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ENTRY OF UKRAINIAN COMPANIES TO THE INTERNATIONAL SERVICES MARKET: OPPORTUNITIES AND PROSPECTS

Abstract

The article raises the problem of Ukrainian companies' entry onto the international market of services. The author describes the determinants of competitive advantages of national companies on the international services market and assesses the opportunities and prospects for implementing the strategies of clusterization, outsourcing and transnationalization.

Key words:

International services market, determinants of competitive advantages, clusterization strategy, outsourcing strategy, transnationalization strategy.

JEL: F10; F15.

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Introduction

The realization of Ukrainian strategic priorities on the international market of services at the micro-level envisages, first of all, the development of national enterprises' policy regarding their entry onto this market, as well as forecasting of presumable consequences of these actions for the economy and population of the country. The formation of any policy includes the following three major stages: precise and unambiguous formulation of objectives; development of the action program to achieve the objectives (strategies); assessment of strength (and its accumulation potential) required to meet the set tasks and objectives.

The problem of competitive capacities of enterprises on international markets were studied by both foreign (in particular, M. Porter [1], Chan Kim U., R. Moborn [2]), and national scientists (Ya. Zhalilo, Ya. Bazylyuk, Ya. Belinska [3]). Nevertheless, the competitive advantages and peculiarities of Ukraine's entrance to the international markets of services have been poorly investigated so far.

The objectives of national companies related to their entrance to the international markets of services, – according to strategic priorities of Ukraine, – should be the following: growing competitive capacity of Ukrainian providers on these markets; increasing exports of services by the priority branches, changes in export structure; independent entry of national enterprises to the international market of services by way of commercial presence.

In view of this, an urgent problem is the assessment of opportunities for achieving the set objectives, definition of perspectives and choice of strategies.

Determinants of Competitive Advantages of Ukrainian Enterprises on the International Market of Services

According to the theory of competitive advantage («Porter diamond») [1: 174], the probability for a country to succeed on the international services market in any branch could be determined by the following four competitive advantages: factor conditions; terms of demand; related and supporting branches; strategies, structure, and rivalry of the firms on which depends the opportunity of forming service companies of the world standard.

As of today, a number of factor conditions have been created in Ukraine that are favourable for growth of competitive capacity at certain international markets of services. In the first place, those factors should be pointed out that provide competitiveness of priority branches from the viewpoint of strategic interests of Ukraine on those markets (Table 1).

Although transport services provide a lion's share in the export structure of Ukraine's services (73.03%), neither natural conditions, nor geographic situation are fully exploited. The analysis of modern tendencies on the international market of services [4: 364-376] showed stable growth of transportation volumes, which creates the preconditions for Ukraine to be integrated into the world system of service providers if the conditions of national transport system are improved.

Table 1.

Factor conditions for supporting Ukraine's competitive capacity in separate branches of the international market of services

Factor of competitiveness	Branch of services, the development of which is affected by the factor	Problems that precondition the insufficient level of competitiveness
Geographic situation	Transport services	Insufficient use of territorial transit, lack of projects on construction of new transport ways and pipelines
Natural conditions	Tourist services, transport services	Poor investment in growth of service quality and innovations
Time zone	Business services (outsourcing, professional services, telemedicine)	–
Infrastructure	Transport, business, telecommunication, and tourist services	Underdeveloped branch of the national market of services; poor information-telecommunication, financial, hotel, and transport infrastructure
Labour force	All kinds of services	Poor knowledge of foreign languages
Cultural peculiarities	Tourist services	–

Source: compiled by the author.

At the same time, there is a number of problems that hamper growth of competitive capacity of Ukraine on the international market of transport services, including, first, the nonconformity of Ukrainian transport system with international standards, which impedes its effective integration in the Euro-Asian transport networks (primarily, in railway and motor vehicle transport); second, unequal distribution of transport centres throughout Ukraine (in particular, location of airports only in the largest cities); third, poor condition of roads and transport rolling stock; fourth, deficient organization of transportation and its low safety (e. g. the «phosphorus» accident in Lvivska oblast became a terrible blow to strategic interests of Ukraine on the market of transport services); fifth, rather high transportation charges that do not match the quality of provided services.

All the above-mentioned actualizes the need to introduce modern technologies for organization of transportation alongside with modernization of the rolling stock; to construct highways of international standards in major strategic directions (Europe-Asia, North-South); to develop competitive environment in the area of transport services (with enterprises of different forms of ownership and foreign investments); to take part in international projects on construction of new pipelines passing through Ukraine's territory; to enlarge and improve export transport services.

The construction of turnpike roads and handing them over in concession with possible attraction of FDIs could contribute much to the development of transport infrastructure. The necessity to have concessions is conditioned by the current state of economy, when the budget deficit does not allow to channel significant investment resources to road construction. Thus, a kilometre of such a European-standard motorway costs from UAH12mn to UAH18mn, whereas the construction of 250 kms of the first-class Kyiv–Odesa motorway is estimated to cost nearly UAH5.4bn. At the same time, the preparation of transport infrastructure of the international standard in the city of Kyiv alone to Euro-2012 is estimated to make UAH37.8bn (about US$7.5bn) [5]. In Ukraine, a number of laws have already been adopted which lay the foundation for the development of concessionary construction of roads. In particular, they include the Law of Ukraine «About Concessions», «About Concessions on Construction and Exploitation of Motorways», the package of Resolutions of the Cabinet of Ministers of Ukraine on the development of national networks of motorways in the system of international transport corridors. At the same time, the question with respect to effectiveness of concession's activity in the country remains open, since the first concessionary project on construction of the Lviv–Krakovets road has not yet been completed, while the second one – on construction of Lviv–Brody road – has only been launched.

A similar problem exists in the area of tourist services: Ukraine possesses a full range of natural and recreational resources, cultural wealth, and history necessary to create competitive advantages, but the hotel and tourist infrastructure is still a weak link in the tourist industry. According to Koba International Real Estate Consulting, out of all hotels in Ukraine only 5 are five-star hotels, while 28 – are four-star hotels, 73 – three-star hotels, and 740 hotels are unclassified [6: 26]. It is obvious that 80% of unclassified hotels provide a considerable hindrance to success on the international market of tourist services. The problem for the hotel business consists in the high costs required for building a new object and its promotion on the market. Specifically, it refers to four- and five-star hotels (average estimated cost of a seven-story four-star hotel in the centre of Kyiv approaches $50mn; for a five-star hotel this cost reaches $60mn). At that, the payback period makes no less than ten years. Given deficit of hotels, the operators and investors can generate surplus profits from high accommodation charges. For example, a room in Radisson SAS is charged €100 in the countries of Western Europe, whereas in Kyiv it price is €330 [6: 25]. Moreover, the quality of services provided by the national hotels does not always meet that of the similar foreign ones. Thus, in such conditions, clients give preference to resorts in Turkey or Egypt providing much better service than the Ukrainian ones. Since national providers are inexperienced in realizing hotel projects, in order to develop the factor of competitiveness on the international market of tourist services it is very important for Ukraine to attract foreign partners (like international operators of hotel networks or hotel TNCs) on terms of franchising contracts and management contracts. Thanks to cooperation with a TNC, national investors will get a popular brand with fair reputation and the clients loyal to that brand at the same time.

The analysis of modern trends on the international market of services [4: 364–379] shows that its major element of dynamic changes is developed information and telecommunications infrastructure. In this context, it could be viewed as a lever that will enable Ukraine to occupy certain positions on that market, primarily in the areas of business and telecommunication services, and at the same time to become a driver of economic development on the whole. It is preconditioned by the following:

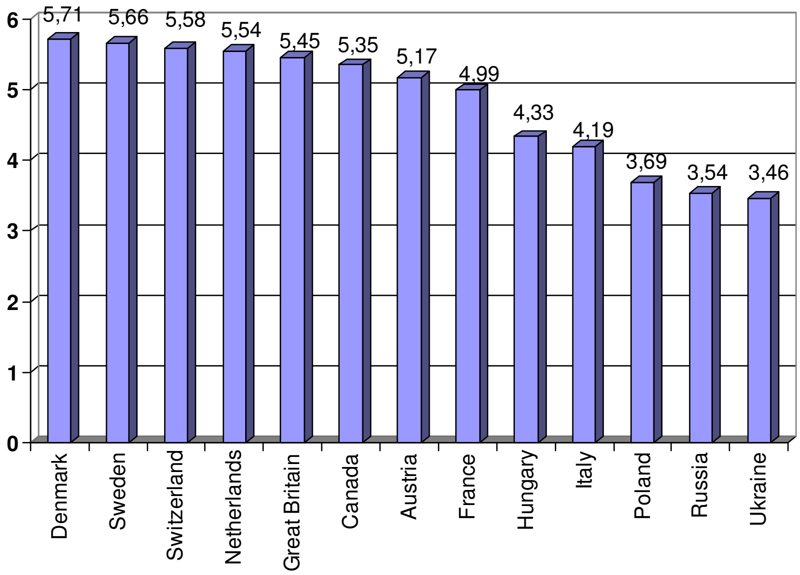
- First, the development of information and telecommunications infrastructure promotes the country's transition to information society and the «new economy». According to the national strategy of information society development in Ukraine [7: 12], the first stage of transition is the development of information and telecommunications infrastructure of the country by means of attracting foreign and domestic investments. In the context of the given process, the strengthening of ties and speeding up of information exchange will occur between separate branches of economy; new dynamic services will appear and develop (such as collection, processing and transmission of data, call centres, engineering of specialized software, etc), as well as the opportunities for entry with those services to the international market.
- Second, the development of this infrastructural link increases the outsourcing potential of Ukraine, thus facilitating its entrance to the international market of business services. Hence, according to LOCO-monitor's estimations [8], this factor belongs to key factors considered by transnational corporations in choosing a recipient country for their external contract operations.

- Third, the accelerated development of information and telecommunications infrastructure will shrink the «digital gap» between the recipient country and the developed investing country.

At the present, Ukraine is markedly lagging behind the developed countries, primarily major investor countries, in terms of its IT infrastructure readiness and capacity to operate in global networks. According to the 2006–2007 Global Information Technology Report of the World Economic Forum [9], Ukraine is rated 75th out of 122 countries according to the Networked Readiness Index (NRI). (In 2004–2005 it rated 82nd out of 104 countries, in 2003 – 78th out of 102, and in 2002 – 70th out of 82 countries). This indicator is of special importance from the view of perspective development of the global network economy and virtual markets of services. Figure 1 demonstrates that in terms of its NRI (3.46) Ukraine is lagging behind its all major investor countries, the majority of which are the EU members (in particular, the indices for Denmark, Sweden, and the Netherlands make 5.71, 5.66, and 5.54 respectively). The lag rate shows that our country is actually falling out of the program of development of information society in Europe, which hinders the realization of Ukraine's overall economic priority regarding its integration into the EU and thus makes the urgency of the information and telecommunications infrastructure more acute.

Figure 1

Networked Readiness Index (NRI), 2007

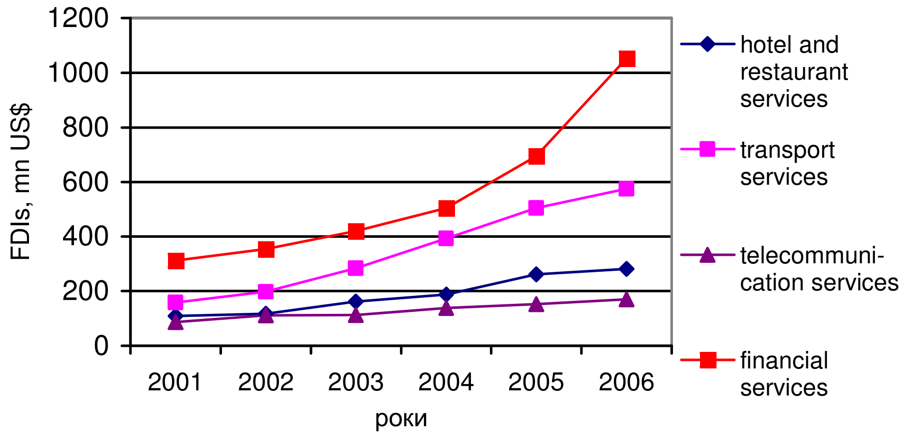


Source: own calculations based on [9].

The expansion of information and telecommunication networks and increased supply of these services for shrinking the «digital gap» is possible under condition of attracting FDIs, which needs respective legislation on deregulation of the telecommunications market. The analysis of FDI dynamics in the area of infrastructural services (Figure 2) shows that it was the lowest in the sector of telecommunications, which testifies to low activity of investors in the development of information and telecommunications infrastructure in Ukraine.

Figure 2

FDI dynamics in the area of infrastructural services in Ukraine, 2001–2006



Source: own calculations based on [10].

The world practice shows that it is quite possible to speed up the development of this area by attracting FDIs in it under condition of its liberalization and privatization (granting national regime to foreign investors and assuming obligations about granting access to the telecommunications market according to the rules of GATT and WTO, ensuring transparency of privatizing enterprises in the field of communications, etc). In addition, the required conditions for the development of this sector of infrastructure and its integration into the world information area include the following: accelerated introduction of national standards on information and telecommunication technologies that are harmonized with international and European standards and the EU technical norms concerning information and telecommunication infrastructure, electronic document circulation, etc; facilitated elaboration of the new redaction and concept of the National Informatization Program taking into account modern requirement (in particular, introduction of electronic government); proliferation of electronic document circulation and digital signature, electronic payment systems, development of e-commerce, e-stock exchanges, auctions, and depositaries.

The R&D institutions and R&D works play a significant role in the development of competitive capacity on the world markets. These institutions allow to artificially develop the factor conditions necessary for new progressive branches. Although Ukraine has a significant research potential formed in the area of cybernetics and computer science, it is not sufficient. Thus, the branch distribution of R&D works launched in the area of information and computer technologies differs from the distribution of completed R&D works, in particular, in the area of informatics only a half of launched works have been completed and registered (400 out of 803) [11] . This problem is connected with scarce financing of scientific research in this area; and therefore, its solution depends upon attraction of public and private capital, as well as increased concern in the development of specialized technologies.

Such a factor condition as the time belt contributes to providing of services in the on-line regime (i.e. business, professional, telecommunication services) to users residing in the countries of the same time belt (for Ukraine – the countries of Eastern European time belt, including Belarus, Bulgaria, Cyprus, Egypt, Estonia, Finland, Greece, Israel, Jordan, Latvia, Moldova, Palestine, Romania, Russia, Syria, and Turkey), as well as allows to fulfil outsourcing orders for TNCs, providing the latter with an opportunity to serve their clients practically on a round-the-clock basis (here meant are the countries located in an opposite time belt, such as Aruba, Barbados, Bolivia, Dominican Republic, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, Venezuela, Brazil, Canada, Chile, the Virginia Islands, and some states in the USA).

A very important factor of competitive capacity of Ukraine on the international market of services can become skilled work force. It is related to the fact that the providing of services stipulates for direct contact between the consumer and the employee of a provider-company; thus, the quality of service primarily depends on that contact. Nevertheless, the mere fact of skilled labour resources availability does not provide competitive advantages on the international market of services. For support of competitive advantages, the knowledge and skills of specialists should be specified concerning the specific needs of a certain area.

According to Ukrainian Hi-Tech Initiative [12], despite a great many of graduates in IT-specialties, only 20% of students are ready for professional work after graduation from educational establishments, which demonstrates insufficient quality of education. Today Ukraine is making certain steps to improve the quality of educational services for specialist training. In particular, the transition to Bologna system of education has started, and the number of educators with improved qualifications has been increasing. The positive thing is that a number of personnel who improved their qualification in strategically important area of transport services grew by 3.3% [13: 395]. Along with that, worth indicating is the negative phenomenon of decreasing number of employees who were trained in new professions and improved their qualifications in the areas of communications, hotel and restaurant services.

In the context of the given factor analysis of competitiveness, worth noting is the fact that Ukraine should not position itself on the international market of services as a market for cheap labour force. The competitive advantage of Ukraine should become its high qualification (it is the second in Eastern Europe by the number of specialists with scientific degrees), which will allow taking a unique niche on the international services market.

According to M. Porter, the terms of demand for services in the domestic market [1: 176] are a weighty determinant of competitiveness on the international markets. The country gets a competitive advantage in those areas of services, where domestic demand makes a clear vision of consumer needs. The state of internal demand benefits to creation of competitive advantages if the respective segment happens to be larger or more important on the domestic market than on the foreign ones. The shortcomings of national statistical accounting do not permit to calculate the volume of domestic demand for services based on popular techniques. Assessment of the structure of demand for services with respect to volume of imported services shows that the largest share in the import structure of services belongs to transport, business, and financial services, i. e. these international services are in greatest demand among national consumers (since their supply by internal providers is insufficient), which provides opportunities for TNC activity. Under such conditions, national producers should improve the quality of services, expand their range and provide services «in a package». In addition, the approximation of the structure of services supply to consumer needs on the international markets will contribute to growth of national providers' international competitive capacity.

Such an element of demand as the factor of time allows creating a time advantage while entering the market with specific services and to hold the ground in the future on condition of investing in innovations. In other words, this factor stipulates for the opportunity to enter the host services market with a unique service proposition earlier than competitors do. In context of using the time factor to generate competitive advantages on the international market of services, the national companies can apply the U. Chan Kim's[1] strategy of the «Blue Ocean» [2; 14: 13]. At the heart of the «Blue Ocean» strategy lays the price innovation, which provides for the combination of unique proposition and low costs. The possibility of applying this strategy by our national service companies is explained by the three following arguments: first, it meets modern peculiarities of the international market of services, where customer needs are formed prior to meeting them; second, the strategy enables the companies and the developing countries to become leaders, since it grounds on the refusal from

[1] U.Chan Kim – Professor of Strategy and International Management at one of the best world Business Schools INSEAD (France) and Honored Guest of the World Economic Forum in Davos.

traditional rigid competition typical of the international markets and on the creation of unique niches; third, it is not oriented at low labour costs as a competitive advantage, but at the unique knowledge, skills and valuable ideas of employees.

The «Blue Ocean» strategy is the best choice for the Ukrainian companies entering the international market for outsourcing and software services. These areas can still be found niches free of competition. In particular, because of the increasing computer piracy and threats to information security, the development of software for protection against computer crime is of critical urgency. The «Blue Oceans» can also be found in the area of individual software built to match specific requirements of a certain company.

The third element of the «Porter's diamond», i.e. the related and supporting branches, stipulates for the appearance and development of new types and sub-sectors of services, as well as creates conditions for the appearance of competitive enterprises in new sectors. Those processes occur primarily within clusters of interrelated branches, as well as at the juncture of service and industrial branches. When related and supporting branches are competitive at the international markets, it creates conditions for national companies to access external markets. Thus, the Ukrainian market for personal computers and their accessories (its share makes over 80%) is considered to be a system-creating one on the IT-market. Thanks to its active development, the demand for software and services related to its implementation and development of corporate IT-infrastructure, as well as IT-consulting, has considerably grown. The share of these services sub-branches approaches today 18%, whereas according to expert estimations, in several years, after the market will have been saturated with computer technology, the share of this sub-branch will grow to 50% as it is the case in the developed countries [15:110]. Owing to this fact, a number of companies were able to enter the international market of computer services. In particular, the successful companies include Altima, Infopulse, Mirasoft Group, Aelita Soft, Infoservice, Novatech, Kwartz, Prospero Systems, and others.

Consequently, in order for the Ukrainian companies to access international markets of services, it is needed to develop and increase the competitive capacity of respective related and supporting branches. The priority services branches in Ukraine are the following (Table 2).

Under conditions of emerging markets of services and service culture in Ukraine, the competition among participants of the national market of services plays a significant role in enhancing service quality and accumulating competitive capacities of enterprises. It is just the harsh domestic competition, – which forces enterprises to enter external markets and succeed there, – that provides a powerful impetus to development and support of competitive advantages. It can be well exemplified by the competition between software producers in the USA, which has brought them to leadership at the international market of computer services. At the moment, the most intense competition in Ukraine can be observed at the markets of tourist, educational, and publishing services (Table 3).

Table 2.

Related and supporting branches for enterprises of priority services branches in Ukraine

Priority branch of services	Related branches	Selected supporting branches
Business services, including: • computer services;	Information services, production of computer hardware and accessories, telecommunication services	Educational services, engineering, chemical industry, financial services, transport services
• professional services;	Consulting, advertising, marketing services	Educational services, telecommunication services, financial services, transport services
• research and development services;	Information, educational services	Telecommunication services, chemical industry, financial services
Transport services	Distributor services, logistics services, shipping services	Engineering, hotel and restaurant services, oil refinery sector, financial services
Tourist services	Hotel, restaurant, and recreation services	Transport services, car rent, trade services, food industry sectors, construction services, financial services

Source: compiled by the author.

Software development and application services and tourist services are the leading branches in competition among the priority sectors. They are characterized, in addition to competition, by close cooperation and information exchange among the companies united in associations: Ukrainian Hi-Tech Initiative, Association of IT Companies of Ukraine, and Ukrainian Tourism Association. In the leading sectors with a single leader at the national scale (monopolist), such as telecommunication services (Ukrtelecom), railway transport (Ukrzaliznytsya), the monopoly on the services market hinders the development of fair competition among service providers. Thus, the licence price for services of IP-telephony set by Derzhkomzvyazok was too high – nearly UAH8mn [16], which limited the opportunities of Ukrtelecom's competitors.

Table 3.

Competing companies at separate services markets in Ukraine

Sector (sub-sector)	Number of competitors	Market leaders
Railway transport services	1	Ukrzaliznytsya
Air transport services	23	Aerosvit, International Lines of Ukraine, Donbas-aero
Fixed-line telecommunication services	1	Ukrtelecom
Postal services	1	Ukrposhta
Mobile communication services	7	Kyivstar, MTS, Astelit, Ukrainian Radiosystems
Software development and application services	≈40	Soft-Industry, Altima, Infopulse, Mirasoft Group, and others
Tourist services	≈4300	Ukrzovnishintur, Truskavetzkurort, Olimp Travel LTD, and others
Publishing services	824	Folio, Znannya, Osnovy, Maksymum, and others
Educational services (higher educational establishments of the 4th accreditation level)	979	Shevtchenko KNU, Kyiv-Mohyla Academy NU, Franko LNU, and others

Source: author's compilation based on [16; 17; 18; 19].

Opportunities and Perspectives of Using Alternative Strategies by Ukrainian Enterprises to Enter the International Services Market

Proceeding from the analysis of competitive advantages, national companies have opportunities to access the international services market. At that, they can select one of three alternative strategies: clusterization, outsourcing, or transnationalization.

The use of cluster approach to entry of national companies onto the international services market could be explained with the following arguments: first, the participation in clusters provides companies with the opportunity of getting access to specialized factors of production, workforce and information (due to geographical proximity, availability of permanent private contacts and public relations, the flow of information within clusters is simplified); second, the complementarity of elements and participants in a cluster allows providing high-quality services «in a package», as well as getting a synergy effect of cooperation; third, inside competition among cluster participants is an incentive to improvement of service quality and introduction of innovations; fourth, clusters provide the opportunity to view the services market as a system, and thus, it is easier to investigate cross-sectoral interrelations and search for opportunities to create innovations; fifth, clusters combine four elements of the «Porter's diamond» required for the development of competitive advantages; sixth, the companies within a cluster have more opportunities to lobby interests in administrative authorities.

At the moment, a number of service clusters are functioning in Ukraine, in particular, in the regions of Kamyanets-Podilsk, Khmelnytsk, Ivano-Frankivsk (tourist clusters), and Cherkasy (transport cluster). Nevertheless, there are still no clusters of business services, in particular, IT clusters. It would be feasible to create the latter around Kyiv, where numerous companies of the branch are concentrated (in particular, 20 such companies are members of the Ukrainian Hi-Tech Initiative). The localization coefficient is 1.6 for that region, i. e. it exceeds 1[2]. This indicates the importance of the branch companies for the region and permits to create a cluster. This is also supported by estimation of such an instrument of cluster analysis as index of territory. It equals 3.28 for Kyiv, which is more than 1.25[3]. Such a high index testifies to regional specialization in the given sector.

The mechanism of cluster creation includes selection of key enterprises which would become the basic ones, making a «critical mass». The centre of growth could become the biggest companies of the basic sector, like Infopulse, Activemedia LLC, Altima, and others. At the absence of pronounced leaders, that role could be played by a TNC, for example, Microsoft Ukraine. At that, the cluster's facilitator (i.e. the organization promoting cluster development) could be the association of software producing companies – the Ukrainian Hi-Tech Initiative.

The analysis of the determinants of competitive advantages for the given IT cluster shows that the favourable conditions for clusterization are prevailing practically in all indices (factor terms, demand terms, related and supporting branches). The weak point here is the institutional providing, in particular, the legislation about protection of intellectual property rights and certain types of software, which should be improved.

The cluster could be linked with the international services market by exports of computer and related services. Another important instrument of cluster's

[2] Author's calculations; the localization coefficient is calculated as a ratio of the number of companies of the base branch located in the region to the number of all companies in the region [20: 6].

[3] Author's calculations; the index of territory is calculated as a ratio between the share of regional branch employment in the total employment in the regional economy and the share of national branch employment in the total employment in the national economy [21: 94–95].

relation with the external market is international outsourcing, which could be performed by cluster participants to the order of foreign TNCs. It is worth to note that external contracts could be one of the elements of clusterization strategy and, at the same time, provide an independent strategy for national enterprises to enter the international services market under absence of cluster creations. In the context of outsourcing strategy, the made analysis enables to determine its strong and weak points. The strong points are the following:

- Personnel. According to unofficial data, there are about 50–60 thousand people in Ukraine whose qualification allows them to be involved in the outsourcing of different services. According to Microsoft's survey, Ukraine is rated among the top five countries by the number of certified IT specialists. In addition, there are 51 higher educational establishments for training IT specialists, whereas 35% of total number of students study IT specialties, which creates potential for the development of IT-outsourcing. The National University «Kyiv Polytechnic Institute» annually increases admission to the faculties of computer sciences by 10–15% [22; 23: 6].
- Relatively low labour costs, which still are a decisive factor in choosing a TNC's outsourcer. The survey of average wages of IT specialists shows that by this indicator Ukraine outperforms only Vietnam ($1850 and $1289 respectively). In addition, the major competitors of Ukraine in terms of labour costs on the international outsourcing market are Bulgaria ($1853), Philippines ($1857) and India ($2083) [24].
- Qualification, focus on technical sophistication and creative approach. Unlike Indian specialists, who specialize on performing standard, routine outsourcing operations of fixed complexity level, Ukrainian outsourcers are characterized by creative approach, higher level of technical skills, and application of innovations in programming.
- Solid educational and research base. The literacy rate in Ukraine is 98% (in India – 52%), and 87% of people in our country get higher education. The educational system was inherited from the USSR, where much attention was focused on such applied subjects as physics and mathematics, which develop logical thinking necessary for the work in the area of IT outsourcing. At the same time, Ukraine is world-known for such branches of science as mathematics, physics, computer science, biology, electric welding, and space sciences.
- Location in the centre of Europe, and the European culture, which encourages attraction of Western European clients; simplification of visa procedures for foreigners, and cancellation of visa regime for EU residents.
- Availability of associations that support the development of outsourcing (Ukrainian Hi-Tech Initiative, Association of Software Producers, Association of IT Companies of Ukraine).

At the same time, the disadvantages of Ukrainian outsourcers are the following: entrepreneurial and managerial skills (lack of experts on project management to manage big outsourcing projects within budget and time constraints); language barrier (poor level of English language, lack of outsourcing specialists having good command of German and French languages (to fulfil orders of European TNCs); relatively high communication costs (the cost of 100 Kbit/sec broadband Internet-connection is $16 dollars in Ukraine, while in the USA it is $0.49, in South Korea – $0.08, in India – from $1 to $9 (depending on the region) [25]; absence of a single powerful organization that would successfully lobby the interests of Ukrainian outsourcers (like the Indian Association NASSCOM); dispersion of outsourcing companies and their small sizes, which does not allow to perform large-scale projects, which poses a threat of being taken over by big companies (TNC); lack of agencies on certification of IT-companies (in Ukraine there is a limited number of institutions that perform ISO 9000 certification, and there are no agencies performing CMM certification); poor institutional support (lack of specialized legislation, problem of intellectual property rights protection, etc).

The emergence of the new trends on the international outsourcing market provides certain opportunities for national providers of outsourcing contracts, in particular:

- Increased complexity of outsourcing orders. This will encourage the development of national outsourcers, whose strength is the focus at technical sophistication and creative approach. The Ukrainian IT-outsourcing specializes on antivirus, scientific software, system integration, accounting software, and web-development. In addition to software outsourcing, national companies can concentrate at logistics outsourcing (in transport, storage and forwarding activities) due to developed sphere of transport services, and R&D outsourcing due to powerful education and research base.
- Increased demand of international corporations for outsourcing of specialized software, which is developed to specific order. It creates the opportunities for national outsourcers to apply the «Blue Ocean» strategy.
- Lack of IT-experts in India in connection with great amounts of orders. According to the NASSCOM, by 2010 the difference between demand and supply of IT-specialists will make 500 thousand jobs [26]. This preconditions the transfer of western TNCs, as well as Indian corporations, to countries of Eastern Europe including Ukraine.

The principal threat for the development of national outsourcing market is the «brain drain». According to estimations of the Ukrainian Association of Software Producers [22], 2.5 thousands of IT-experts leave Ukraine every year. Another threat is the turning of Ukraine into the market of cheap labour for outsourcing projects.

In the context of enhancing strengths and minimizing weaknesses of national outsourcers for successful access to the international services market, it is very important to do the following: to create and urge the activity of training centres; to consolidate small branch enterprises in order to get significant outsourcing orders well-budgeted by TNCs (under absence of clusters); to establish close relations among outsourcing companies and universities, to organize student trainings and internships in those companies and to employ the best of them; to certify outsourcing companies according to the standards of ISO 9000, CMM, CP3M; to specialize on certain outsourcing niche, to use the strategy of «Blue Ocean» in order to avoid labour cheapening; to use outsourcing e-markets, which will allow to (a) place project offers on web-sites (which will increase chances of finding potential partners), (b) target advertising as specific audience and (c) provide potential clients with maximum information about the outsourcer's activity; to take part in international exhibitions and seminars on outsourcing (for example, in the most significant International Exhibition of Information and Telecommunication Technologies CeBIT held annually in Germany).

The transnationalization strategy stipulates for access of national companies to the international services market by means of commercial presence and for playing an active role in the international trade in services. Unfortunately, the Ukrainian services market is so far notable for its transnationalization asymmetry, since it hosts foreign TNCs instead of taking an active position in this mode of delivery. This situation contributes to searching for the ways to enter the international services market through cooperation with TNCs (outsourcing, franchising, international strategic alliances, joint ventures).

In spite of the fact that not a single TNC of Ukrainian origin has been officially registered so far, certain preconditions have already been created, including the following: a) financial reporting has been adapted to international standards; b) a number of national companies purchased assets abroad, in particular, System Capital Management Corporation – in Italy, Switzerland and Germany (in the branches of telecommunications, transport and construction services), the Pryvat Group – in Russia, Georgia and Latvia; the Ukrainian industrial capital is present abroad; c) the volumes of trade in shares of big companies at the First Stock Exchange Trade System has considerably increased; the consolidation in a number of services spheres is promising, primarily in banking (to withstand take-overs of foreign TNCs) and business services (to generate more orders from foreign customers).

The formation of transnationalization strategy of Ukrainian service companies should be based on the determinants of transnationalization of the international services market [27: 84–94]. The latter allow answering the following strategic questions: Which companies have the potential to be transformed into TNCs? In which branches is it feasible to create TNCs of Ukrainian origin? Which host markets to access through commercial presence?

Thus, in particular, the analysis of the determinant «size of company and its growth rate» showed that big companies with high growth rates have the greatest opportunities and motives for transnationalization. In Ukraine this potential pertains, first of all, to the industrial and financial groups (IFG), like Interpipe

Corporation, the interests of which include banking, media, trade and intermediary services, System Capital Management (SCM) – financial and telecommunication services, and the Pryvat Group (financial, transport, telecommunication services, and refuelling station services).

Among the biggest corporations in terms of assets, the potential for transforming into TNCs have those the Tobin coefficient for which is greater than 1 [28: 33–40]. In particular, these are JSC Ukrtelecom (telecommunication services), Quiza Trade (trade services), Epicentre (trade services), T.M.M. Company (construction services), JSC CB Nadra (banking services), and JSC Mostobud (construction and engineering services) (Table 3). The corporations with highest growth rates have similar potential; in particular, they include Interpipe (343%), Epicentre (128%) and Zoloti Vorota (266%).

Table 3.

Biggest companies on the services market of Ukraine, 2007

	Name	Sphere	Assets, UAH mn	Market value, UAH mn	Growth rate, %	Q-ratio
1.	JSC Ukrtelecom	telecommunication services	12258.47	22857.2	1.44	1.8
2.	Quiza trade (network «Velyka Kyshenya»)	trade services	736.93	3283.8	32.25	4.4
3.	Interpipe	banking and media services	1475.86	na	343.03	na
4.	Epicentre	trade services	1035.9	3631.3	127.62	3.5
5.	T.M.M. Company	construction services	1725.14	2357.79	43.30	1.35
6.	JS CB Ukrsotsbank	banking services	17531	13564.5	na	0.77
7.	JSC CB Nadra	banking services	10294	12296.3	na	1.19
8.	Zoloti Vorota Corporation	construction services	379.62	na	265.78	na
9.	JSC Mostobud	construction and engineering services	519.2	1241.07	34.98	2.39
10.	Lemtrans	transport services	1054.3	na	13.62	na

Source: own calculations based on [29: 34–49; 30: 26–31; 31].

To detect the branch-wise directions of transnationalization, such a determinant as branch concentration should be applied. According to the analysis, the TNCs are feasible to be created in the branches with highest concentration on the international services market, including trade, transport, business, electricity, and water supply services. Among the national companies operating in the named areas, worth mentioning are the SCM subdivision and DTEK Corporation. The latter declared its intentions to become the leading player on the Eastern European market of electricity supply services and diversify its activity in the direction of water supply services (growth rate is 33.41%) [32:23]. Similar potential in the sphere of trade services have Quisa Trade and Epicenter.

The TNC's decision on accessing the services market of any country is usually based on such transnationalization determinants as business presence of the service TNC's clients in the host country, cultural peculiarities, and openness of the host markets. The level of business presence of Ukraine on the markets of host countries could be determined by the amount of accumulated FDIs from Ukraine. According to Ukrainian State Statistics Committee, greatest investments were made to Russia ($116.4mn), Poland ($25.9 mn), Great Britain ($13.9mn), Spain ($13.8mn), Armenia ($11.3mn), Latvia ($8.4mn), the USA ($5.7mn), Moldova ($4.3mn), and Switzerland ($4.3mn) [10]. For the motive of «following the client», which dominates in service TNCs, the national companies are expected to enter the markets of the named countries. National companies could find promising such host countries as Georgia, Latvia, Switzerland, Russia, Hungary, Poland, and the USA, where Ukrainian service companies have control over local enterprises. In particular, the Pryvat Group controls the Georgian TaoBank (75%), Latvian Paritate (95.06%) and Russian Moskomprivatbank; the Finance and Credit Group controls Swiss Ferrexpo AG, Vorskla Steel AG; the SCM Group has control over Swiss Leman Commodities S.A.; Industrialnyy Soyuz Donbasu (Donbas Industrial Union) – over Hungarian Dunaferr, Polish plant Huta Czstochowa, Swiss Duferco International Trading Holding, and the American plant Sparrows Point. In order to enter the international services market by means of commercial presence, the Ukrainian companies find as most promising the countries with the most open services markets, such as those of Estonia, Moldova, Bulgaria, Georgia, and Latvia. It is very important to enter the services markets through commercial presence in the countries of Central and Eastern Europe close to Ukraine in terms of their cultural determinants [27:85], level of economic development and similar structure of demand. With respect to cultural dimensions (collectivism, gender factor, power distance, uncertainty avoidance), Ukraine belongs to a group of Eastern European countries along with Albany, Kazakhstan, Hungary, Poland, Russia, Slovenia, Greece, and Georgia. With respect to some cultural dimensions (like collectivism, power distance, uncertainty avoidance), Ukraine is similar to Latin American countries. These countries could become a platform for transnational partnerships with national companies, as well as for international strategic alliances and joint ventures.

Conclusions

Therefore, Ukrainian companies have certain competitive advantages, and they have developed the potential to enter the international services market. At that, the national enterprises should perform a number of tasks, in particular, diversify the activities of enterprises in the direction of science-intensive services, expand their export range; in view of intensified market competition – improve the quality of services, provide them «in package», and perform certification according to international standards; increase outsourcing potential of the national outsourcer enterprises; improve the information and telecommunications infrastructure; consolidate enterprises of the branch; participate in international strategic alliances; national service companies should access world stock exchanges, thus increasing their own reputation at the international services market; from own transnational capital in order to enter the international services market by means of commercial presence.

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