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Service Sector - Role Played in Economic Development

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Abstract

The services sector has grown phenomenally over the past decades and accounts for more than 60 per cent of gross domestic product (GDP) in the developed economies. The most marked change in the structure of developed economies in the twentieth century, particularly in the later half, has been the transformation from an emphasis on the manufacture of physical goods to the production of intangible services. The work force distribution is also more for service sector. The present study is to identify the role played by service sector in the economic development of any country. India is no exception to this paradigm change. While a little over a decade ago the three main sectors of economic activity-agriculture, industry and services- had roughly equal shares in the GDP, the service sector has now left the other two far behind. According to the national income estimates for 2020, the GDP is 54.77% and 32.33 % share in total work force distribution. The study relates to the service sectors share in GDP and through which increase in Employment rate in service sector. The study also enlightens upon the importance of services in Banking sector, a major contributor in Services sector. Banking is considered as mirror of economy. The study is based on mainly on secondary data from the websites, international journals, and blogs. The study is descriptive and various descriptive statistical methods are followed for better analysis of the data.

Key-words: GDP, Work Force Distribution, Banking Sector.

1. Introduction

One of the first to define services was the American Marketing Association which, as early as in 1960 defined services as “activities, benefits, or satisfactions which are offered for sale, or provided in connection with the sale of goods.”

According to Philip Kotler and Bloom, a service is defined as “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product.”

In 1974, Rathmell suggested the exclusion of the following three activities from the scope of the term services:

1. First, the non-economic transactions.
2. Secondly, the voluntary contributions.
3. Thirdly, those services which are supported exclusively through various forms of Local, state and central taxation.

Unique Characteristics of Services

Services have certain unique characteristics which distinguish them from goods. These unique characteristics are resulting in some implications to the organizations. These characteristics along with associated implications are shown in Table 1.

Table 1 - Service Characteristics and their Implications

SERVICE CHARACTERISTIC	**RESULTING IMPLICATIONS**
1. Intangible: Cannot be seen, felt, tasted or touched	Cannot be inventoried, patented, readily displayed or communicated.
	Pricing is difficult.
2. Heterogenous: No two services are precisely alike.	Service delivery and customer satisfaction depend on employees actions.
	Service quality depends on many uncontrollable factors.
	There is no sure knowledge that the service delivered matches what was planned and promoted.
3. Inseparable: Simultaneous production and consumption of service is usual.	Customers participate in and affect the transaction.
	Customers affect each other.
	Employees affect the service outcome.
	Employees affect the service outcome.
	Decentralization may be essential.
	Mass production is difficult.
4. Perishable: Services cannot be saved, stored, resold, or returned.	It is difficult to synchronize supply and demand with services.
	Services cannot be returned or resold.

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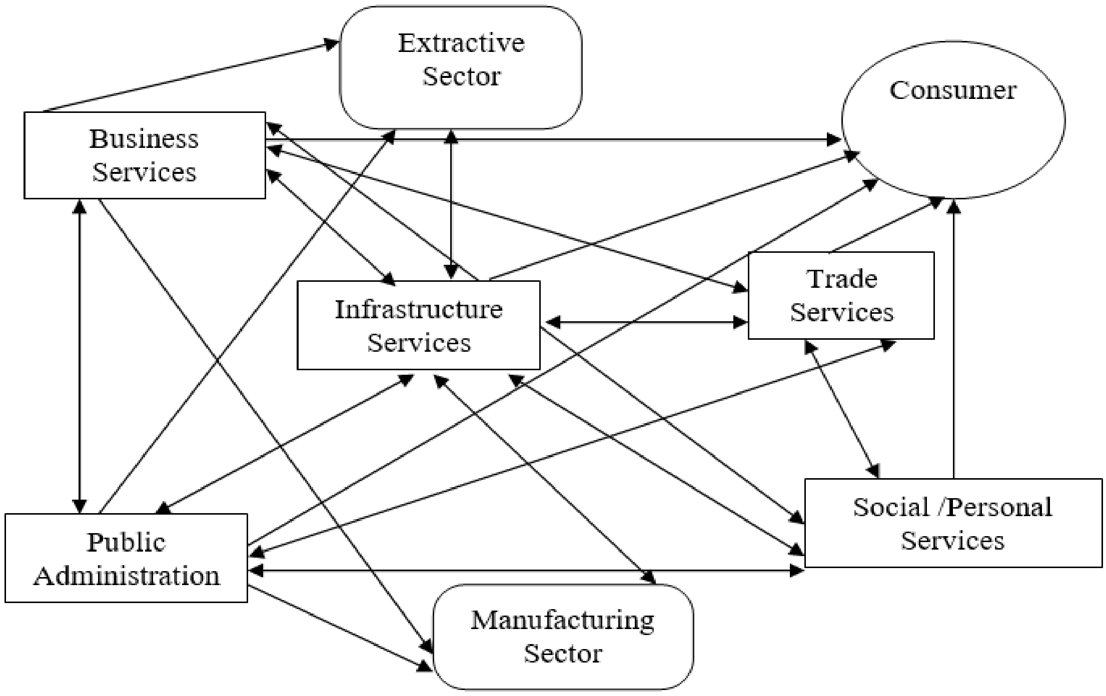
It is obvious that services lie at the very hub of economic activity in any society. Writing about the role of the service sector in world development, Dorothy Riddle formulated the economic model shown in Figure 1.1. This model shows the flow of activity among the three principal sectors of the economy: extractive (mining and farming), manufacturing, and service, which is divided into five subgroups. All activity eventually leads to the consumer. Examples of services in each of five subgroups are:

Figure: 1.1: Interactive Model of an Economy



Source: Dorothy I. Riddle, Service-Led Growth, Praeger, New York, 1986, p.27

Business Services: Consulting, finance, banking.

Trade Services: Retailing, maintenance, repair.

Infrastructure Services: Communications, transportation.

Social/personal Services: Restaurants, health care.

Public administration: Education, government.

Objectives of the Study

1. To identify the role of services sector in strengthening Indian economy.
2. To study the importance of services in banking sector in India.

2. Research Methodology

The data is collected from the secondary sources like websites, blogs, news papers, and international journals. The data is analyzed by using descriptive statistical tools like Average etc.,

3. Literature Review

Rachna S. Singh (2014) has conducted a research, to study the remarkable changes that have been taken in services and its impact in Retail industry. The author wants to study mainly the nature of retail services industry and its future prospects.

D. Amutha, M. Juliet (2017), recognized that the service sector's importance in economic development of India. It also analyzes the service sector's growth and contribution in Indian economy.

Dr.Mrs Thangamani (2015) has observed that 59% of GNP especially the Indian Information Technology, and Information technology enabled services. The study is primarily how the IT and ITES has transformed the business activities in India.

Dr.Medha J. Gupthe (2015) enhances the existence of service sector in the growth of economic development. The study covers tertiary sector. And the share of GDP by this sector in India's over all national income.

Priya Lashmi, Dr. Sandeep Kumar (2012) bring to light that the service sector is the lifeline for the socio economic growth of a country. The study investigates the growth, development, contribution of services sector in Indian economy.

Balasubramanyam, V.N and Virmani, Swati (2018) explored that since 1991 the services sector has grown enormously and became a major part of GDP in Indian Economy. They came across that though all the three sectors manufacturing, agriculture and services grown alongside but the contribution from services is huge.

Bharthi Singh (2012), diagnosed the sustainability of service – led growth in India. The author disclosed that the service-led growth model is sustainable not only from economic perspective but from social and environmental perspectives as well.

Eman Attiah's (2019) revelation from an empirical study on the role of manufacturing and services sector in economic growth of the country. The paper examines the role of manufacturing and service sectors in economic development in the period (1950-2015). It presents raw data from 50 countries, 10 advanced economies and 40 developing countries. The results of the study were the manufacturing sector was the growth engine for many countries.

Ravneet Kaur, Dr. Parmod Kumar Aggarwal (2019) sighted that the contribution of services sector to the economic growth in India. The authors analyzed that the agricultural sector was the main contributor to GDP in 1980's but the services sector has increased and took a prominent place in India's GDP from 2000 onwards.

Aravindan and Punniyamoorthy (1999) made an attempt to develop to measure customer satisfaction and service quality in banking sector in India. Extended from the Brown-Gibson Model used for locational measures, the developed model was tested on the banking service.

Shainesh (1996), made a detailed study in Indian context on banks on service value, which covered satisfaction, service quality and behavioral intentions also.

1. To Identify the Role of Services Sector in Strengthening Indian Economy

The services industry in India includes services like trade, hotels, infrastructure development, financial services, business services etc, An analysis is made to find the importance and share of services in Indian economy through Gross domestic products' share in the total GDP of India from 2010 to 2020.

The table 2 gives you about the insights of percentage shares in GDP of various Sectors in India from 2010 to 2020.

Table 2 - Percentage Share of GDP from Different Sectors in India

Year	Agriculture	Industry	Services.	Others.
2010	17.03	30.73	45.03	7.21
2011	17.19	30.16	45.44	7.21
2012	16.85	29.4	46.3	7.45
2013	17.15	28.4	46.7	7.75
2014	16.79	27.66	47.82	7.73
2015	16.17	27.35	47.78	8.7
2016	16.36	26.62	47.75	9.27
2017	16.36	26.48	47.89	9.27
2018	15.41	26.13	48.81	9.65
2019	15.96	24.48	49.98	9.58
2020	19.9	25.33	54.77	0

Source: statistics times.com

Calculation of Mean and Median for the Services Percentage Share in GDP

Average Mean: The average percentage share of GDP from service sector is 50.105 for all the ten years which the author has selected for analysis. This furnishes that the share of the service sector in GDP is never less than 50% of the total GDP.

Median: The median value of percentage share in GDP from service sector is 47.8. The middle value of the service sector's share in total GDP is 47.8.

Based on the information given in the above table the service sector's GDP's share has increased and a sustainable growth is observed. India's service sector is composed of both global and domestic activities.

Table 3 - Distribution of Work Force in Service Sector

Year	Agriculture	Industry	Services.
2010	51.52	21.81	26.68
2011	48.98	23.49	27.53
2012	47	24.36	28.64
2013	46.36	24.55	29.09
2014	45.84	24.55	29.61
2015	45.67	24.06	30.27
2016	45.14	23.98	30.87
2017	44.05	24.7	31.25
2018	43.33	24.95	31.72
2019	42.39	25.58	32.04
2020	41.49	26.18	32.33

Source: statistics times.com

From the above table we can compare the workforce distribution of different sectors in India from the period 2010 to 2020. Agriculture sector holds major share whereas Services and industry are in second and third place. Even though the agriculture sector has major share but the percentage is decreasing from year to year, compared to services sector workforce percentage.

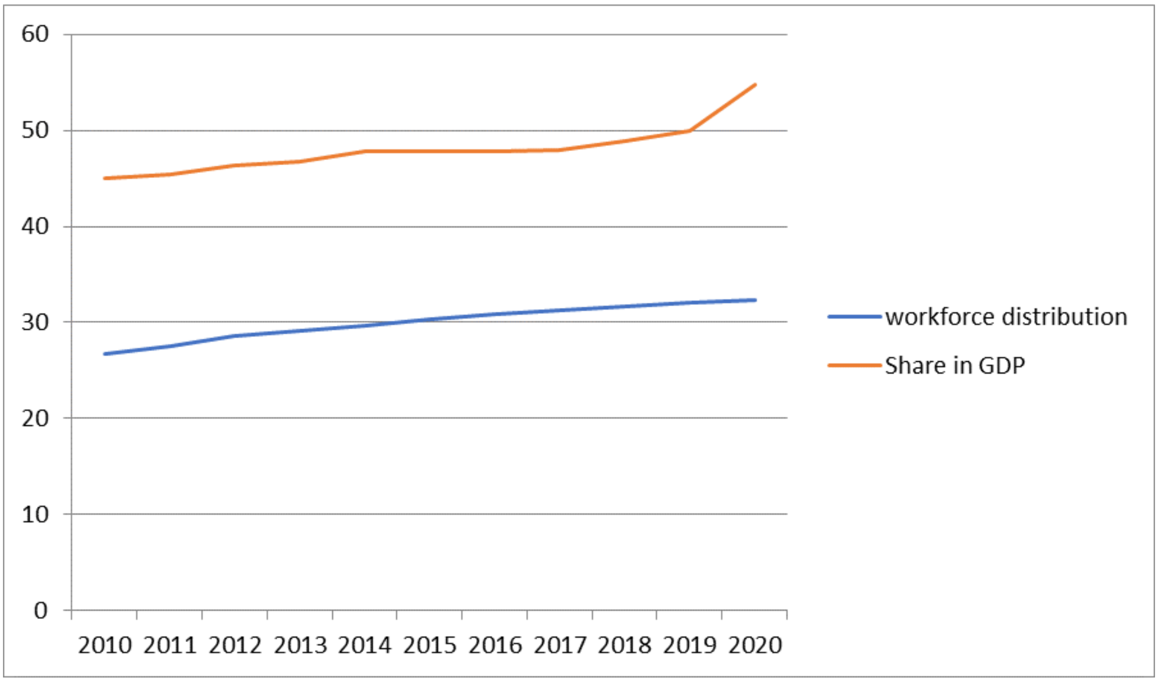
Relationship between Employment percentage and service sectors' GDP.

Coefficient of correlation

Year	Work force distribution	GDP
2010	26.68	45.03
2011	27.53	45.44
2012	28.64	46.3
2013	29.09	46.7
2014	29.61	47.82
2015	30.27	47.78
2016	30.87	47.75
2017	31.25	47.89
2018	31.72	48.81
2019	32.04	49.98
2020	32.33	54.77

Interpretation: To study the relationship between the work force distribution percentage and GDP percentage, coefficient of correlation is calculated and the resultant figure is **0.971375.** This infers that **there is a positive relationship between workforce distribution and GDP percentages. As employment in service sector increases GDP also increases.**

The author has analyzed the relationship between employment percentage and service sector's GDP through graphical representation using charts.



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From the above Chart we can clearly interpret that increased employment percentage in services sector has led an increase in service sector's share in GDP from 2010 to 2020.

Global and Domestic Factors

Both global and domestic factors affect and incorporate the growth of service sector. There are various factors which has contributed a tremendous growth in service sector in India some are discussed below.

Standard of living: The standard of living and affluent economy has been a reason for the increasing spending power and demand for goods and services. This has led to rapid growth and demand in service sector.

Women Empowerment: The recent development women empowerment and increased percentage of women employees has created a need for various services in the household and the other service sectors like transport, financial services etc.

Services marketing: The retail sector's growth has also created a demand for marketing services. Much importance has been given to the network chain of wholesalers, distributors to provide a better service to the customer. The services marketing have become a major concept for customer satisfaction.

Growth in IT industry: One of the major business services is IT services in India. India is having world's largest IT professionals and has made an IT as an important sector, which eases the business activities.

Migration of rural into Cities: The tremendous migration of rural people from rural villages to the towns and cities has created a demand for real estate services, transportation and rental services.

Potential exports: India is leader in exporting software services to the world, which is considered as major foreign exchange earner for India. Apart from this India is providing other services like banking, insurance, education, health services in the overseas market.

2. To Study the Importance of Services in Banking Sector

Among the different services of service sector, banking is one of the major contributors of service sector economy. Banking is the mirror reflection of an economy. The performance of any economy, to a large extent, is dependent on the performance of banks. So long as banks do their primary function of banking, which is to lend to economy, it stands a chance of muddling ahead. Even more critical is the fact that this sector is caught on a wrong foot, all hell can break loose. An entire economy can come down like a pack of cards. The collapse of the banking sector in 1997, let by the currency crisis in some of the tiger economies is still fresh in public memory

4. Retail Banking

Retail Banking comprises services, such as the supply of saving instruments, as well as intermediation of financial savings and related securities business, the supply of consumer loans and housing finance, payments services, and a wide range of advisory services. It has become a central element within the financial services industry of most countries, and thus plays a key role in the mobilization of financial resources.

In India, the Narasimhan Committee set up by RBI has made recommendations for public issue by profitable public sector banks and liberalizing policies towards foreign banks with regard to opening up of offices as branches or subsidiaries. As a result of partial implementation of the Narasimhan Committee Report, domestic banks have started facing competition and comparison with private and foreign banks who have international banking standards. Clients for the first time in India are able to choose from a number of banks offering a wide range of services and high standards of delivering quality services.

The public sector banks in India, therefore, find themselves with a number of challenges posed by these new competitors. The challenge is manifested basically on three fronts, i.e., size, range of services and quality of services offered.

The **asset size** of the Deutsche Bank is approximately 1.3 trillion US dollars which makes eighth largest bank in Europe in 2019. The asset size of SBI, the largest bank in India was 550 US billion dollars. Indian banks cannot even hope to compete with the foreign banks in asset size.

Range of services is also a problem area as the concept of one-stop banking was not prevalent in India until now. Now SBI is promoting" Yono" as one stop destination for banking. Through Yono app the customer can apply for personal loan up to one lakh rupees. Financial Institutions looked after corporate finance and commercial banks catered to working capital requirements of business and helped in channelizing funds of small investors. These drawbacks, to some extent, can be overcome by recent mergers among nationalized banks which will greatly increase the size of these merged banks.

However, **quality of banking services** still remains a neglected area. The protective environment enjoyed by nationalized banks has not been conducive to emphasis on service quality.

5. Quality in Banking Services

In addition to the aforementioned issues, economic liberalization and globalization, Information Technology (IT) revolution, changing customer requirements/expectations and increasing competition have posed a challenge to the existing Indian banking scenario. During the past few years, the banking sector was witnessed revolutionary changes. The entry of private and foreign banks has posed a challenge to the monopoly enjoyed by the nationalized banks. With increasing competition, the importance of quality services in banking has gained paramount importance. To survive, banks will have to rethink their strategy in delivering quality services to attract and hold clients. The service challenge involves developing new services that will meet clients' needs in a better manner; improving quality and variety of existing services and finally, providing and distributing these services in a manner that best serves the clients.

Banks are considered as commercial institutions and they have to earn profits through loans and advances, charges made for banking transactions. If all the banks are providing same financial product then mode of providing financial services evolves as the important thing in choosing the bank. In India the situation was multiple banks offering the same type of services to the customers. This created a situation of survival of fittest and a strong institution will survive. Only SBI has some global reach. After liberalization, the entry of private and foreign banks has created a huge competition and as a result Nonperforming assets of the banks increased and led into mergers of Public sector banks with other Public sector banks.

There were 27 banks and the government of India has merged few Public sector banks with other public sector units and in 2021, India is having only 12 public sector banks including SBI and Bank of Baroda.

1. Dena bank and Vijaya bank with Bank of Baroda.
2. Oriental bank of commerce and united bank of India with Punjab National bank.
3. Allahabad bank with Indian bank.
4. Syndicate bank with Canara bank
5. Andhra bank and corporation bank with Union Bank of India.

The result of the above discussion is that quality of services are not given importance and a neglected concept among these banks, because of the protective environment in these Public sector banks for the employees.

6. Findings

From the study the author has explored that service sector is the main engine to drive the Indian economy in a positive direction. The relationship between work force distribution and share in service sector in total GDP has been positive. As the work force increases GDP also increased. Along with role played by services sector in Indian economy the study has enlightened banking sector as a major contributor for services sector. A case study approach about the current banking situation was made and analyzed the importance of service quality in banking sector. The result is the public sector banks were more and offering the same type of product for the same target customers. This situation demanded the prominence of quality of services in banking sector. The strong banking institutions has survived and the other banks which could not mange, merged into these strong banking institutions.

7. Conclusion

The service sector is eminent contributor in economy. It has major share in country's GDP. Because of service sector growth India can boasts as leading economy. The employment generated by the service sector is increasing when compared to other sectors. Despite being, banking sector a major contributor in service sector has become unproductive and became a burden to the Indian economy. The reasons are cut throat competition from the private and foreign banks post liberalization. Also the operational inefficiency and improper delivery of services has increased losses in some Public sector banks. Due to this the government has to merge weaker banks with the profitable banks so that the bank's asset size and capital base will increase. Furthermore the customers of the merged banks will get a large network from overseas branches.

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