Leading trends in the services sector: peculiarities, trends, and global perspectives

Natalia Skornichenko
Volga Region State University of Service
Gagarina str. 4, 445017 Togliatti
Russian Federation
e-mail: skorninn@bk.ru

Anna Sherstobitova
Togliatti State University
Beloruskaya str. 14, 445020 Togliatti
Russian Federation
e-mail: ya_anya@mail.ru

Yulia Shnyakina
Volga Region State University of Service
Gagarina str. 4, 445017 Togliatti
Russian Federation
e-mail: ur70@bk.ru

Abstract Our paper tackles the issues of the leading trends and perspectives in the world’s sector of services. Our globalised and interconnected economy is slowly but gradually turning away from the industrial production and agriculture towards the sector of services. The rise of Internet, information technologies, and smartphones that employ both of the above also contributed to this trend. We discuss the implications, peculiarities, trends, as well as global perspectives for the sector of services in the 21st century and draw some outcomes for the stakeholders in charge of the labour market and the development of the economy. Our results and findings clearly demonstrate that global services sector is growing and changing, and these new changes need to be acknowledged, monitored, and promptly captured by all the parties involved. In order to stay competitive in the global information-driven world, one needs to adapt to the new rules and open up her or his mind to the novel approaches and trends.

1 Introduction

Nowadays, the economy is turning from the industrial sector focused on production or the resources extraction sector towards the sector of services. Services, and not large-scale production and trade, become the alpha and omega of the economies of many developed countries and the leading trend across the world (Korchagin et al. 2015). In fact, many developed Western economies are turning into service economies with such factors as job satisfaction and motivation playing the key roles (see e.g. Čábelková et al. 2015). A service economy is a nation that generates more value and a nation that generates more value from services than other sectors, such as agriculture and manufacturing. Advanced economies are anchored in a long-term trend whereby services become a larger percentage of economic output (Croes et al. 2018). These features are common types of value generated by a modern service economy.

One would probably agree that the globalised economy is about the interconnected flows of goods, services, capital and talent. Today, of course, most countries and governments recognize the importance of connecting to global flows and strive to be part of the right networks (Kinne and Bunte 2018). Global payment systems based on online transactions that happen almost immediately enable this transition towards the service economy. Instead of receiving a one-time payment for some of the manufactured equipment, many manufacturers now receive a steady stream of sales for ongoing contracts. Full accounting and most of the accounting and currency reform measures are unlikely to be realized without a good model of the service economy.

When the major changes began in the early 1990s, they aggravated or exacerbated an already unbalanced situation. First, with the beginning of the reform of the service sector focusing on education, housing and medical care, the government retained its monopoly on lucrative services such as telecommunications and financial services, while at the same time rejecting the burden on some public services (Brown et al. 2000). Most of the...
latter were used as consumer services, with some of them (e.g., medical services) provided by the private sector, but with lower quality and higher prices as there was no orderly market competition and no viable public administration. The current list of Fortune 500 companies includes more service companies and fewer manufacturers than in previous decades. The service economy in developing countries focuses mainly on financial services, hospitality, retail, healthcare, human services, information technology and education (Salvato et al. 2019).

The outsourcing and marketing of producer services is a natural evolution of the specialized distribution of labour and resources from within the company to the marketplace. This optimizes the value creation and production chain in the company and increase score competitiveness.

In the meantime, the resource allocation and efficiency of use of the business and the economy as a whole are being improved, the industrial division of labour and structuring will become more rational, and the overall economies’ ability to innovate and compete will be improved. Agriculture, manufacturing, and services are all users of producer services, but in the industrialization phase of development, manufacturing is the most important user. The manufacturing sector’s share of total employment has been steadily declining in advanced economies for more than four decades with most countries seeing a significant decline in the number of manufacturing jobs since the 1990s. In most developing countries, manufacturing employment has remained at a relatively low level as workers have switched from agriculture to services and have largely bypassed the manufacturing sector. The main exceptions were China, Indonesia, Malaysia and Thailand, where the share of manufacturing jobs in total employment is higher than in the 1970s.

This paper argues that the shift towards the service sector economies is now undergoing virtually all around the world. Policy makers in each and every country in the world simply cannot ignore it, so the best strategy is to adapt by changing the educational system, the labour market, and the structure of the economy.

2 Development of the global services sector

Global services sector is on the rise. In the past, export has increased productivity growth through economies of scale and the introduction of new production techniques. Comparing the years before the global financial crisis with the years thereafter, there is a clear trend in most developed and emerging economies towards lower labour productivity and lower export growth.

Figure 1 that follows, shows the average hourly earnings by industry in the world’s largest economy, the United States. One can see that the labour productivity in such traditional industries as mining or manufacturing are much lower in comparison with those belonging to the sector of services.

![Fig. 1. Labour productivity in the United States: average hourly earnings by industry (in USD)](source: BLS (2019))

Another related factor is that the significant slowdown in fixed asset investment growth in both developed and emerging economies after the crisis appears to correlate to a large extent with the slowdown in global trade flows. Global manufacturing has gone through a tumultuous decade: major developing countries have entered the first tier of manufacturing countries a severe recession has slowed demand and manufacturing employment has declined faster in advanced economies. The developed countries are already service economies (see Figure 2).
Nevertheless, manufacturing remains crucial for both developing and advanced countries. In the first, it continues to be a path from subsistence agriculture to rising income and living standards. In the latter area, it remains an important source of innovation and competitiveness and makes huge contributions to research and development, export and productivity growth.

Many developing countries decided to exploit the services sector boom and to focus on it. However, it is not easy to do when the only item one’s country exports is bananas or oil. However, there is one thing that can be used – financial services. By creating offshore zones and free trade and banking areas which in fact represented tax heavens, many Latin American and Caribbean countries experienced unprecedented growth throughout the second half of the 20th century. One of the most notorious examples is Panama. The Panamanian government has promoted economic growth in the last decade largely through a policy of open markets and support for free trade. In addition, the government actively promotes foreign direct investment through lax regulation and ensuring smooth business operations. During his term as President from 2009 to 2014, Ricardo Martinelli implemented a strategic spending plan of 15 billion USD in key sectors such as financial services, agriculture, logistics and tourism, as well as airport, port and road infrastructure, to consolidate Panama as a country global trading hub (Perez 2017).

The example of the most developed economy in the world shows the same trend. For example, United States’ service exports rose from 15% of all United States’ exports in 1975 to 26% by 1990 (Feenstra and Sasahara 2018). Improvements in service productivity also have a direct impact on the international competitiveness of manufacturing companies. It is possible to estimate that the service sector accounts for approximately 23% of the United States industry’s industrial sector turnover. The GDP of some countries more generally reflects subdued global final demand, especially for fixed capital formation.

### 3 Implications for the sector of financial services

One of the most notorious examples of the rise of the sector of services and service economy in the 21st century can be illustrated using the case of the financial and banking sector. Banks and other financial institutions are increasingly dealing with a growing number of compliance mandates and security requirements today. In fact, cyber security breaches have led to privacy laws in more than 40 United States states (Sen and Borle 2015). In addition, China has implemented its cybersecurity law in 2017, and other countries, including Singapore and members of the European Union (EU), have enacted regulations that specifically affect banking institutions and seek to give citizens more control over their data (Selby 2017). The problem is exacerbated when global financial services companies need to know the new cyber security regulations and how they affect their business to navigate and stay compliant with data rules, especially when doing cross-border business.

Today, companies should be aware of risk that information technologies might bring and to consider them carefully as they continue to improve their cybersecurity capabilities and maturity (Zielińska 2016). In many cases, these measures seem to support the fact that cyber risk management across the industry has a broad spectrum of maturity. Overall, companies should continue to expand their game to stay informed while enabling safe innovation. For one thing, human contact in the sphere of financial services remains essential, despite the recent reputational crises in the financial sector. Although the demand for digital services for smartphones continues to
grow, customers are looking for reliable professionals to provide consulting services for more complex transactions. The conditions to stay competitive in the marketplace are given, but you have to act quickly so as not to be left behind. Above all, some best practices must be followed that allow you to take into account the different aspects of digitalization and to change your business structure to offer services that meet customer expectations. It is imperative that financial firms ensure that all archived data is organized and structured to respond to customer requests. In addition, financial services companies should be able to securely erase customer data at the request of the individual or, if the data no longer serves its purpose. Another important EU regulation requires financial entities to record and record text messages, voice calls and any other commercial communications containing trade information for at least five years.

The rise of Internet and all the technologies it brought enables freeing the labour and time of both banking and financial personnel and the clients. Nowadays, by partially or completely transferring one’s documents to the cloud, one can improve business continuity by allocating storage and computing capacity among multiple remote systems to ensure availability and reduce downtime. Although banks’ cloud acceptance rate is not particularly high, traditional financial players are not interested and some banks are moving in that direction. The feeling is that one has to go through the clouds to reach the top of the market.

Currently, there are many key digital trends in the banking sector such as Blockchain, Cloud, Open Banking, and various social media. And this is not to mention the ubiquitous smartphones that are now owned by almost everyone on this planet. Chinese-assembled affordable smartphones can be bought for less than 100 USD, but they provide more computing power than NASA computers in the 1960s (Strielkowski 2017). With a simple mobile app, companies can digitize crisis scenario plans, communication designs, activation protocols, and more. With a mobile app, one is better equipped to handle a crisis quickly and effectively and have much less potential for potential mistakes. Financial institutions of all kinds can benefit from a faster and leaner crisis response in times of the utmost care. Responsive design ensures the best viewing experience on a variety of devices. Our increasingly mobile world means that customers interact with their banks and financial service providers through their desktops, tablets and mobile phones. Financial services companies should adapt to this new reality and incorporate responsive design into their strategy. Increase awareness and interest in mobile payments and simplify the introduction of the payment method. Improve and promote chatbots and robotic advisory services and expand online capabilities in new directions. Leverage gamification to drive customer loyalty and leverage new technologies that make financial services activities more fun.

Personalization technology can create a more relevant, engaging and effective digital experience. Initiatives of this kind signal that the sector will support gender equality and promote women to higher managerial positions. Targeted initiatives can also help address the lesser excitement that women have over the pursuit of leadership. The financial industry must therefore make a special effort to rewrite the current status quo. Renaming financial services requires their leaders to commit to change, not only by taking action to help their businesses create places where women can thrive, but also by engaging in galvanizing the industry overall express. This is useful to introduce residents of this area to a new business location or to highlight mortgage rates in cities with active real estate markets.

Finally, financial and banking sector are also transforming our economy into a cashless one, thence the economy where paper and metal money become obsolete (Zhao and Su 2019). What started in China is slowly spreading all around the world. Digital payments and transactions that involve social networks and messengers that act like traditional banks and money transferring agencies also help to increase the importance of the services sector and all its branches. One can clearly see its importance and relevance in today’s world.

4 Conclusions and discussions

Overall, it becomes clear that as the labour market becomes more sophisticated and entangled by the technological advancements, less manual labour is required, and more sophisticated and creative human skills become necessary. All of them constitute the backbone of the service sector economy that is on the rise all around the world. Service economy is becoming a leading trend itself and it features a number of leading trends within.

At the brink of the 20th century, economists polemised that in 100 years the work week would probably be lasting about 8 hours. Even though we are not there yet, we enjoy a 5-day work week and there are considerations in many countries, including Russian Federation, to shorten that to a 4-day work week in the nearest future. Human beings simply need to work less to create more value and wealth. On the other hand, they need to work smart but not hard. All of the above constitute an important outcome for such countries as the Russian Federation that should shake off the dependence of its economic development from the trends and prices at the markets of oil and other natural resources and to invest more into the sector of services by supporting new and promising technologies and start-ups.

The rise of Internet and information and communication technologies (ICTs) also enabled people (at least in some professions) to work remotely. Many companies are encouraging the so-called “home offices” working modes when employees work from home maintaining a close audio and visual link with the workplace. The
congestion and pollution that constitute the by-products of daily work commuting also led to the possibility to work remotely or at least to skip some days at work and working from home instead. Many services (e.g. telephone marketing or Internet sales) are in fact operating like this on a daily basis.

In addition, the so-called “sharing economy” or “gig economy” also contribute to the rise of freelance services offered by a rising number of people. Most of these services are non-manual, creative, and intellectual services.

Nevertheless, the service economy of today needs a special mode of regulation and legislation. New norms and laws need to be adapted regulating work from home or working on the basis of the sharing economy. Some of it is happening now, however more time and efforts are needed before these leading trends are implemented and granted for good.

References


