

Service Industry in the Modern Model of Market Infrastructure Performance: Development Principles, Factors and Issues

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Abstract: The Russian Federation service industry (based on Belgorod Region as an example) and its development principles, factors and issues are considered. The position of service market in economic system is explained. The researcher’s vision of the “market services” and “market infrastructure” concepts and stepwise service market development are presented. The researchers highlighted current trends of the Russian Federation service market development: emergence of new types of services; separation of certain types of services in the sub-types; creation of several integrated services; emergence of organizations involved in designing certain types of services; infrastructure modernization. Factors impeding the development of trade in services, principles of service development in the regional market infrastructure and competitiveness indicators of the regional service market are clarified. The model of regional market infrastructure performance and organizational model of governance body interaction to promote regional service market development are designed. The study undertaken has proven that efficient use of the service market governance organizational and economic mechanism tools has a positive effect on regional economic situation.

Key words: Service industry, service market of the Russian Federation, market infrastructure, regional service market, emergence of organizations, undertaken

INTRODUCTION

Service industry is gaining an increasingly stable position in the world economy. In the not-so-distant past, domestic service industry (the Russian Federation services) was lagging far behind its Western counterpart. However, in recent decades, its importance as a dominant industry of the Russian economy has been growing. The range of services has expanded and the number of people employed in this industry increased.

The largest service sectors in Russia include transport, tourism, trade, catering and others. Nevertheless, a lot of service industry subsectors are not just well developed but also have quite favorable prospects. Although, exports of domestic services to Western countries do not fully correspond to the current

Russian potential, it is nearly certain that some positive changes are emerging in this area. Research of positioning issues including those of the service industry was discussed in the writings of foreign and Russian classics Smith (2004), Samuelson and Nordhaus (2009) and Lependina (2010).

The totality of these circumstances makes it relevant to study service industry in the modern model of market infrastructure performance and consider the principles, factors and issues of the industry development.

MATERIALS AND METHODS

Currently, the economy of Russia has the status of market-based economy. Market infrastructure is

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developing rapidly, various sectors of economy are developing. This fact has a positive effect on the social services of the country. In the present situation, market infrastructure is a network of organizations involved in the production of goods and services demanded in the market by the consumers.

Current processes of modernization, implementing innovations and increasing investment in the Russian Federation (RF) contribute to the development and diversification of enterprise types, thus leading to new products and services. Development of the RF service market has gained such a global momentum that almost any type of economic activity implies rendering some services. But despite that, domestic service market still experiences scarcity of quality services and servicing (Demidova, 2008).

The issues of the Russian Federation market infrastructure performance also manifest at the regional level, negatively affecting the socio-economic development of the region. At the stage of actual development stable economic growth of the service market in the regions leads to further development of the entire market structure of the Russian Federation. Rendering services which are in demand with the population is the core thing to achieve the economic goals set.

Governmental and municipal bodies play quite an important part in the progress of the Russian Federation service market performance. At the regional level (Belgorod Region) local self-governing bodies should take the initiative to develop regional market infrastructure (Makrinova and Trunova, 2007).

Today, much attention is paid to the development of the regional service market. But unfortunately, it is insufficient for this sector of economy as investments in modernization and refurbishment of facilities involved in the provision of services are still quite low (Makrinova, 2007).

Today there is no specific conceptual framework defining the essence of 'service market' and 'market infrastructure'. This requires investigation into the principles and factors of the service market development. Service market stands for the area of activity which primary goal is the goods-money exchange between market players leading to satisfaction of consumer needs (Smith, 2004).

Market infrastructure is the area governing the process of moving goods and services in the market. By regional service market we mean the structured area of activity aimed at establishing economic relations among business entities in the region and creating the overall system of service provision.

Reforms implemented in the Russian economy and its integration into the global economy have predetermined the need to revise the approach to selection of new investment and innovation development factors and creating conditions for their use (Grigoryeva *et al.*, 2016). However, achievement of stable positions in the world service market is hampered by insufficient investment in this industry.

Insufficient financial resources are particularly visible at the regional level as there are still some negative trends and issues in development of most of the RF constituent entities associated with economic, political, social and economic instability. Long range target programs of the RF market development for various industries are worth designing in view of the service market long-term growth and development potential. Economic system performance at the world national and regional levels is shown in Fig. 1.

The term 'service' has a lot of definitions in scientific literature. In our opinion, 'service' is an outcome of activity performed by a person or group of people in the process aimed at satisfying consumer needs. Currently, rather new service market areas are developing such as education, consultancy, health care, telecommunication, finance and others.

Globalization of the service industry is a relatively new phenomenon. But in spite of that the share of service exports amounts to 20% of the total service volume in the country. And though the world economic crisis has negatively affected the service industry development, now a days the situation is gradually improving (Makrinova *et al.*, 2014).

It is worth noting that the service market was less affected during the world crisis period than the trade market because this area is more dependent on economic and political links and also on currency exchange rates. In view of the above, stepwise development of the service market is presented in Fig. 2.

Delivery of services to the international market is closely related to the flow of direct foreign investments. Over half of the world service exports are arranged through commercial presence, i.e., a Foreign supplier establishes an office in a consumer country.

Considering that production of capital-intensive types of services requires global investment, it becomes evident that the activities of transnational companies are stepping up. Transnational companies are present in such areas as trade, tourism, transport, education, etc.

Increase in the world trade volume and strengthening of economic cooperation between countries led to growth of business trips which in its turn impacted various areas of the service market: transport infrastructure,

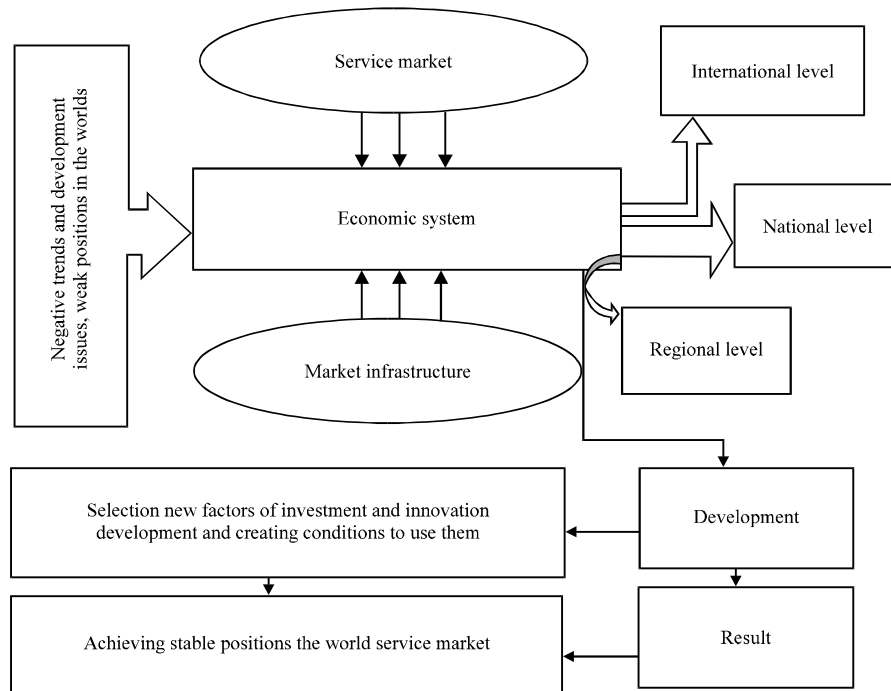


Fig. 1: The position of service market in the current economic system

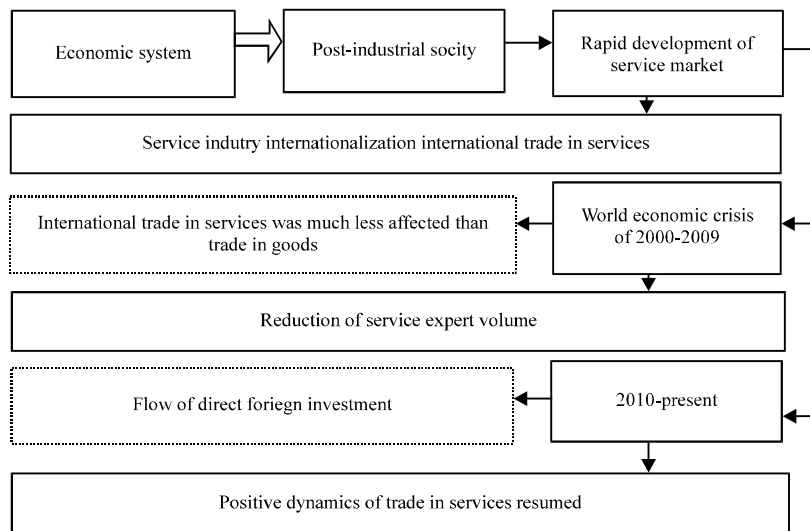


Fig. 2: Key stages of service market development in post-industrial society

tourism telecommunications, etc. New types of tourism and transportation have appeared; the number of service businesses has increased; small organizations operating in the service sector have merged with bigger ones in some regions of the country, monopolization of the market is being observed (Seliverstov *et al.*, 2014).

Higher educational level of population leads to the interest in new services. Currently, transportation is

divided into freight and passenger subsectors with the possibility for both of these types of services being provided by different means of transport and also by a number of them simultaneously in a combined route (Makrinova and Grigoreva, 2015).

High demand for services is associated with active production of information and telecommunication services which enable consumers to learn much more about

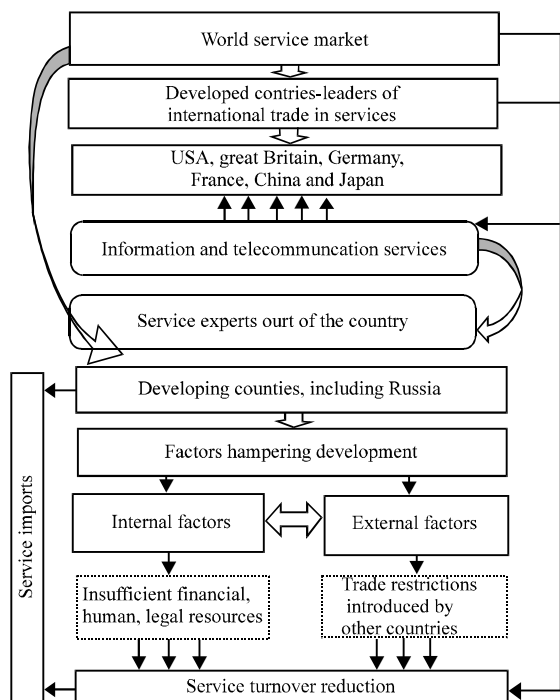


Fig. 3: Global service market in the context of imports and exports in developed and developing countries

emerging services. Delivery of services to foreign partners of the Russian Federation and consumer awareness are possible due to information and telecommunication services. This helps the RF service market to gain momentum and reach the global level.

The main operators of international trade in services are the United States, Great Britain, Germany, France, China and Japan. They account for almost 40% of the world trade in services. This will remain unchanged in the near future. The reasons for that are low investments in the service market by other operators of international trade in services, lack of skilled personnel employed in this area and sanctioned trade and economic relations between some of the countries.

Though Russian service market has a huge development potential, its diversification is hindered by certain internal and external factors. Among internal factors there is a lack of financial resources, lagging behind in rendering some services (Lependina, 2010). External factors include unstable political and economic relations with certain countries (Fig. 3).

RESULTS AND DISCUSSION

Every government seeks to liberalize trade in the sectors where domestic producers are most competitive and tries to protect national industries that are particularly

vulnerable. Trade barriers arising from disagreements between countries hamper service market globalization. In order to retain consumers, developing countries pursue such governmental policies that restrict imports of goods to support national businesses while developed countries are able to provide investment to support local producers.

It is worth noting that exports of services in developing countries are hampered by physical facilities lag and trade restrictions introduced by developed countries. This adversely affects enterprises involved in this sector of economy.

Many countries propose their approaches to reduce services trade barriers but these mainly relate to the sectors with already quite high levels of liberalization such as business, financial and telecommunications services tourism.

In our opinion, there are many factors that hamper productive trade in services at a global level such as a huge number of negotiation participants, service market being controlled by several oligopoly players, considerable number of organizations that control service market in particular segments, variety of legislative acts regulating the service market and others presented in Fig. 4.

Market infrastructure is a part of economic system. Market infrastructure refers to a subsystem of market economy, consisting of multiple organizations engaged in production and marketing of services that help meet customer needs.

Each constituent entity of the Russian Federation has its unique market infrastructure which contributes to efficient operation of businesses located in the region, thus competing with other regions.

It is expedient to study market infrastructure based on a systemic approach that allows determining the main system elements, most important links and interdependencies between them, identifying processes, trends, contradictions and issues of the system as a whole.

Service market strategic development depends on the factors with positive and negative impact. The analysis of positive and negative factors affecting service market development is presented.

Positive factors:

- Talent availability
- Market infrastructure facilities in place
- High labor and service efficiency
- Export activity
- Small and medium enterprise support by local governments
- Market activity of service industry enterprises
- Funding of the industry

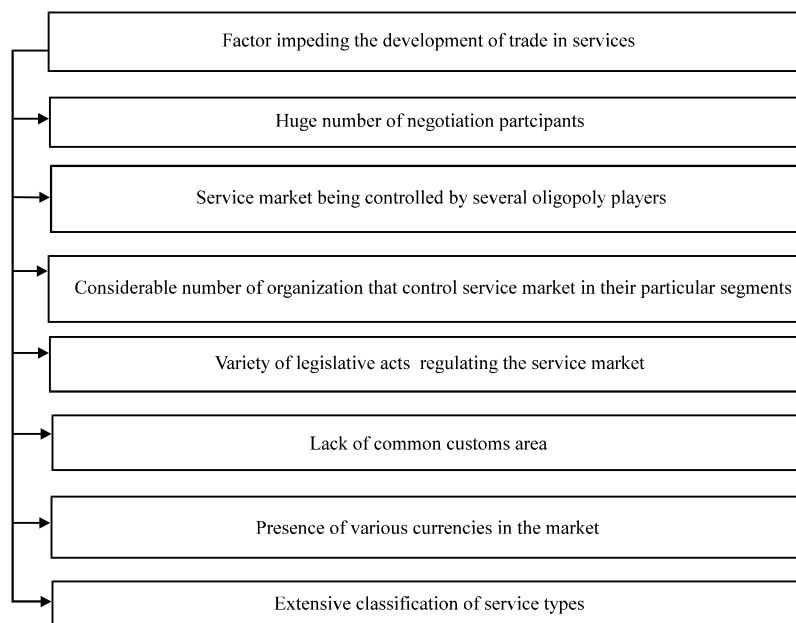


Fig. 4: Factors impeding the development of trade in services

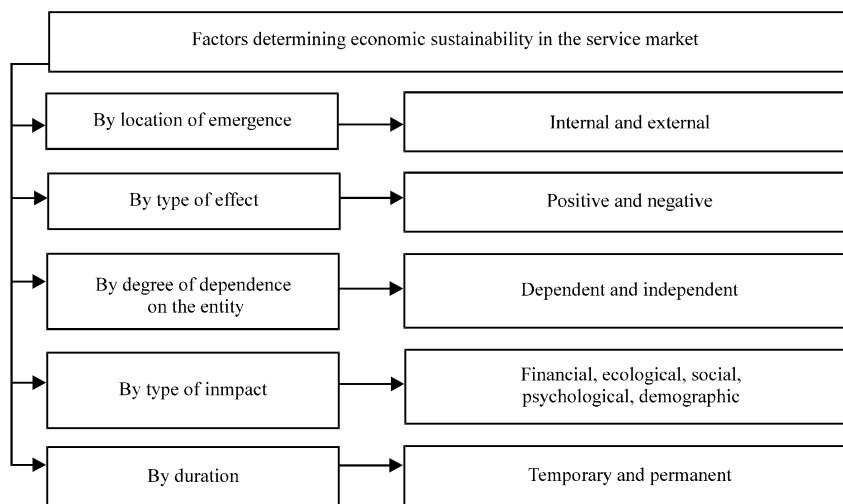


Fig. 5: Factors determining economic sustainability in the service market

- Innovation activity
- Enterprise profitability

- Poor funding of the industry
- Low enterprise profitability indicators
- Lack of up-to-date physical facilities

Negative factors:

- Lack of high-skilled personnel
- Market infrastructure in a formative stage
- Low labor and service efficiency
- Main focus on service imports
- Lack of small and medium enterprise support by local governments
- Enterprises are not involved in the market development process

Currently, the following factors should be noted among those negatively affecting service market insufficient funding of the industry, lack of innovation activity and high-skilled personnel. Among positive factors, high labor and service productivity, export and innovation activity, funding of the industry require special attention. Particular attention should be paid to the factors determining economic sustainability (Fig. 5).

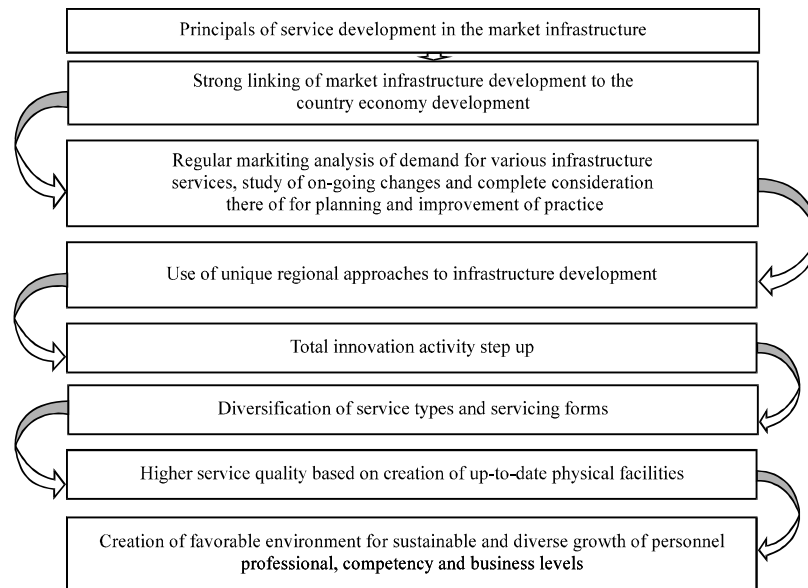


Fig. 6: Principles of service development in the market infrastructure

Economic sustainability of the service market is also based on a number of objective principles: stable economy and social sphere; maintaining competitiveness in all forms of activity; organization of the regional service market strategic governance by marketing means (forecasting, planning, monitoring, evaluation, modernization, etc.); creation of new forms of economic activities; improvement of legislative framework, etc.

Efficient use of the market governance organizational and economic mechanism tools in relation to the internal and external environment specifics is possible if the principles are followed (Fig. 6).

The use of these principles implies the development of a systemic approach aimed at integrated implementation of service market organizational, economic and resource potentials. This approach will ensure dynamic development of service market in line with economic changes. Considering the above, we have proposed a system of evaluation indicators. Each of the indicators discussed should result in an expert opinion.

Availability of resource potential in the region:

- Service turnover volume
- Availability of natural resources
- Infrastructure availability
- Export and import volume

Social indicators:

- Labor turnover
- Average personnel wages
- Accommodation conditions
- Volume of paid services
- Favorable conditions for certain types of services

Investment activity indicators:

- Investment volume over the period studied
- Investment attractiveness of facilities
- Level of political and economic stability in the country

CONCLUSION

The research of the Russian Federation service market (using the Belgorod Region as an example) has shown that increased competition has a multi-factor positively efficient impact. Innovation technologies are introduced much faster, modernization and diversification of services are in progress which has a positive effect both on the economy of the region and national economy as a whole. It should be noted that while developing the service market development program, it is necessary to take into account the factors determining economic stability in the country, principles of service development in regional market infrastructure, competitiveness indicators and also the opportunities of public-private partnership.

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