

# CONTRIBUTIONS OF SERVICE TO ECONOMIC DEVELOPMENT: THE NIGERIAN EXPERIENCE

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## Abstract

*The paper examines the contributions of service to the development of Nigerian economy for the period between 2002 to 2012. The study utilizes descriptive research to obtain secondary data from the World Bank (Africa Development Indicators [ADI]) for the period under study. The service data were sourced from transport, telecommunication, wholesale and retail trade, hotel and restaurants, post and financial institutions sub-sectors. Findings reveal that of the major contributors to the service output, wholesale and retail trade sub-sector makes the most pronounced contribution to economic development. This is followed by the financial institutions, transport, telecommunication, hotel and restaurants respectively. Descriptive statistical tools like Pie chart, histogram, percentages, tables and graphs are utilized in analyzing the data obtained. Findings also reveal that for the period under review, the contributions of service sector to economic development rises from 20.92percent in 2002 to 34.93percent in 2012. Based on these findings, it is concluded that the service sector contributes significantly to the development of Nigerian economy. In light of the above the study recommended that Government should redirect its investments and idle funds to the sector as this will further boost the output from the sector.*

**Keywords:** *Services, Contribution, Nigerian Economy.*

## Introduction

The role of the service sector in economic development of a nation is very crucial. Even in advanced economies like Britain and USA, the service sector drives the economy. According to Lamb, Hair and McDaniel (2004), the service sector substantially influences the US economy, contributing 76percent of the U.S Gross Domestic Product and 79percent of employment.

Collaborating the above fact, Oyejide and Bankole, (2001) observed that the service sector in the 90s witnessed an impressive expansion, contributing larger a proportion to the Gross Domestic Product (GDP) of several countries. The sector provides important auxiliary outputs to manufacturing firms that increasingly depend on external sourcing of such basic inputs as design financing, communication, and transportation (Oyejide and Bankole, 2001).

What is more, the sector helps to provide a healthy workforce for the economy. Cali, Ellis and Velde (2008), believe that an efficient and equitable

health service sector is not only a development objective but also a fundamental driver of growth and poverty reduction via its macro as well as micro economics effects.

Despite the numerous contributions made by services to economic development, it appears that the Nigerian economy has not fully harnessed them due to over-dependence on oil. According to the financial newspaper "Businessday" reported in Ogunkeye (2013), the health of the economy is in danger posed by dwindling oil revenue arising from stagnated production. The paper further states that the revenue from oil and gas sector accounts for 70percent of the FG budget and 90percent of the nation's dollar earnings.

The main thrust of this paper therefore is to examine the contributions of services to economic development and to offer suggestions on the way forward.

## **Review of Related Literature**

### **Service Definition**

Lovelock and Wirtz (2011) define services as economic activities offered by one party to another. Often time-based, performances, bring about desired results to recipients, objects, or other assets for which purchasers have responsibility. In exchange for money, time and effort, service customers expect values from access to goods, labor, professional skills, facilities, networks, and system but do not normally take ownership of any of the physical elements involved.

### **Service Characteristics**

Services regardless of their nature have certain characteristics which make their role in economic development so crucial. They include intangibility, inseparability, variability and perishability (Kotler and Armstrong, 2013, Lovelock and Wirtz, 2011, Kotler, Bowen and Markens, 2010, Kotler and Keller, 2009, Brassington and Pettitt, 2006, Lamb, Hair and McDaniel, 2004, Boone and Kurtz, 1998).

#### **(a) Intangibility**

Intangibility of a service implies that a service unlike a physical product, cannot be seen, tested, felt, heard or smelled before they are bought. This characteristic of a service often prevents buyers from

judging the quality of a service before hand. It equally explains why a service provider would not allow a customer to experience a service before it is purchased.

This situation causes doubt in the mind of a consumer which may hinder his chances of buying the service. Service providers are therefore advised to make their services as tangible as possible so as to send the right signal about quality.

**(b) Inseparability**

This is another important characteristic of a service. It means that customers are part of the product and that the two must be present for a service to occur. An implication of this is that customers and the employees must understand the service delivery system because they co-produce the service. In a restaurant for instance, customers must understand the menu items in order to be served the dish they expect.

**(c) Variability**

Inconsistency is another feature of a service product. Inconsistency in service makes it difficult to establish standard, because services need personal touch. Absence of variability brings about consistency which is a key factor in the success of a service business. In a service business, several customers are appealed to each presenting new needs and desires.

**(d) Perishability**

Perishability as a characteristic of a service stresses the point that services cannot be stored for future use but are consumed as they are produced. It also implies that their production are not standardized. Any unused or underused service will be wasted. The need to balance demand and supply of a service calls for the use of extra counters for peak periods, extension of business hours, reduction in time-taken to service individual customers as well prior reservation/appointment.

### **Growth of Services**

Bhandari and Sharma (2009) attributed the growth of services to the economic development of society and the socio-cultural changes that accompany it. They include:

**(a) Consumer Affluence**

As the income of a consumer increases, he or she is enable to take on higher tastes, joins clubs, seeks improved health, domestic, travel,

entertainment, investment, retailing and repairs services etc at a rate faster than before.

**(b) Working women**

Arising from the environmental changes experienced in recent times, more and more women are able to penetrate into occupations which before now were dominated by men.

This development has taken much of their time from traditional role of home keeping. These busier and more monied women need services like domestic activities, fast food restaurants, marriage counseling, personal care, financial services etc. They also provide life insurance companies opportunities to sell two policies to a family. These culminated in the demand for more services.

**(c) Double Income No kids**

Another reason for the growth of services is the emergence of double income no kids (DINK). These are working couples who prefer to postpone parenthood plans either temporarily or permanently in order to avoid getting involved with commitments at home and demand on their time that could result in slowing down their career plans and ambitions.

The avoidance of these commitments leave them with more income to demand for enhanced services like entertainment, hotels and restaurants, career institutes, domestic services, personal care etc.

**(d) Leisure time**

There exist leisure hours for utilization. Some people would want to spend theirs for entertainment, travelling etc while others spend theirs enhancing their career prospects. They would therefore need education, distance learning and part-time learning services. This has therefore led to the growth of services in recent times.

**(e) Greater Life Expectancy**

Life expectancy of people has significantly increased in most part of the world except few developing countries (World Development Report and World Human Resource Index). This is attributed to the improvement in medical technology and greater awareness about health and education. Greater life expectancy therefore calls for more services in hospitals, nursing homes, entertainment, leisure services, investment banking etc.

**(f) Product Innovations**

In recent times most consumers have become wealthier, educated and sophisticated. They are therefore more alert to quality than cost. To meet these challenges, manufacturers focus their attention on quality improvement, innovations which lead to the creation of more services

like servicing services, repairs, computer, training and development, and education etc.

**(g) Product Complexity**

Most consumers have travelled far and wide either for education or business. In the process, they are exposed to foreign tastes that require complex products for satisfaction. Examples are water purifiers, microwaves oven, computers etc. These products need skilled specialists for maintenance as well as their expert advice and consultancy services etc.

**(h) Complexity of Life**

Certain products and services consumed or used by man result in making his life comfortable and complex. Also socio-economic, psycho-political, technological changes have resulted in making life more complex. These have given birth to services like legal and tax consulting, professional services, airlines, courier services, insurance, banking etc.

**(i) New Young Youth**

Every generation has its distinctive characteristics that differentiate its from another. The areas of differences could be in terms of their living conditions/styles, maturity, thinking, attributes, behavior, beliefs, satisfactions, performance, values etc. Each of these changes present new services like entertainment, fast food, computers, travel, picnic resorts etc to satisfy.

**(j) Resource Scarcity and Ecology**

Certain environmental explorations have resulted in scarcity of essential natural resources. Services like pollution control services, car pools, water management etc have sprung up to conserve them.

**(k) Corporate Crowd**

An another important reason for the growth of services is the emergence of corporate crowd. This is a world wide concept which arises in response to the need to check the problems created by globalization, privatization, liberalization and urbanization which need some services like hotels and restaurants, banking, insurance, travel and tourism, advertising, airlines, courier services etc to check.

**Importance of Services**

- (a) Services directly through effects of national incomes and employment often constitute the main source of income even in low income countries.

- (b) Directly, services affect development through effects on range and quality of services, including social services such as health and education.
- (c) Services also affect investment climate including transport system, communication service, energy services etc.
- (d) The importance of services can also be felt through its role in diversifying the economy (Adung, 2007, Maltoo and Paytom 2007, Qureshi and Velde 2007 cited in Cali, Ellis and Velde (2008))

## Methodology

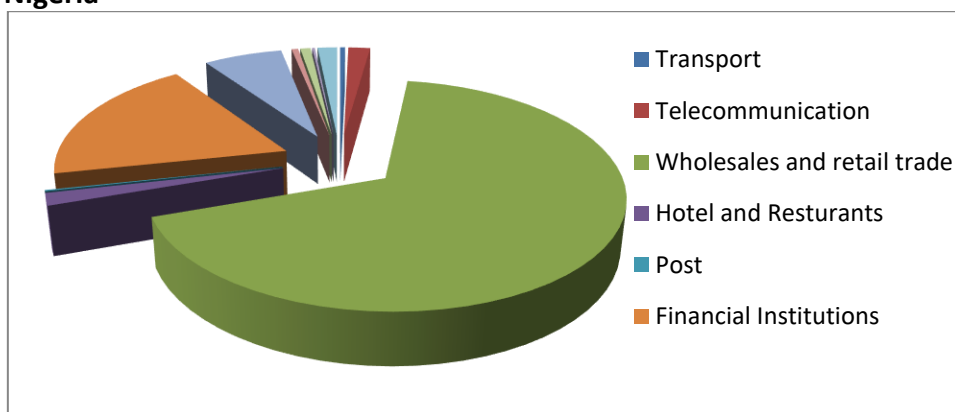
The study examined the contributions of services to economic development in Nigeria from 2002 to 2012. The study adopted a descriptive research in which secondary data were gathered from World Bank (ADI) for the period under review. The data obtained were analyzed descriptively using statistical tools like pie chart, histogram, tables, percentages and graphs.

## Results and findings

### Analysis of the Contributions of the Service Sector to the Growth of the Nigerian Economy

The analysis begins with the assessment of various sub sectors under the service sector. This is to enable the study ascertain the major contributors to the service sector output in Nigeria and hence providing insight on how to analyze the general contributions of the service sector to the economy

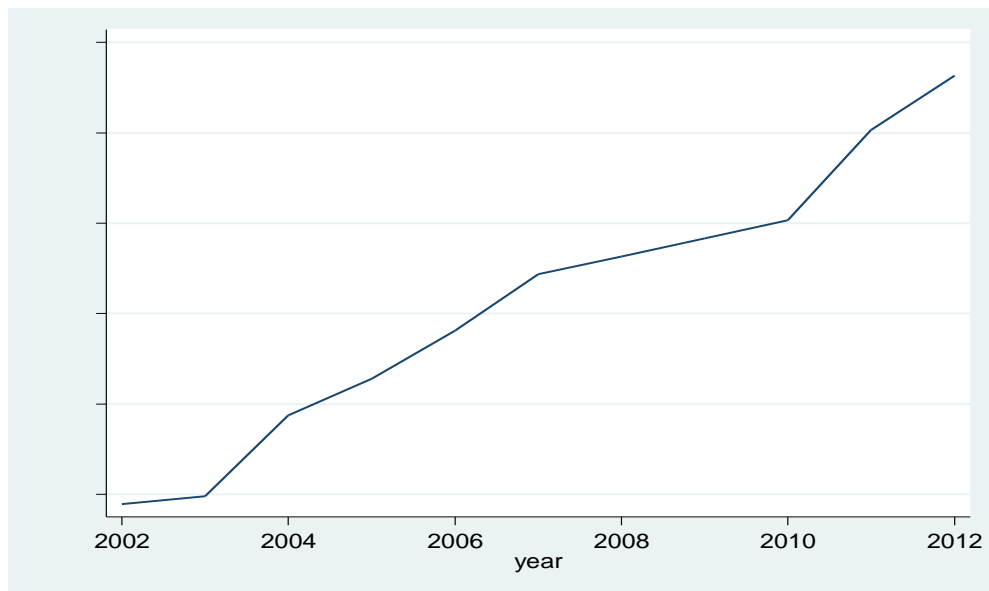
**Figure 1: Contributions of various activity Sub-Sectors to Service Sector in Nigeria**



**Source:** Computed from World Bank (ADI), 2012

Figure 1 shows the contributions of important sectors to the service sector in Nigeria. The pie chart indicates that wholesale and retail trade sub-sector has been the most pronounced contributor to the total service sector in Nigeria. This is followed by the financial institutions, then transport, telecommunication, hotel and restaurants in that order. This is an indication that the prime mover of the service sector in Nigeria is the wholesale and retail services.

**Figure 2: Contributions of Service Sector Value Added to the GDP**



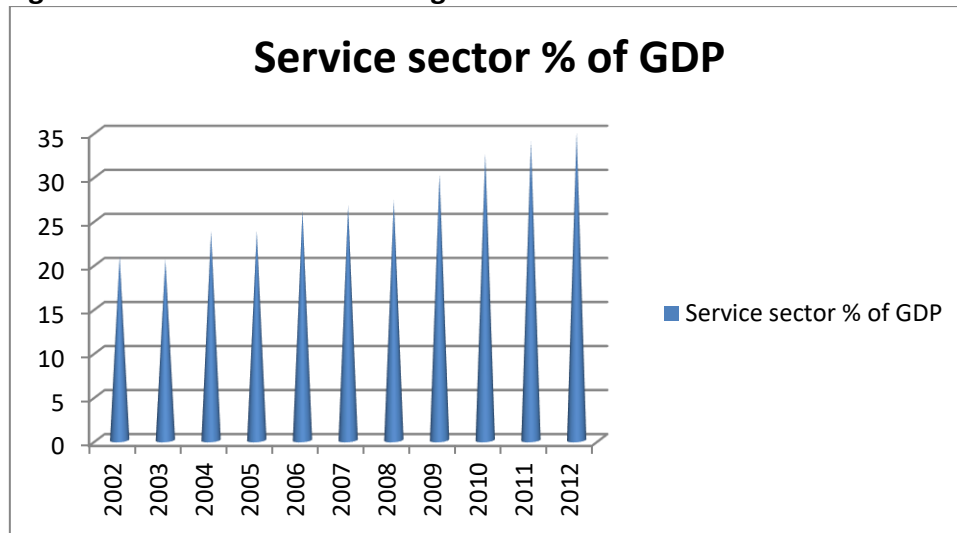
**Source:** Computed from World Bank (ADI), 2012

Figure 2 shows the trend of the contributions of the service sector to the growth of the Nigerian economy. The data used for the line plot are the value added to the service sector to the GDP during the period under review. The line trend graph indicates that there is an upward trend in the contributions of the service sector to the GDP.

More importantly, the slope of the graph is positive. This is an indication that the contributions of the service sector have been rising during the period under review. It can be deduced from the graph that between 2005 and 2010, the slope appears to be gentle compared to the previous years. This is an indication that the service sector contributions during these years were rising at a decreasing rate. But notwithstanding, the period between 2010 to 2012, the slope becomes steeper again and the contributions start to rise at an increasing rate. The fluctuations in the trend might not be unconnected with the dynamism in important macroeconomic variables in the country

such as exchange rate, money supply, interest rate and inflation rate. All these variables are prone to CBN intervention and the attendant effect is reflected on the behavior of the service sector.

**Figure 3 Service Sector Percentage of the GDP in Terms of Value Added**



**Source:** Computed from World Bank (ADI), 2012

However, in terms of percentages, the contributions of the service sector to the GDP are further shown through figure 3.

The cones in the figure above show the contributions of the service sector in terms of the value added to the GDP. The cones heights represent the percentage contributions of the service sector to the GDP for various years between 2002 and 2012. This analysis further corroborates the result in figure 2 that the contributions have been on the rising trend.

## Conclusion and Recommendations

### Conclusion

The service sector has proved to be a major contributor to economic development in Nigeria judging from its inputs to the Gross Domestic Product for the period under review. The sector's share of GDP rises from 20.92percent in 2002 to 34.93percent in 2012. This shows that the sector's contributions are on the rising trend.



**Recommendations**

- i. The Federal Government is advised to liberalize the service sector in view of the huge contributions it makes to economic development. This is based on the fact that imports of services can significantly improve the performance of the sector by bringing greater competition, international best practices, and better skills and technologies.
- ii. It will also help in creating opportunities for countries to expand their output of services where they have competitive advantage thereby creating jobs and contributing more to GDP and generating foreign exchange.
- iii. The Government is also enjoined to redirect its investments and idle funds to the sector as this will further boost the output from the sector.
- iv. The Government should also improve on capacity building for the sector like educational and health systems as a well educated and healthy worker will be motivated for greater productivity.

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## APPENDIX

**Table 1: World Bank Data on Contribution of Services to Economic Development of Nigeria Between 2008 to 2013**

YEAR	2008	2009	2010	2011	2012	2013
Transport	289.1	332.4	382.3	458.8	550.5	594.8
Telecommunication	1301.9	1366.9	1448.8	1521.3	1600.3	1698
Wholesales and retail trade	48967.9	49384.1	50124.8	51628.6	52919.3	53766
Hotel and Restaurants	1291.2	1320.9	1360.5	1404	1453.2	1506.9
Post	120.1	124.9	131.8	144	131.4	162.8
Financial Institutions	13567.7	14110.5	14703.1	15436.2	15978.6	16601.7
Real Estate	4671.8	4718.5	5018.5	5318.1	5519.5	5734.2
Business Service	394.4	408	422.9	444	463.6	483.5
Education	609.8	627.5	638.3	649.2	660	670.9
Health	159.8	164.4	167.2	170.1	172.7	175.7
Other Services	1156.3	1329.8	1529.2	1835.1	2202.1	2378.2

**Source:** Computed from World Bank (ADI), 2012

**Table 2: Service Contributions and Percentage of GDP**

YEAR	SERVICE	% OF GDP
2002	1.44579E+12	20.92
2003	1.48931E+12	20.54
2004	1.93528E+12	23.70
2005	2.14071E+12	23.74
2006	2.40626E+12	26.09
2007	2.71652E+12	26.63
2008	2.81652E+12	27.23
2009	2.91652E+12	30.23
2010	3.01652E+12	32.53
2011	3.51652E+12	33.93
2012	3.81652E+12	34.93

**Source:** Computed from World Bank (ADI), 2012