

## SERVICES AND THEIR ROLE IN ECONOMY

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### **Abstract**

*This paper aims to highlight the role of services in contemporary society, as well as the close connection between them and economic development. It is well known that in developed countries, with a high living standard, the share of services in the economy is significant. But the services must assume a certain quality, this being both the effect and, especially, the cause of the level of development of the society and the individual, which leads to the subjective side of quality.*

**Keywords:** services, GDP, economic development, human resources

**JEL:** O14, O44

### **1. INTRODUCTION**

We all know that today's society is dynamic, a society in which real needs and false needs are intertwined in a constantly changing market. The contemporary individual is more demanding, less patient, aspects completed by fierce competition.

The economic development and the technological breakthrough have rendered today's individual difficulty to satisfy. Therefore, economic agents must survive in this huge ocean called consumer society, ocean characterized by rapid changes, lack of time, competition. Making good things that meet the needs of the individual at affordable prices, but at the same time, surviving and even thriving in such a society, is indeed a challenge. The profusion of products and services on the market makes individuals more and more demanding in their choices, and the company that can satisfy their needs to the highest extent will be the winner.

### **2. ROLE OF SERVICES IN ECONOMY**

For a long time, the service sector was neglected by economists, being included in the non-productive sphere. The classification of the services in this sphere had a negative impact on them, an impact manifested by the halt of the theoretical development of the conceptual classifications related to the proportion of services in the economy. Later on, they have developed, both conceptually and especially in terms of diversification, GDP contribution and employment.

The concept of services has been analyzed over time, with different authors putting their mark on them.

The service can be defined as „the activity offered for sale that produces advantages and satisfactions without causing a physical exchange in the form of a

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good” (American Marketing Association)

Other dictionaries define services as a „*set of advantages or satisfactions obtained either directly, or by using a good purchased by the service beneficiary or the right to use it "or" any functions or tasks performed for which there is a demand and therefore a determined price on the corresponding market*”. (MacMillan Dictionary)

ONU reports include in the services sector all economic activities other than agriculture (including fisheries and forestry), extractive and processing industries, but also constructions. It is known that the sphere of services is much more comprehensive than the sphere of the tertiary sector, as it also includes activities in the other two sectors: primary and secondary.

The importance of services has significantly increased in the EU economy, an aspect accentuated also by the outsourcing of services in the industrial sector, as well as by the globalization of manufacture, regarded at the same time as an economy growth engine.

As for the situation of Romania, services can be a key element of economic growth, being a necessary condition for increasing competitiveness on the national level. (Tănase, (2012)).

ICT services have a significant impact on increasing the role of services in the economy, as they eliminate the distance for beneficiaries, in the case of certain types of services, such as online sales that have increased considerably in this past period. (Eurostat)

Increasing the importance of services in the economies of all countries makes alignment with the global service network a mandatory condition for conducting economic activities in the new global context.

The European Services Directive (2006/123/EC) seeks to support an internal market by removing legal and administrative barriers, thus trying to ensure the provision of services beyond the borders of the provider’s country, while encouraging also competition on this market.

The importance of services is well known in the economy, as they are the third sector of an economy. The economic activities were thus grouped, for the first time, by A. Fisher. Subsequently, other authors such as J. Fourastier and C. Clark analyzed this issue. Statistics have shown us that the more developed an economy, the higher the share of services in GDP.

It should also be emphasized that the quality of the workforce is very important in services „Human capital [...] represents a neofactor of production essential for the economic-social development, in the context of the knowledge-based economy” (Minică, (2013) P.141)

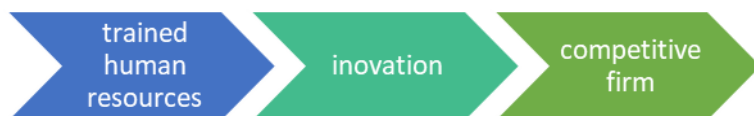
Investments in human resources training are vital to survive in a society where the consumer is sovereign. This aspect is also highlighted by S. Andreș (2006), according to which the labour force must be trained and motivated, and S. Demyen and I. Lala Popa (2013) P. 233 argue that “human resources become increasingly the pillar on which management is based”. According to the authors, "performance can be identified by analyzing the weaknesses of the human resources", the human resources department taking into account aspects such as personnel surplus or shortage, performance levels, needs for professional development, wage incentives or increased productivity (Demyen and Lala Pop, (2014) P. 43).

True development can only be achieved through the constant evolution of human resources (Bretcu, (2016)), as a key factor of economic progress, because

nothing can be achieved without its intense preparation, especially in the computerized and technological society, but it must be noted that education is a long-term process and requires high standards in terms of qualifications and level of knowledge (Manciu & Demyen, (2016)). That is why the workforce is a pillar of economic growth, an essential element of competitiveness and, therefore, of economic development. (Tănase et al., 2013)

Also, it should not be overlooked that the human resource is the one that leads to innovation, therefore, to the success of the company on the market.

According to the studies carried out in the White Chart of SMEs 2019, the hiring, training and maintaining of the personnel represents the factor with the greatest impact on the SMEs (57.14% in the case of Romania). Other studies confirm that the human resource plays a significant role in the company's success on the market, its performance being closely linked to the company's performance (Andreș, (2018)).



Source: elaborated by the authors

**Figure** - Human resources relationship - competitiveness

Therefore, only by using a trained and motivated workforce can a company be competitive (fig. 1).

Services and their consumption represent an important aspect of the development of society, and therefore of life quality. Ernst Engel has remarked this since the 19th century. The economist found that if the income of a family increased, the part for the expenses for services, also called ancillary expenses, was higher. It is also logical, because when incomes are high, people can afford, in addition to the purchase of basic goods, various services such as cleaning, laundry, dining in the city, movies, plays, opera, tours and trips, etc. Thus, according to statistics, if in developed countries the share of food expenditures in total expenditures is moderate, the situation is totally different in developing countries, their share being significant (70-80%). This makes the part of the revenues for services in the developing countries insignificant, which leads, implicitly, to a lower living standard, to a poorer development of services in those countries and, therefore, to a life quality lower than in other countries with higher incomes.

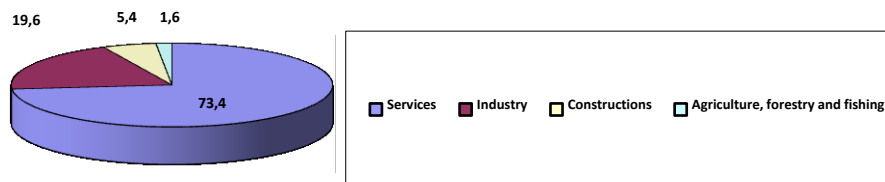
It can be seen that developed countries have a share of services in GDP of about 70%, while the last accepted countries, but also other countries in central and eastern Europe exhibit a lower percentage (between 50 and 60%) (Statistical Yearbook of Romania, 2018). In the case of our country, the GDP contribution of the third sector is 59%, followed by industry, constructions with 37% and 4% in the case of the primary sector. A similar situation is encountered at our Bulgarian neighbours, with a 4% contribution of the primary sector, 25% of the secondary sector and 58% of the services. Services recorded the highest share in countries such as France, the Netherlands and the United Kingdom -70%, Belgium - 69%, Italy and Spain - 66%. (Table 1)

**Table 1** Contribution of the main activities to the realization of GDP, year 2017

Country	Agriculture, forestry, hunting, fishing	Industry, including constructions	Services
Austria	1	25	63
Belgium	1	20	69
Bulgaria	4	25	58
The Czech Republic	2	33	54
Croatia	3	22	59
Denmark	1	20	66
Estonia	2	24	60
Finland	2	24	60
France	2	17	70
Ireland	1	36	55
Germany	1	28	62
Italy	2	21	66
Latvia	3	20	64
Lithuania	3	26	60
The Netherlands	2	18	70
Poland	2	28	58
Portugal	2	19	65
UK	1	19	70
<b>Romania</b>	<b>4</b>	<b>37</b>	<b>59</b>
Slovakia	3	31	56
Slovenia	2	29	56
Spain	3	22	66
Sweden	1	22	65
Hungary	3	26	55

(Source: Statistic Yearbook, 2018: 731)

On the EU level 28, the gross value added by sectors of the economy was significant in services in 2017 compared to the other sectors -73.4% (fig.2).



**Figure 2** - Gross value added by sectors (% share of total, EU-28)

(Source: Key figures on Europe 2018: 42)

In 2017, the gross added value of services was over 85% in Cyprus and Malta (due to tourism) and in Luxembourg 87% (due to financial services). The industry reached the highest levels in Ireland (39.4% - 2016 data), the Czech Republic (37.2%), Poland (34.7%) and Slovakia (34.3%), and the primary sector had the highest relative contribution in Romania (4.8%).

As regards the employment of labour force, on the EU-28 level, in 2017 the services held 74.0% of the total labour force employed, the industry -15.3%, the constructions - 6.3%, and the agriculture, forestry and fish farming - 4.4%.

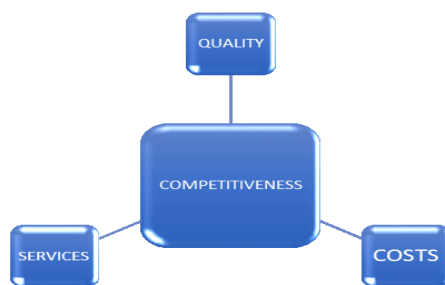
The Netherlands is the leading member state that employs in services not less than 83.4% of the total employed workforce, followed by the UK, Belgium, Malta, France, Denmark and Luxembourg (over 80%), and at the opposite pole we find Romania with only 46.4%.

The secondary sector employed over one third of the total workforce in the Czech Republic (36.4%) and 30% in Poland and Slovakia, while the primary sector employed 23.7% of the work force in Romania and 18.9% in Bulgaria (Key figures on Europe, 2018).

Also, it should be noted that the turnover in services, in the 4th quarter, in the case of Romania was 112.3 in 2016, 125.2 in 2017 and 137.2 in 2018, which shows their significant growth in the economy (year 2015 = 100). (Eurostat)

## 2.1. Services and economic competitiveness

In a consumer society where the consumer is king, how will companies survive? By identifying a niche, through cost or quality? According to the authors Gilles Bressy and Cristian Konkuyt (1998) a firm can be competitive by: costs, services, quality. (fig.3)



**Figure 3** - Enterprise and competitiveness factors  
(Source: Gilles Bressy, Cristian Konkuyt, 1998)

1. Quality is a subjective notion. If this is important when discussing a product, when considering a service, quality is all the more important. Consumers are different, the quality of a service will be filtered through the prism of their own values and priorities and one must take into account: the degree of society's development, the degree of development of the individual, the income, the social status, the reference groups, etc. Quality can be approached as a competitive strategy, used for products, but also for services (Moldoveanu and Dobrin). Quality, a notion that has emerged in the industrial sphere, subsequently adopted in the sphere of services, has become, besides the necessity, a way by which the company can resist on the market. We are very well aware of the case of big brands that rely on quality as a competitive strategy, while ensuring a certain positioning of the individual among the others. Thus, the individual, besides the quality product or service, will also enjoy the recognition of the other individuals, an important aspect, especially in a society in which the ostentatious consumption is met at every step.

Services represent an important aspect when purchasing a product, as most consumers rely on convenience in purchase. Thus, after sales, services play an important role. The customer wants, when buying a product or service, as many benefits as possible, in other words, that total package: here we can include parking, children's playground, convenience in purchase, transport, service, maintenance, installation etc.

Costs and prices by default are an element of sorting the client. Any company wants to have the lowest production costs. We all know that practicing certain prices, which are often closely linked to costs, allows the company in question to play with the offers according to events, stocks, season, etc., which makes the goods more attractive to the consumer.

As Nicolae Georgescu Roegen said, even if today's economy is one that does not fully observe the rules, one thing is certain: consumer are the ones who decide what they will buy, the companies having to adapt to their wishes.

Therefore, companies must make the best decisions in order to be competitive, so that they can subsequently reach performance (Tănase, (2013)).

## CONCLUSIONS

Besides being an important sector of the economy, statistics show that:

- services involve most of the workforce in the majority of EU member states; services turnover is significant;
- gross value added is the highest in the service sector.

Services are the engine of development of an economy, being closely related to the degree of development of the respective country.

In Romania, the share of the tertiary sector in GDP is only 59%, well below the percentage registered in the developed countries of the EU (about 70%), and the labour force employed in the tertiary sector is also well below the EU 28 average (46.4% compared to 74%).

Although our country ranks last as regards the share of the labour force employed in services, it should be noted that, since 2015 and up to the present, the turnover of services has an upward trend, increasing by 37.2% in 2018, compared to 2015 (the reporting is done in the fourth quarter of the analyzed years).

Therefore, the tertiary sector is important not only in terms of its participation in the GDP of an economy and due of the labor force it employs, but, above all, because it gives us an image of the development of the respective society, knowing that a developed nation has a high share of services in the economy, and thus a high living standard for its citizens.

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