Research Paper

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AN ANALYSIS OF SERVICE SECTOR AND ITS CONTRIBUTION TO NAGALAND'S ECONOMY

Medongulie Zatsu[1] | [1]Research Scholar, Department of Economics, Nagaland University, Hqrs. Lumami, Nagaland, India

Dr. Y. Temjenzulu Jamir[2] | [2]Assistant Professor, Department of Economics, Nagaland University, Hqrs. Lumami, Nagaland, India

═══ **ABSTRACT** ═══

Nagaland is basically an agricultural economy but over the year's service sector has emerged as an important activity in generating income and providing employment. Service sector contributes the highest to State Gross Domestic Product and as per the Nagaland Economic Survey 2014-15, service sector contributed 59.75 percent to SGDP in 2012-13. This paper examines the growth and pattern of service sector and its contribution to employment and income generation using 233 respondents (enterprises) selected through random sampling from three towns of Nagaland viz. Dimapur, Kohima and Phek. Micro enterprises dominate the service sector in Nagaland with 68 percent of the total and within the service sector 70 percent are retail shops. The study also finds that there is positive impact of service sector in generating income and employment. While the Small and Medium enterprises contribute most in terms of employment, micro and small enterprises generate the highest income among the service sector.

KEY WORDS: Employment, income, service sector.

INTRODUCTION

Economic development has been associated with structural changes in the national economies. In a three sector economy, demand for services is a function of the outputs generated by agriculture and industry sectors. Hence, this sector alone cannot sustain its growth for the long run due to the backward and forward linkages of agricultural and industrial sectors. Service sector has been the main contributor to the GDP not only in developed economies like USA (71%), Japan (60%), and UK (67%) but also in developing economies like China (33%), Indonesia (41%), Pakistan (50%) and Brazil (56%).

India is the second fastest growing services economy with annual growth rate of around 10 percent in 2015-16. The share of Service sector in the real Gross Domestic Product (GDP) in India has surpassed that of agriculture and industry at a relatively faster pace as compared to other industrialized nations. Service sector plays the key role in developed and developing economies. Thus, considerable efforts are made to strengthen the Service sector. India's share in global services exports was 3.2 per cent in 2014-15, double that of its merchandise exports in global merchandise exports at 1.7 per cent. In India over 50% of the GDP is being contributed by services, although number in the service workforce is 30-40% implying that an increasing number of people, mostly in the rural area, are being marginalized, with increase in technology adoption, productivity and

efficiencies, and with the shift of occupation and output towards service sector. As per the results of Fourth All India Census of MSME sector, service sector constituted 68.21% and generates employment of 60.25%.

In Nagaland among the three sectors - agriculture, industry and service, service sector contributed 59.99 % in 2011-12 and 59.75 % in 2012-13 to the State GDP, as per the Nagaland Economic Survey, 2014-15. Within the service sector apart from public administration the other services like transport, communications, real estate, banking and insurance, trade, hotels and restaurants etc contributed almost 72 % in 2011-12 and 73 % in 2012-13. The contribution of these services to SGDP was 43.30 % in 2011-12 and 43.58 % in 2012-13.

LITERATURE REVIEW

The contribution of the service sector has increased very rapidly in India's GDP, with many foreign consumers showing interest in the country's service exports. The Government of India recognizes the importance of promoting growth in this area and is creating an enabling environment that will give a further push to sectors such as healthcare, tourism, communications, information technology, etc.

OCED, 2005 has remarked that the services sector is key to stronger growth and employment performance. OCED countries are also confronted and are concerned with a growing globalisation and increasing technological change, which has raised doubts about the capacity of economies to create new jobs. It also pointed out that many services sectors have experienced rapid employment growth, though only some have experienced rapid productivity growth. The prospects of growth and challenges differ across activities. Their growth depends on services markets, productivity growth, degree of regulation and scope for competition.

Rasure (2008) in his article "Growing Service sector under WTO regime" found in the rest of the world, the share of the Service sector in the GDP of the country has risen quite sharply. He suggested that, the Service sector should make best efforts in making the required

boost to the firm and to succeed, the firm should try to come out with innovative measures and schemes for fulfilling and satisfying long-term relationship. The SMEs has shown a positive impact on economic development as it creates new ideas, job opportunities and producing innovative products and services (Gujrati, 2013).

There is general assumption that small and medium scale enterprise is the main contributor for employment generation and value added in any economy. Kongolo (2010) found that small and medium enterprises sector creates the majority of the country's net new employments. Ferdman (2007) in her paper presented to the United Nations stated that all authorities recognize the importance of raising the standard of living by job creation and yet increased employment is not enough. Therefore stresses that the objective should be creating decent and productive employment. Persistent efforts have been made to promote small-scale industries in India as a source of large-scale employment generation and equitable distribution of income (Nath, 1998).

Ali et al (2014) also found that small scale enterprises can play very important role in the economic growth, employment generation and poverty alleviation in Pakistan. Modern economy requires the presence of SMEs for a balanced functioning, as they are adapting more quickly to changes in economic and social conditions, activating almost in all sectors of the economy (Ciubotariu, 2013).

FINDINGS
1. Growth

From 1980 to 2014, 233 units were established and the Compound Annual Growth Rate (CAGR) from 1980 to 2014 is 12.31%. Between 1999 and 2000 there was a 51 % increase in the number of enterprises and from there on the CAGR grew at 10.24 %. The State government's initiative like implementation of the State Industrial Policy of 2000, declaration of 2010-11 as year of the entrepreneur, the centrally sponsored schemes and programmes like Prime Minister's Employment Guarantee Programme (PMEGP) etc. greatly contributed to the growth of service sector in Nagaland.

Fig. 1: Cumulative growth trend of the service sector
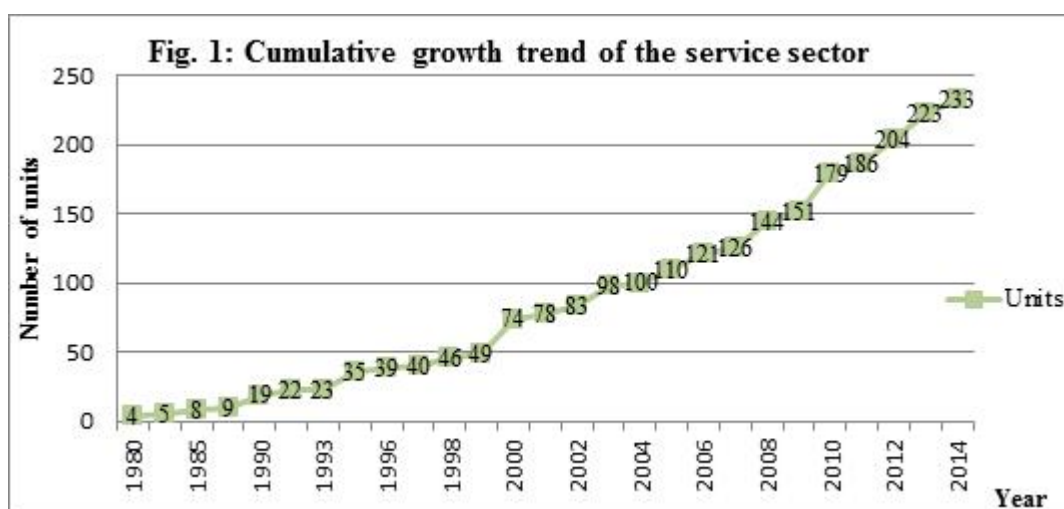
2. Ownership pattern

Organisational form of a firm or enterprise means the type of ownership like proprietorship, partnership and cooperatives, etc. In this paper, organisational form of enterprises is shown as sole proprietorship, partnership, cooperative, family enterprise and self-help group. In the service sector, more than 91% are owned by sole proprietorship, and the remaining 9% are owned by partnership, family enterprises and self help group.

The distribution of ownership by sex implies gender-wise ownership like male and female ownership of business establishments. The dominance of male ownership is prevalent in service sector with 81% followed by female 11% and 8% is owned and managed by others. Enterprises that are owned and managed by partnership, family and self help are categorised as '*others*'.

Age composition of the owners shows that 9% of the enterprises are owned by entrepreneurs in the age group of 20-30 years, 25% in the age group of 30-40 years and 33% each in the age group of 40-50 years and 50 years and above.

The distribution of ownership by educational status indicates that 23% are below matric, 27% matriculate, 15% is 10+2 level, 31% graduate and 4% post graduate.

3. Type and activity wise of enterprises

On the type of enterprises, 68% are in the category of micro enterprise, 28% in small enterprise and the rest 4% under medium enterprises. A further break-up of micro enterprises shows that enterprises having investment upto Rupees five lakh constitutes

about 89 % of the total micro enterprises and the rest 12% fall within of Rupees five to 10 lakh investment. Likewise under the small enterprises, enterprises having an investment of Rupees ten to hundred and five lakh constituted about 86% and enterprises having an investment of Rupees hundred and five to two hundred lakh constituted for 14%.

Activity-wise distribution of enterprises shows that 70% of the enterprises are shops, 12.9% are transport, 6% are hotels and 11.1% are of workshops or repairing and maintenance services. The activities under shops includes sale of automobiles and spare parts, bakery goods, cosmetics, electronics, electrical, furniture, garments, grocery, handloom, hardware, medicine, motor parts, musical instruments, pan shop, secondhand goods, sports goods, stationeries & books, variety shop, grocery, etc.

4. Expenditures, Employment and Income

The table below shows the items of expenditures in the service sector. Service sector being a labour intensive sector by nature a large amount of the gross income goes to labour as wages. Wages alone constitutes almost 61% of the total expenditure followed by rent with 14%while electricity, maintenance and miscellaneous expenditures accounts for 25%. Of the total expenditures the expenditures incurred by shops is a little more than half followed by hotels 23%, transport 18% and workshops 9%.

Table 1: Items of expenditure (in Rs)

Items	Shops	Transport	Workshops	Hotels	Total	Percentage
Wages	3756300 (56)	582000 (9)	563500 (8)	1807000 (27)	6708800 (100)	60.56
Rent	1505600 (95)	-	76000 (5)	-	1581600 (100)	14.28
Electricity	279219 (43)	-	58550 (9)	314643 (8)	652412 (100)	5.89
Maintenance	-	1068640 (100)	-	-	1068640 (100)	9.64
Miscellaneous	42600 (4)	328700 (31)	322500 (30)	373214 (35)	1067014 (100)	9.63
Total	5587319 (50)	1979340 (18)	1020550 (9)	2494857 (23)	11078466 (100)	100.00

* Figure in the parenthesis indicates percentage

**Workshops include repair and maintenance of vehicles, computers and other electrical appliances

Table 2 shows the distribution of enterprises on the basis of activities, employment generated, expenditures on wages and income. The activities were categorised under four services viz. retail shops, transportation, workshops (vehicles) and hotels. The total employment generated by the 233 units is 1000 of which shops generate almost half of the total employment with 47%, followed by hotels 29%, workshops 14% and transport 10%. On an average 4.29 persons are employed in each enterprise. The total monthly gross income generated by these 233 enterprises comes to Rs 24,1,90,075 of which 58% is the contribution from shops followed by hotels 26%. The total gross income in a year comes to Rs 29,02,80,900 (Rupees 29 crore two lakh eighty thousand nine hundred). The net monthly income or the retained profits comes to Rs 13,1,11,609 which is 54.20% of the gross monthly income. The remaining 45.80% are the expenditures on rent, wages, transport, raw materials etc. Shops generate the highest monthly net income with 64% followed by hotels with 29% while transport and workshop generated 4% and 3% respectively.

Table 2: Wages, employment and income (in Rs)

	Shops	Transport	Workshops	Hotels	Total
Units	163(70)	30(13)	26(11)	14(6)	233
Emp	474(47)	94(10)	138(14)	294(29)	1000
Average	2.91	3.13	5.30	21	4.29
Wages	3756300(56)	582000(9)	563500(8)	1807000(27)	6708800
Average	7924.68	6191.49	4083.33	6146.29	6708.8
GMI	13969469(58)	2472770(10)	1372550(6)	6375286 (26)	24190075
Average	85702.26	82425.67	52790.38	455377.57	103820.06
NMI	8385750(64)	493430(4)	352000(3)	3880429	13111609
Average	51446.31	16447.67	13538.46	277173.5	56273

* Figure in the parenthesis indicates percentage

**Emp-Employment; GMI-Gross monthly income; NMI-Net monthly income

Table 3: Correlation matrix

	Units	Emp	Wages	GMI	NMI
Units	1				
Emp	0.81471	1			
Wages	0.88142	0.9875	1		
GMI	0.88925	0.9744	0.99709	1	
NMI	0.85739	0.9907	0.99875	0.99567	1

*Emp-Employment; GMI-Gross monthly income; NMI-Net monthly income

The Karl Pearson's Coefficient of Correlation between service sector and employment is found to be $r = +0.815$ which indicates that there is high degree of positive relationship between service sector and employment. The correlation between service sector and gross income is found to be $r = +0.889$ and the correlation between service sector and net income is found to be $r = +0.857$ indicating a high degree of positive relationship.

Table 4: Activity-wise correlation matrix

Activity		Units	Emp	Wages	GMI	NMI
Shops	Units	1				
	Emp	0.87703	1			
	Wages	0.84931	0.99849	1		
	GMI	0.86884	0.99986	0.99927	1	
	NMI	0.87646	0.99999	0.99855	0.99988	1
Transport	Units	1				
	Emp	0.9161	1			
	Wages	0.80739	0.97622	1		
	GMI	0.73251	0.944	0.99308	1	
	NMI	0.30396	0.66043	0.80751	0.8712	1
Workshops	Units	1				
	Emp	0.99254	1			
	Wages	0.98637	0.95895	1		
	GMI	0.97378	0.93878	0.99794	1	
	NMI	0.94125	0.89305	0.98399	0.9934	1
Hotels	Units	1				
	Emp	0.91375	1			
	Wages	0.92491	0.9996	1		
	GMI	0.93091	0.70223	0.72215	1	
	NMI	0.77303	0.44862	0.4738	0.95132	1

*Emp-Employment;**GMI-Gross monthly income;***NMI-Net monthly income

Activity-wise coefficient of correlation shows that service sector and employment in shops is r=+0.877, in transport it is r=+0.916, workshops is r=+0.992 and hotels is r=+0.9.14. In terms of gross income, shops correlation is r=+0.869, transport is r=+0.733, workshops is r=+0.974 and hotels is r=+0.931. Among the activities, employment correlation is highest in the activity of workshops, followed by transport, hotels and shops. In terms of service sector and gross income, the highest is workshops, followed by hotels, and transport at r=+0.732. The overall results reveal that there is high degree of positive impact of service sector in generating employment and income.

Table 5: Correlation matrix on micro enterprise

	Units	Emp	wages	GI	MI
Units	1				
Emp	0.7371	1			
Wages	0.84465	0.98382	1		
GMI	0.99432	0.79452	0.88699	1	
NMI	0.99717	0.70675	0.82173	0.98427	1

*Emp-Employment;**GMI-Gross monthly income;***NMI-Net monthly income

Under micro enterprises, service sector and employment have fairly strong positive correlation with r =+0.737 which is smaller than the overall correlation (r=+0.815) between them. Service sector and gross income have a high positive correlation with r =+0.994 which is greater than the overall correlation (r=+0.889) between them. Similarly, service sector and net income is highly positively correlated with r =+0.997 which is greater than the overall correlation (r=+0.857) between them.

Table 6: Correlation matrix on small enterprise

	Units	Emp	Wages	GMI	NMI
Units	1				
Emp	0.99565	1			
Wages	0.99501	0.99937	1		
GMI	0.9964	0.99996	0.99928	1	
NMI	0.99708	0.98564	0.98527	0.98702	1

*Emp-Employment;**GMI-Gross monthly income;***NMI-Net monthly income

Under small enterprises correlation between service sector and employment is found to be r = +0.996 indicating a high degree of positive relationship and this is greater than the overall correlation (r=+0.815). The service sector and gross income have a high degree of positive correlation with r = +0.996 and also service sector and net income have a high degree of positive correlation with r = +0.997 which is greater than the overall correlation(r=+0.857).

Table 7: Correlation matrix on medium enterprise

	Units	Emp	Wages	GMI	NMI
Units	1				
Emp	0.99964	1			
Wages	0.62053	0.6413	1		
GMI	-0.5606	-0.5382	0.30152	1	
NMI	-0.9774	-0.9714	-0.4409	0.72286	1

*Emp-Employment;**GMI-Gross monthly income;***NMI-Net monthly income

Under medium enterprises correlation between service sector and employment shows that there is high degree of positive relationship with r = +0.999 which is greater than the overall correlation (r=+0.815) however the correlation between service sector and gross income shows a negative relationship with r = -0.561. Likewise, service sector and net income is negatively related with r = -0.977. This indicates that on an average medium enterprise generates the highest number of employment but does not generate enough revenue compared to small and micro enterprises. The reason for medium enterprises making losses is due to high input and transportation cost. Almost 72% of the total expenditure is incurred on raw materials, transportation and miscellaneous.

In terms of employment generation medium enterprises has the strongest positive impact followed by small and micro enterprises. However in terms of gross revenue and net revenue, small enterprises have the strongest positive impact followed by micro and medium enterprises. In fact medium enterprises have a negative correlation with both gross income and net income.

CONCLUSION

The service sector has become a major deciding force as they are consumer centric. It is also envisaged that the growth and performance of services sector and its implications with reference to MSMEs are redefined to have a dynamic outlook so as to create a booming economy. Service sector in Nagaland has witnessed a reasonable growth over the years and its important contribution to employment and income generation cannot be overlooked. However limited access to market, insufficient and lack of bank credit, etc. are some constraints that put hindrances to this sector. Therefore given its huge potential, proper measures should be taken to address the constraints faced by the sector.

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