATIONAL ECONOMY OF UKRAINE: FEATURES, DYNAMICS AND MAIN TRENDS

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Abstract

The paper deals about the service sector structure in Ukraine. Author has paid much attention to its features, dynamics and main trends. Major shortcomings in the development of the service sector in Ukraine were examined and revealed. Author's recommendations for the development and improvement of the functioning of such an important sector of the economy were given.

Key words: service sector, tertiarization, employment, e-commerce, consulting, recreation.

1. Introduction

One of the most notable characteristics in modern society and economics is the intensive and the priority development of the economic structure, which is in the scientific literature and statistical practice was named as “service economy”. This transformation of the industrial economy to the post-industrial economy, replacing the “economy of goods” to “economy of service” - the most important feature of global social development.

To identify qualitative certainty and direction of the modernization process in the service sector in the transition context of the Ukrainian economy to a new economic order is the urgent methodologically problem of modern Ukrainian economic theory. Facts of deepening crisis in the real sector, the increasing disparity and heterogeneity of economics, the national economic competitiveness reduction, the social and economic instability extension, unprecedented life indicators deterioration are responsible for searching some

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ways of exit from this critical situation, necessity the revision of the model and reforming methods, require paradigmatic changes in economic theory. Stimulating role of Service activity increased in the reform process in Ukraine, extension of the service sector as the most attractive sector for financial, material resources and human capital, the emergence of new services, and other phenomena will convert the functional scheme of the tertiary economic sector, changing the role of the service industry in the modern society.

The main transformation directions in services are the emergence of self-organization of the market and the formation of the services sector. Services sector as a relatively independent, open economy subsystem performs an essential function - to ensure efficient resources spending to meet the needs of society, in particular, non-material benefits. Since service activity contains a significant social development synergetic potential and is influenced by various economic and non-economic processes, that's why the qualitative determination of market relations in the service sector is theoretical important and appears as multidimensional object of study. The formation process in service sector, as well as other subsystems of the national economy, depends on various factors: the operation dynamics in the primary and secondary sectors; revenues and expenditures of households, enterprises and government; the state economic policy directions; demographic dynamics; individuals' behavior and other factors.

The conversion process in the service sector are not unidirectional and unambiguous as it moves along reforms way under the current economic features, that is necessitating the service theory research in long-term competitive aspects, revealing to substantial national specifics and trends. The issues related to a combination of government regulation and the free market mechanism of regulation in these circumstances, during the reforms period in Ukraine.

2. Service sector in the structure of the national economy

In the process of economy transition in Ukraine to conditions of service economy and its integration into the world economy, we should notice the specifics of the service sector development. Ukrainian service sector is slightly inferior in its development to all powerful countries, primarily in the GDP creation in this sector – 62,8% (in 2014), and employment share – 62,1% (in 2012). The total volume of services in Ukrainian economy in 2014 amounted

to 326 billion hryvnas, the largest share in the total volume of services take mandatory services: public utilities, transport and communication services. However, the service sector is able to make a significant contribution to the increase in gross domestic product at a relatively lower cost and shorter payback period, as well as contribute to the domestic market development as the basis for sustained economic growth.

For non-manufacturing (service) sector in Ukrainian economic theory and in the economy of Ukraine include the following industry related to the production, provision and consumption of services, satisfying the public and private social needs: health, education, trade and public catering, housing and communal services, culture and art, passenger transport, physical education, sport and tourism, public administration, science and research, insurance, real estate, financial intermediation etc. The division based in the national economy on the production and non-production sectors on the principle of results evaluation of social labor. Service sector's industries - these are the industry socially useful labor which is manifested in the form of spiritual goods and intangible services. Some industries provide production services, such as freight, industrial communications, energy, water and environmental management. Such industries is characterized by the fact that during providing services to them productive labor is used. Although these factors does not create a new use-value, but the value is increased and creates the national income. Public administration, insurance, pensions, social, financial and credit supports in the conditions of new distribution and economic relations formation are intended to create some optimal conditions for the functioning of the national economy and ensure normal conditions of society life and state functions. So, we should allocate as a part of the service sector in Ukrainian economy:

1) Firstly, the group of industries whose activities are linked to the appreciation of the socio-cultural and intellectual human needs as well as the establishment and maintenance of normal human life conditions (culture, art, education, health, recreation, sports, tourism, etc.);

2) Secondly, the group of industries whose are not creating wealth, but indispensable for some processes of production continue, thereby increases the cost of those benefits while improving the properties of the goods. Trade, catering, housing and communal services, consumer services, transport and communications. The main objective of this industries group is contributing to the reduction of labor costs for

housekeeping, as well as the satisfaction empowerment of intangible and cultural needs of human.

The main criteria for above-named individual groups of industries allocation is the performance of similar functions related to the production and the provision to consumers goods and services which satisfy the material and social needs.

We have such feature in the field of industries activity associated with the provision of services - a combination of free, price reduced and full paid services in getting social purpose services to citizens. This feature is typical for Ukraine. The income inequality does not allow the market way for distributing services of social sphere in accordance with the real needs of the Ukrainian population. Some part of Ukrainian population does not feel the need for appropriate services and therefore makes demand for services in reduced volume. Also some services are characterized by information asymmetry about the content and quality of services available from producer to consumer. For the part of social services, as a public good, private effective demand does not exist at all. Regarding to this, non-market forms of services distribution should be used: the free provision of services with the voluntary use, free provision of services with the mandatory use, obligatory paid services, etc. At the same time, free and discounted services should exist such as education, health, professional training and retraining. They are funded by the state and local budgets. Full paid services include the services of housing and communal services, recreation, tourism, services, social and cultural services. However, even in this group there are services provided on preferential basis (eg, communal services fees reduced for certain categories of citizens - for pensioners, the disabled). Due to our opinion, the most important tasks for the service sector in Ukraine are not only high quality services to the population providing, but also increasing the educational and cultural level of the population, improving the health of citizens and increasing the free time, increasing the quality of healthcare by expanding the scope and types of services and labor costs reduction in the household, as well as improving the environment.

However, a particular feature of the service sector development is its institutional imperfection, insufficient development of its important institutions. We are talking about the standards lack and "rules of the game" absence on the service market, lack of value benchmarks in behavior of service producers and consumers. In the ukrainian economy is not given

enough attention to the state regulation of service sphere, the equality of all economic system elements, not enough attention paid to such important economic institutions as freedom and competition. Manufacturers are offering fully developed intangible services for the market, and they are oriented, primarily, to the high income consumers segment. But for customers, in their turn and in the condition of economic crisis, are not peculiar to such consumption patterns, as the focusing on the inside world, hedonism (life pleasure), self-improvement. Nevertheless, the economic development of Ukraine is characterized by increasing the share of services in GDP and reflecting a global trend.

According to World Bank and State Statistic Service of Ukraine data, since 1990 in Ukrainian economy structural changes have occurred as it shows in a table 1 and table 2.

Table 1. Structure of GDP (% of GDP).

Source: <http://data.worldbank.org/>

Name of economic activity	1990	1995	2000	2005	2010	2014
Services, etc., value added (% of GDP)	29,9	41,9	46,6	52,2	62,1	62,8
Industry, value added (% of GDP)	44,6	42,7	36,3	35,9	29,6	25,4
Agriculture, value added (% of GDP)	25,6	15,4	17,1	11,9	8,3	11,8

Table 2. Employment Structure (% of GDP).

Source: <http://data.worldbank.org/>

Name of economic activity	1990	1995	2000	2005	2010	2014
Services, etc.	34,5	21,7	23,1	56,4	62,0	62,1
Industry	21,3	43,4	36,2	24,2	22,4	20,07
Agriculture	44,3	34,9	40,7	19,4	15,6	17,2

These tables analysis shows that structural changes in the economy of Ukraine match with global trends. The tertiarization process (the simultaneously decline in employment in manufacturing and agriculture, and employment growth in the service sector) in Ukraine began in the year 2000. Among the other general trends in the service sector development, typical not

only for Ukraine, but for the most developed countries, we should mention:

- fast development of wholesale and retail trade, catering, transport companies, finance services;
- services revenue and profitability growth, as well as the wages increase in this area employees;
- intensification of investment and innovation activity of services enterprises, as well as an increase in R&D spending;
- changes in service demand structure and demand increase for new types of services (information management, financial management project, recruiting, new types of banking and legal services, etc.);
- fast development of the business service sector, including consulting services (mainly the audit) and outsourcing;
- social aspects priority in the development of the service sector.

These features are common to most countries, but in Ukraine they have their own specific character, and therefore we should consider them more particularly.

In Ukraine organizations allocation by the kind of economic activity is characterized by trade dominance. Thus, the largest part of enterprises in 2014 was registered in the wholesale and retail trade – 988694 units or 51,17 % of the total number of organizations. As for the other organizations in service sector, their number in a percentage of the total number of organizations – transport services 11807 or 5,7%, HORECA 57553 or 2,97%, information and communication services 114355 or 5,91%, finance services and insurance 11888 or 0,61%, real estate – 97794 or 5,06%, professional services, research and technical services 115123 or 5,95%, education 10117 or 0,52%, arts, sport and entertainment 13523 or 0,69%. Main part of these organizations is privately owned, except of education institutions and healthcare institutions.

The total turnover of the enterprises of Ukraine in 2014 amounted to 4459 billion UAH. In particular - wholesale and retail trade 40,2% of the total turnover, transport services - 5,0%, HORECA - 0,49%, information and communication services - 2,3%, finance services and insurance – 1,34%, real estate – 1,48%, professional services, research and technical services 3,5%, education 0,04%, arts, sport and entertainment 0,38%.

As for wages, in Ukraine service sector wages are lower than in industry. The industry average wage in 2015 is 4034 UAH, the trade – 3776 UAH, in education – 2542 UAH, in health care – 2346 UAH, in hotels and restaurants – 2401 UAH. The highest wage is fixed at the financial and insurance – 7192

UAH.

Thus, the fastest developments receive whole trade and retail organizations. Companies that provide intangible services to Ukrainians, such as education, health care, culture and recreation, do not bring big profits rate and, in addition, wages in these organizations compared with industrial sector of Ukraine economy is quite low.

We should note, in the current market environment becomes very important innovation of enterprises in service manufacture. Such activity is reduced to the implementation of new or improved services with new properties and high quality as well as to changes in the organization of the production and consumption of services. In the global competitiveness forge ahead non-price factors, such as quality of the acquired product, originality, novelty, research intensity and capacity of knowledge in services. In world practice, for innovative activity evaluation usually use complex index - the cost of innovation. This indicator reflects the country's ability to innovate, and in addition to R & D expenses, takes into account the costs of design and marketing, the number of employees in the scientific field, the number of patents, the development of education. According to this index, we can't say Ukraine is among the countries - leaders in innovation. Share of Ukrainian companies using innovative technology in own economic activities, compared with European countries, is very small. Among the European countries, actively using innovative technologies, Germany, United Kingdom, and Sweden. Innovation here is characterized not only for industry but also for services sector. In Ukraine in 2014 only 16,1% of companies used innovation their activities (Table3). The main areas of innovation in Ukraine are:

- expanding the offered range of services;
- improving the quality of services and their compliance with international (European) quality standards;
- new markets conquest;
- wage costs reduction;
- material costs reduction.

Innovative activity is closely related with the sector of business development services, such as consulting or counseling on economics and management. At present, the economy and management consulting, in most developed countries, appears as a separate, independent sector of intangible services. Consulting services is as an indicator of the development of the individual companies and the economy as a whole. Therefore, it is very

important to consider the ratio of consulting with the gross domestic product, and compare this figure with those of European countries. According to the European Federation of Management Consultants, a sufficient level of consulting services in the country is the market of consulting services takes about 1% of GDP. This is the percentage observed in Austria, Sweden and Germany. In Finland and Norway, this figure is even higher - 1.1%. Index Consulting to GDP in Denmark and Great Britain - 0.9%. For Ukraine, the figure is 0.3%, which is three times less than the desired volume. Total amount of consulting service market in Ukraine is about 400 million USD.

Table 3. Innovation activity in Ukraine

Source: <http://www.ukrstat.gov.ua/>

Share of innovative companies	Total costs	Directions							Other
		R&D	Include		Knowledge buying	Technology buying	Buying machines and software		
			Self R&D	External R&D					
%		Million UAH							
2010	13,8	8045,5	996,4	818,5	177,9	141,6	X	5051,7	1855,8
2011	16,2	14333,9	1079,9	833,3	246,6	324,7	X	10489,1	2440,2
2012	17,4	11480,6	1196,3	965,2	231,1	47,0	X	8051,8	2185,5
2013	16,8	9562,6	1638,5	1312,1	326,4	87,0	X	5546,3	2290,9
2014	16,1	7695,9	1754,6	1221,5	533,1	47,2	X	5115,3	778,8

The capacity of the consulting market is divided as follows. The first place is occupied by the consulting segment in the information technology 27%. The second place - legal advice, which occupies 15% of the market. Next come the marketing market research - 13%, financial consulting and auditing -11%, the reorganization and restructuring - 9%, the segment of consulting training, which includes training and seminars - 5% and Strategic Planning - 4%. Separately allocated kinds of consulting, which occupy a small part in the segment - from 4 to 0.3%. It is the advice on valuation, human resources management, business plan development, energy conservation, certification and quality management, and others.

Among the reasons that prevent the formation of a broad demand for consulting services, we can mention:

- the lack of awareness what does it mean - consulting
- the difficulty of obtaining objective information.

- the distrust of consulting as a whole, which is not always due to a sufficient level of professionalism on the part of consultants.
- a low level of integration of Ukrainian consulting companies in to the international advisory structures and unions.
- low activity of professional associations in consulting services

From the point of view of strong developed market economy Ukrainian consulting is still in its initial stage of development. However, the consulting services market has prospects for further growth and differentiation of services.

Today the level infrastructure sectors of development, particularly those that provide sustainable economic growth, become an important factor which can determine the competitiveness of the country. Ukraine, in terms of telecommunication systems development, in 2015 ranked 79th in the world, significantly behind the industrialized countries. One of the leading places occupies the computerization and informatization of economic space in today's global infrastructure. The information technology demand has a significant impact on the dynamics and structure of world trade in recent years. Leading positions in the implantation and use of new information technologies occupy industrialized countries (US, Japan, Germany, France, UK, Canada, Italy, Spain), which accounted for over 80% of the world computers quantity. In the early of 21st century, the real revolution in information technology has been fast Internet development. The Internet has become one of the leading sectors of the world economy with an annual turnover more than 1.4 trillion. USD and more than 1 billion people customers. The levels of computerization and information technologies development are closely linked with e-commerce development. In post-industrial economy e-commerce is very important. E-commerce objects are not only material goods but also a broad range of services: travel, medical, educational, informational and others.

We can note, Ukrainian e-commerce market is now actively developing. Our country is among the Top Ten European leaders in the Internet users number – 19,1 million peoples or 43,4% from all population. In the table 4, we can see data about e-commerce market in Ukraine.

Table 4. E-commerce market development in Ukraine

Source: <http://www.ukrstat.gov.ua/>

Year	2010	2011	2012	2013	2014	2015
E-commerce market volume, billion USD	0,73	1,1	1,59	2,37	3,24	4,4
Growth rate,%	34	50	45	49	37	37

In Ukraine has about 8 thousand on-line stores, 300 largest of them take up to 80% of the market. Since the beginning of 2013 in Ukraine was registered 1508 business entities in which the retail trade by mail or via the Internet, is the main activity. Despite such a huge development, we can identify problems which badly affect for Ukrainian e-commerce market:

- poor legislative framework development;
- poor developed electronic payments system on the Ukrainian national level;
- Internet absence in the regions or partial coverage on regional territory;
- inconsistency between commercial enterprises development level and quality of customer service requests.

The most important trend among the modern social sphere is the active recreation as it means full restoring the spiritual and physical human strength. In the 60s of XX century in all developed countries there have been significant shifts in the structure of the spiritual values of society. It was a process of transition from labor time to leisure time in human society. This trend of free time increasing has a permanent nature, and became an objective factor in the development of active recreation. The demand for recreational services is complex and involves a combination of physical, spiritual, intellectual, emotional and social needs. Currently, the demand for such services becomes clear social orientation, becomes a necessity, not only in the restoration of human bioenergy potential, but also to provide multiple functions in labor and social activity.

In Ukrainian crisis condition a huge rise in prices for recreational services occurred, on the background of a significant decline in the living standards of the population. The number of population with their incomes below the subsistence minimum is almost 20%. Changes in national welfare lead to effective demand changes in general, and for services (including recreation) in particular. It should be noted, the rise in the cost of housing and communal

services, transport and communication services continues to reduce the volume of recreation services consumed per capita. Another specific feature of the Ukrainian services market is stable demand reduce for culture and art services. The post-industrial society standard of consumption has not reached in Ukraine, which is characterized by hedonism and extroversion, the appeal to the outside world through social communication. The population is mainly focused on the material goods consumption as a factor of prosperity growing. These facts confirmation of we can find in the official statistics. It shows, Ukrainians spend for recreation and cultural services account for 1.8% of their total income. Total customers number of recreation services was 2.2 million people or less than 5% of the Ukraine population.

Our brief analysis of the service sectors in Ukraine makes it possible to identify the main problems in this area:

- 1) deepening imbalances in the development of service types;
- 2) sameness of services provided;
- 3) increase of the share of services for the population with higher income;
- 4) sharp decline in the share of recreation and culture service, due to the influence of both economic and social factors;
- 5) growing gap between wage dynamics and labor productivity in the services sector;
- 6) fairly poor quality of services, which often does not correspond to the customer requirement;
- 7) acceleration in the services prices growth/

One of the most significant shortcomings in the service sector development is lagging behind in the scientific and technical progress implementation, including new information technologies. Meanwhile, as international experience shows, without large-scale service sector with the development of the telecommunications, financial, credit and insurance sectors, business and personal services, Ukraine will not be able to enter adequately into the global economy. Successful restructuring of social reproduction depends on overcoming the theoretical evaluation of the service sector as a secondary sector of the economy, growing at the expense of industrial production. Acquisition of a wide range of services (information, business, finance and credit) is the first signs of a civilized development of services. That is a positive process, which reflects the new development needs of economy and society.

As an important service sector development problem in Ukraine low

quality of services and their lack of competitiveness due to the low level of development of material-technical base of these companies was extracted. The negative feature is also a multiple decline in mass consumer services together with sharp increase in the services share in GDP, reduction of payable demand, reduction of public investment in the development of a consumer complex, the orientation of the industry development not for improving the welfare and quality of life for the whole population, but primarily at the service segments for the population with higher income.

Development analysis of the service sphere in Ukraine allows us to highlight a number of questions, the most significant for the national economy.

Firstly, Ukraine needs to develop small businesses, due to labor-intensive services and the relatively low need for initial capital. Small businesses are characterized by a more rapid adaptation to economic conditions, flexibility and efficiency in the management, the ability to quickly enter changes to the product in response to market requirements, as well as the relatively high turnover of capital. In addition, small businesses are often better informed about the level of demand for local markets. And the government should pay attention to the small business support systems.

Secondly, support projects for technology parks formation. These parks would become centers of research and development and the concentration of business services with scientific content and market focus. It is advisable here to focus on the creation of venture capital firms and to encourage the cooperation of various forms of small businesses with large enterprises, for example, franchising.

Thirdly, in the sphere of social and cultural services attention should be focused on the optimal combination of public and private structures, especially in education and healthcare. This is due to a large percentage of the population with low incomes.

Fourth, international experience in reforming the socio-cultural services sphere should be used, the development of these sectors through the implementation of market regulation mechanisms, competitive funding arrangements and involvement for the implementation of government programs private and non-profit organizations.

3. Conclusions and perspective for further research

So, in order to overcome the reasons for the backlog of Ukrainian service sector from foreign competitors which are not only in technological backwardness, but in human capital underdeveloped and intangible underestimation of business development objectives, the following steps are necessary:

- continuous improvement of management strategies for service sphere;
- usage of scientific and technological progress;
- consumer properties of services and customer relations improvement ;
- internal business processes optimization on firms service providing ;
- innovation and investment activity stimulating in the service sphere;
- transparency of service activity increasing due to the transition to international accounting standards and effective external control over service sphere formation.

Thus, developments of the service sector in the Ukrainian economy trends are ambiguous and contradictory. On the one hand, the specificity of Ukrainian service market is determined by the institutional incompleteness, due to the extremely poor development of both formal and informal institutions. Value orientations and traditions of services production and consumption, activity patterns of institutional market participants (consumers and producers) are not formed yet sufficiently. This largely prevented by the structural market asymmetry and sector disparities in the development of non-productive sectors of the economy. On the other hand, it has a significant potential for the growth and development.

We can positive trends note, such as fast service sector development and service employment growth, increasing the influence of external demand and export-oriented service industries, outstripping growth of fixed capital investment relative to GDP growth, high consumer demand for services.

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