Chapter - II

GROWTH AND DEVELOPMENT OF SERVICE SECTOR: A STUDY THROUGH LITERATURE REVIEW
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2.1 Introduction:

Services are now-a-days increasingly being used by the corporate as well as the household sector. The emphasis on services and its increasing use has developed from twentieth century especially after the end of World War-II. Due to large scale destruction during the war, a lot of economic activities had to be carried out to bring the war torn economies back on road. This resulted in a number of new projects which demand for financial services. Services play a central role in the economies of both developed and developing countries. They account for over half of the Gross Domestic Product (GDP) of all developed economies and constitute the single largest sector in most developing economies. Main reasons behind the growth of services include rapid urbanization, the expansion of the public sector and increased demand for intermediate and final consumer services. Access to efficient services has become crucial for the productivity and competitiveness of the entire economy.

2.2 Growth and Development of Service Sector:

The growth of the service industry is well documented in the Economic Council of Canada (ECC)(1) Report and also in the NBER volume edited by Zvi Griliches(2). It is stated that the
beginning of the service sector is from 1960. The share of services in GNP (Gross National Product) rose from approximately 40 percent to 60 percent from 1947 to 1990, while employment in services in that same period rose from approximately 40 percent to around 70 percent. Daniel Bell in the year 1973 predicted that economic activity would soon be almost completely dominated by the service sector. In addition to the rapid growth in the service sector, the Post Industrial Society literature emphasized the important role of knowledge, science and technology, the importance of professional and technical people, and suggested that fundamental changes in the value systems and forms of control in the society were taking place(3).

Early authors on the service industries, including Victor Fuchs(4) and William Baumol (5), were concerned not only with the rapid growth of the service sector, but also with the fact that productivity in service industries did not seem to keep pace with productivity in manufacturing. Slow productivity growth in services was seen as major in industrialized countries. Scholars have identified two possible explanations for these phenomena. The first is slow technological changes in services associated with their labour intensity, along with potentially higher income elasticity of demand. The second relates to the difficulties associated with measurement of output and productivity, which may have resulted in a mis-measurement of productivity growth in service industries.
Economic Council of Canada has identified and examined four traditional explanations in this context. First is the consumer demand for services has increased faster than for goods; second, the labour productivity growth has been slower in services than in goods; third, the goods producers are now simply contracting out for services that were formerly produced in house; and fourth is that there has been strong growth in the intermediate demand for services as inputs to the production process. The increase in the proposition of services in GNP as examined by Economic Council of Canada is the slow growth of productivity in the service sector which has resulted in a relative increase in their absolute size. Recently, Baumol, Blackman and Wolff (6) described that slow productivity growth, by increasing relative cost, has been responsible for the rising share of employment in the U.S. economy. Rowthorn (7) reviewed these statements and concludes that while low productivity growth has been an important role. Another explanation for the growth of services is contracting-out. Firms that traditionally performed service activities inhouse have found it more efficient to hire these service activities from independent service-producing firms. In addition to this, the overall growth in services is a reflection of the increase in the demand for intermediate services. For activities where technology has helped to overcome the constraints imposed by space can be called as intermediation services. An important group of service industries exists to provide intermediation. Such as transportation sector intermediates over space between producer and consumers in
different locations. Baumol, Blackman and Wolff (8) states that each one of the four explanations are not convincing to explain the growth in the overall service sector. They therefore suggest another issue related to the 'manufacturing matters' – goods and services are very dependent on one another, that the expansion of goods industries results in an expansion of services, and that the expansion of service output results in an increase in demand for goods. There is interdependence of goods and services. One of the interesting features of the service economy has been the rapid growth in the service sector that has occurred since the 1960s. Early explanations which states that the growth in service sector was demand-driven, but recent research casts serious doubt on these explanations.

2.3 Structure of Service Sectors:

The individual activities which comprise the economic structure of the nation are usually divided into three principal groups: extractive, manufacturing and service industries. These are also referred as Primary, Secondary and Tertiary sectors. Economic development of any nation has shifted the employment structure from extractive i.e. agriculture and mining to manufacturing and ultimately to the service industries. Service industry is a child of the Industrial Revolution which has grown to its maturity during the period of post-industrial society. The sectoral structure of industry had undergone a drastic change by employing 25% of the population in 1951, increasing their share
to more than 50% by the late 1970s and at the present time service industry is contributing more than 80% of the employment.

Services were traditionally of little interest to economists; the "tertiary sector" being in effect a category into which to dispose of all of the awkward parts of the economy which were not directly extracting, manufacturing or constructing material products. A more positive approach, based on the work of pioneering analysts such as Terence P Hill (9) and Dorothy Riddle(10), relates economic sectors to their specific types of transformative tasks. The **primary sector** is mainly concerned with extracting raw materials from the environment; and the **secondary sector** with transforming these raw materials into material goods and other artefacts.

Services can be seen to involve several distinct kinds of transformation of the state of organisms and art facts, encompassing generic activities like movement and storage, maintenance and revitalization, elaboration and intensification. These transformation activities can affect the state of the following:

- *The environment* - as in waste management, pollution clean-up, park-keeping;
- *The artefacts* produced by other sectors - e.g. repair and maintenance, goods transport, building services, wholesale and retail trade;
• The people - as in health and education services, hospitality and consumer services such as hairdressing, public transport;
• The symbols (data, information, knowledge) - entertainment services; communication services such as broadcasting and telecommunications; professional services and consultancies.

Although customarily the economic structure is divided into the three sectors, they are not wholly independent of each other. The relationship between manufacturing and services is the strongest; one cannot exist without the existence of services. The relationship between manufacturing and services is one uses the output of the other. Most manufacturing companies would not be able to produce goods without the support of numerous services.

2.4 Different Types of Service Sectors:
A.G.B. Fisher(11) studied the reasons for the growth of services and he introduced the concept of primary, secondary and tertiary industries. Primary sector refers to agriculture, fishing, hunting, forestry, mining and quarrying. Without the extractive process, there would be no raw materials to use either for basic survival or for the creation of other products. Secondary sector or manufacturing sectors refers to manufacturing of tangible goods which is of secondary importance, as such goods have little value in and of themselves and they are important only to the
extent that they serve as the equipment and supplies for the extraction or service production processes. Extractive activities are essential to physical survival and service activities are essential to social well-being.

Daniel Bell(12) began the use of the term “post-industrial sector” in 1973 to refer to the service sector and “post industrial society” to refer to one in which the service sector was dominant. He chose the terminology as service industries did develop after the industrialization. He described the development of human societies in three general stages. According to a frequently used definition introduced two decades ago, such an economy is characterized by the fact that more than half of the Gross National Product (GNP) is produced in the so-called service sector. Bell describes the service society as a “game between persons.” Bell labels Industrial society as “game against fabricated nature” and is characterized by the struggle of humankind to cope effectively with nature, where as the “game against fabricated nature” following the industrial revolution changes the people and machines emerged, and new forms of organizational solutions, coordination of job activities and management, marketing and organizational behavior, were required.

Goods and Services:

Services have characteristics that differ significantly from goods. Goods are physical things that can be put in a box and
traded. They can be made anywhere, at any time, and at any scale. More and more goods are produced each year as firms develop new products and as production processes are broken down into individual parts and components. Services are difficult to place in a box because they are bound by time and proximity and require face-to-face contact. They are produced where and when demand is present.

However, technological changes splintering and disembodiment of services has made many services tradable, just like manufactured goods. These services called modern impersonal progressive services include communication, banking, insurance, and business related services. Information and communication technology has given services a physical presence. They can be produced and stored in a series of ones and zeros in digital format. Banking and loan transaction can now be conducted online. This technology has made services free from time and space restrictions.

2.5 Services: Hub of Economic Activity:

Services lie at very hub of economic activity in any society. Dorothy Riddle(13) formulated the economic model to explain the role of the service sector in the world development. This model shows the flow of activity among the three principal sectors of the economy: extractive (mining and farming), manufacturing, and service. Service is divided in to five subgroups eventually leading to consumers and are;
- Business Services: Consulting, finance, banking
- Trade Services: Retailing, maintenance, repair
- Infrastructure Services: Communications, transportation
- Social/personal services: Restaurants, health care
- Public administration: Education, government

Infrastructure services, such as transportation and communications are the essential links between all sectors of the economy, including the final customer. In a complex economy, both infrastructure and trade services function as intermediaries between the extractive and manufacturing sectors and as the channel of distribution to the final consumer. Infrastructure services are essential to advanced society and are a prerequisite for an economy to become industrialized.

Service operations of manufacturing companies are restructuring their delivery systems. Self-services are replacing many of the traditional channels dominated by corporate sales and service personnel. New types of channels for delivering financial, logistics and other services are being created at an ever faster pace. This restructuring, driven by deregulation in many fields of business and intensifying global competition, is forcing companies to re-evaluate their current customer service strategies. Automation is the way to cut costs and to provide quick response for the large self-service markets while specialization allows organizations to focus on the needs of small customs-service segments. Few companies can achieve both
economies of scale and scope in a competitive way. The quality management movement has emphasized the conformance of the technical specifications of service while also enhancing the support of customer relationships. Last, but certainly not the least, the application of new information technology has created opportunities to re-engineer the service processes in innovative ways. No wonder that executives and field personnel alike are feeling the whims of the customers and wondering if the repositioning of their service processes is guided by the fads of the marketplace and imitation strategy rather than an innovative and deliberate choice of new delivery channels and technologies.

2.6 Model of Service Sector:

A model of service delivery requires joint specifications of production, consumption, and distribution activities. A genuine service is a multilateral and open-ended process, as opposite to production which is a closed process with unilateral control and storable inputs and outputs of materials and information. It has been widely recognized that in the service sector a powerful analytical tool similar to the production-process matrix is missing. There have been several attempts to develop methods of analysis and classification but they have failed to gain wide acceptance. For a model of service processes to be useful in assessing different repositioning strategies, it is most important to specify the service channels or the alternative ways service are delivered to customers. Efficient matching of service delivery
channel and type of service package has been introduced in the model of service.

The service classification model by Silverstro et. al. (14) proposes the number of customers processed by an individual service unit per day as an appropriate measure of the volume of service activity. They used data from case studies of 11 service organizations to rank the companies by the volume of customers processed per day in typical unit on an ordinal scale. At the low volume end (number 1) there are the management consultancy and field engineering services with the number of daily customers measured in tens, whereas at the high end (number 11) the transport company and transport terminus processed thousands of customers per unit. The organizations were ranked as follows:

- Management consultancy
- Field engineering service
- Bank - corporate accounts
- Hotel
- Home electronics rental
- Domestic appliance retailer
- Confectionery, tobacco, news retailer
- Bank personal accounts
- Distribution customer enquiries service
- Transport company
- Transport terminus
They claim that this measure can be used as a mechanism for integrating the disparate service classifications in the literature into a single service process model. Their claim is supported by a classification of the services along six other dimensions: people versus equipment focus, length of contact time, degree of customization, level of employee discretion, value added in front office versus back office, and process versus product focus. The data from case companies were then used to classify the organization along each dimension. In measurement, a Delphi-type approach was used to classify each service on a three-level scale, such as high, medium or low. When compared with the volume ranking (from low to high), the following trends can be observed with respect to the other dimensions:

- Focus moves from people orientation to equipment orientation
- Length of contact time moves from high to low
- Degree of customization moves from high to low
- Level of employee discretion moves from high to low
- Value added moves from front office to back office
- Focus moves from process orientation to product orientation

Based on these observations, and the inverse correlation with the volume, services were grouped into three clusters which they call professional services, service shop and mass services (see Fig- 1). In general, professional services score high on customer contact time, customization and employee discretion, and are focused on people and processes.
Fig-1: Clustering of services according to volume and other attributes

![Figure 1: Clustering of services according to volume and other attributes](image)

- **High**
  - People focus
  - Contact time
  - Customization
  - Discretion
  - Front/back office
  - Process Focus

- **Medium**
  - People / Equipment
  - Contact time
  - Customization
  - Discretion
  - Front/back office
  - Process/product

- **Low**
  - Equipment focus
  - Contact time
  - Customization
  - Discretion
  - Back office
  - Product focus

**Professional Services**
1. Management consultancy
2. Field Service
3. Bank - Corporate

**Service shop**
3. Bank - corporate
4. Hotel
5. Rental service
6. Retail
8. Bank - retail
9. Distribution enquiries

**Mass Services**
7. Confectionery tobacco, new retailer
10. Transport
11. Transport terminus

2.7 Difference between Goods and Services:

The service environment is sufficiently unique to allow to question the direct application of traditional manufacturing based techniques to services without some modification, although many approaches are analogous. Ignoring the difference between manufacturing and service requirements will lead to failure, but more importantly, recognition of the special features of services will provide insights for enlightened and innovative management. Advances in service management cannot occur without an appreciation of the service system environment. The distinction between a product and a service is difficult to make, as the purchase of a product is accompanied by some facilitating service (e.g. installation, free delivery, after sales services, etc.) and the purchase of a service often includes facilitating goods (e.g. food at a restaurant, education).

The growth of the services sector in the economy has generated a great deal of interest in developing marketing strategies for services. Marketing scholars argue that services are fundamentally different from goods and require unique marketing strategies (15). Some authors, disagree with this reasoning and argue that the goods/services classification is a poor basis for developing a marketing mix and suggest that goods and services could be marketed on the basis of the benefits which they provide (16).

The goods/services classification schema is a deductive classification or one which has been deductively imposed on
consumer items by marketing scholars (17). Little effort has been made to evaluate empirically this schema or the several dimensions of service qualities that define the classification. Hartman and others (18) evaluates goods and services and classifies them from a consumer point of view to determine whether the classification is a relevant basis for developing services marketing strategies. In addition, four commonly accepted dimensions of goods/services qualities (intangibility, heterogeneity, inseparability and perishability) were included in the evaluation to determine whether consumers define the difference between goods and services along the same dimensions that are used by marketing scholars.

2.8 Service Economy:

Present economy is dominated by services industry. Services are activities or benefits that one party offers to another that are essentially intangible and do not result in the ownership. Some salient features are given below;

- Service industry help or facilitate other sectors to grow.
- Services are labour intensive but not at the cost of low productivity
- Service industries are well organized
- Services are of varied types.
- Services industries account for most of the growth in new jobs.
In many of the developed and developing countries more than half the workforce is employed in service industry nomenclating this as 'service economy'. The growth in the service economy has been accompanied by a number of important factors influencing the overall economic picture and they are listed as follows;

- The diminishing importance within the balance of trade of primary industries (agriculture, forestry and fishing)
- A similar impact on the importance of secondary industries (construction and manufacturing)
- Accompanying social trends affecting the structure of the workforce, many workers in service industries are employed on a part time basis, and the majority of these are women.

Service industries are tertiary industries, which supported by primary and secondary industries by providing distribution and finance in traditional days. Services are divided between consumer services, business to business services and industrial services. These fall between the public and private sectors.

2.9 Contributions of Service Sectors:

Service sector by and large offers substantial contributions to the economy. In addition, it has gained its place of distinction revealed as follows;
• People value services at least as highly as manufactured goods. Services are not something on looks at after the good needs have been met.
• The value added produced by service firm is very well comparable to, and even higher than the value added and produced by manufacturers of goods.
• The service sector is at least as capital intensive as the goods sector, and many service industries have a high technology impact.
• Service industries tend to be just as concentrated as manufacturing and service firms tend to be sufficiently big in scale to be important and sophisticated buyers.
• Service industries develop productivity increases that are big enough to support continuing real growth in per capita income.

In 1987 Heskett(19) highlighted the importance of service sector in the development of economy by stating that “....today service industries have assumed the mantle of economic leadership”.

2.10 Factors for Growth of Service Economy:

There are number of reasons for the growth of the service economy seen during the last decades are related to the nature of the business, some of them are related to changes in the society, in the attitudes and life paths of people. Cowell (20) offers the following business-related driving forces;
• The lag in growth in labour productivity in services compared with the rest of the economy - there is growing demand for more and new services which leads to increased importance to employment

• The growth in intermediate demand from firms - professional services, such as management consultancy, engineering services, market research are required to a greater extent and are provided by specialist firms established to carry out them.

• The growth in final demand from customers. - as society changes, the standard of living of the people get wealthier and different attitude toward life develops, people turn to service expenditure. The marginal utility from goods diminished, at least in relative sense, and services grow in importance. The demand for leisure services, sports, travel and entertainment and totally new types of demands of services emerge.

Schoell and Ivy(21) have explored the reasons for the growth in service industries can be summarized as increasing affluence, more leisure time, a higher percentage of women in the labour force, and greater life expectancy create a greater direct demand for various services, some of which have been around a long time, some of which are entirely new. Greater complexity of products, increasing complexity of life, and more new products fuel and increased demand for services.
2.11 Role of Knowledge Workers in the Service Sector:

Knowledge workers are taken normally to highly qualified professional employees and middle and upper-level managers in large organizations, then the data on the size and growth of the 'professional specialty' occupational category, referred to earlier, point to the growing importance of knowledge workers. Moreover, insofar as product and process innovation and hence competitive advantage depend on the application of theoretical knowledge and knowledge workers increasingly occupy positions in global labour markets. This includes the sharing and retention of knowledge within the bounds of the organization and its closest partners, processes commonly referred to as knowledge management. Although the absence of any theoretically grounded and empirically tested models for managing and will continue to be a major source of employment. Often, this work forms part of the delivery system for manufacturing and for service 'products' embodying complex knowledge work - for example, customer service representatives offering long-term financial product such as pension plans to clients. In service work comprises a large and growing part of the workforce in the advanced societies, with knowledge work in both goods and service production making an increasingly important contribution to economic growth.

2.12 Stages of Economic Development:

Daniel Bell has discussed elaborately on the development of economy in his work 'The coming of Post Industrial Society: A
venture in Social forecasting' which is presented in succeeding paragraphs;

i) Pre-Industrial Society:

Pre-industrial society is the society in which life is characterized as a game against nature. This period is characterized by the persons working with muscle power and tradition. The labor force is engaged in agriculture, mining and fishing. Life is conditioned by the elements such as weather, the quality of soil and availability of water. Life is varied with the seasons. Productivity is less and low use of technology in carrying out the work. Social life revolves around the extended household. Post industrial societies are agrarian and structured around tradition, routine activities.

ii) Industrial Society:

Important feature of the industrial society is production of goods that too in a large scale. Energy and machines multiply the output per labour-hour and structure the nature of work. Division of work is the operational law that creates routine tasks and the notion of the semiskilled worker. Work is accomplished in the artificial environment of the factory, people and the machines. Life becomes a game that is played against a fabricated nature - a world cities, factories and tenements. The rhythm of life is machine-paced and
dominated by rigid working hours and time clocks. In the Industrial Society time is most valued resource thus schedules for the work are given most importance. Quality of life is measured on the quality of goods.

**iii) Post Industrial Society:**

Life is game between persons and resources are knowledge and information rather than muscle or machine power or energy. The central character of economic life is professional which possess skills and knowledge. There is a huge demand for increased technical knowledge and skills in the workplace. Higher education is a prerequisite to entry into postindustrial society and good life. The quantity and quality of services such as health, education, and recreation that an individual can afford are indicators of his standard of living. Citizen's demand for more services such as health care, education, arts and so on.

2.13 Evolution of Service Sectors:

Fisk, Raymon P. and Grove, Stephen J (22) in their work 'The Evolution and Future of Services: Building a Multidisciplinary Field', describes the evolutionary stages of the services in two eras. The first era is the evolution of the services that occurred across three stages labeled Crawling Out, Scurrying About, and Walking Erect, respectively. These labels are based on metaphors from biological evolution. The second era has
witnessed the rapid expansion of the services field beyond its origins in service marketing. This era is marked by three stages—Making Tools, Creating Language, and Building Community. These new stages are based on metaphors from social evolution.

i) **The First Era: Services Marketing:**

Fisk, Brown and Bitner (23) used the metaphor of biological evolution to describe the history of the services marketing field involved three 'evolutionary' stages: 1. Crawling Out (Pre 1980) – when early services scholars created and defined the services marketing field; 2. Scurrying About (1980 – 1985) – when a rapidly growing and enthusiastic community of scholars quickly build the basic structure of services marketing and 3. Walking Erect (1986 – 1992) – when the service marketing field achieved a measure of respect and legitimacy within the marketing discipline and beyond.

**Fig. 2: Evolution of the Services Marketing Field**

![Evolution of the Services Marketing Field](image)

**Source:** Fisk, Raymond P. and Grove, Stephen J. "The Evolution and Future of Services: Building a Multidisciplinary Field"
ii) The Second Era: The Emergence of Multidisciplinary Field:

Social evolution portrays the changes in human culture. Social evolution of the broader services field can be described in three stages; (1) Making Tools, (2) Creating Language and (3) Building Community. These labels were created by Fisk, Stephen W. Brown and Mary Jo Bitner.

*Fig.3: Recent Stages of Service Evolution*


**Source:** Fisk, Raymond P. and Grove, Stephen J. "The Evolution and Future of Services: Building a Multidisciplinary Field"

Three changes as mentioned above are described in brief in the following paras:

*(1) Making Tools:*

A tremendous technology infusion, especially information technology made it possible for most service industries to rapidly increase the technological sophistication of the service they provide to customers. Prominent among these technology changes is the emergence of the Internet and the many web-based
services that are possible via the Internet. These changes have prompted service marketers to study technology infusion into services. New methodological research tools which include the development of numerous measurement scales and more sophisticated data analysis methods. Making tools stage serves as a foundation for the broader service field. The tool making skills of new service scientists and service engineers will greatly enhance the service field.

(2) Creating Language:

Language is itself one of the most sophisticated tools created by the human species. Every new academic field must develop a technical language for communicating knowledge that is created by the community of scholars within the field. Technical words and phrases that originated in services marketing have become mainstream to the marketing field. These terms include; service encounters, service quality, service theater, service experience, services capes and service recovery. Language facilitates communication among service scientists, service managers and service engineers.

(3) Building Community:

Building community is the next stage in the social evolution of the service field. Academic disciplines play essential roles in the creation and diffusion of knowledge.
As the academic study of service phenomena has steadily broadened its reach from its origins in the services marketing and management fields, the rapid increase in the number of participants in the services field creates opportunities. WTO taken the steps for free trade among nations, knowledge also crossed the boundaries of the nations so as innovation and progress takes place. It is imperative that the knowledge at the center of the disciplines be shared. Building a services community requires a global social network that spans both business and academe. The broader service field needs a collaboration explosion that matches the information explosion of modern times. There is need for new approach that is more than interdisciplin ary, more than multidisciplin ary and more than transdisciplinary. To build the community that will effectively represent a broader services field will require social networking tools that facilitate full spectrum collaboration between academe, business and customers making entire service field customer centered.

2.14 Indian Service Sectors:

The service sector is also assuming increasing importance in the Indian economy. According to a report of the IMF, the services sector in India has consistently outperformed the rest of the economy in recent years and by a wide margin, since 1980s in response to the reform programmes undertaken and since 1991 in
response to the various liberalization and stabilization measures. The report indicates that within the overall growth picture since the 1991-92 crisis, sectorial performance has diverged markedly with industrial growth falling below long-term trends till 1993-94 after which it recovered broadly, with output having increased by 9% in 1994-95. Against this, agriculture and services grew more steadily. The response to liberalization has probably been more in service sector, partly because of lower fixed investment requirements.

The service sector dominates the Indian economy contributing more than half of our national income. It is also the fastest growing sector, with an annual growth rate of 8% per year. In the 90s, one in every two Indians earns his livelihood by providing services. And India Toady –ORG – MARG poll showed that a majority of middle-class families want their children to work in the service sector. With best jobs, best incomes and best talents, the service sector is the showcase of the Indian economy. (India Today, Feb. 19, 2001).

2.15 Brief View of the Growth of Service Sectors in India:

In India, the growth rate of services in 2004-05, 2005-06 and 2006-07 were 9.6 percent, 9.8 per cent and 11.0 per cent, respectively and is expected to grow at 9.9% in the 11th Plan. The GDP growth performance of the Indian economy during 2003-04 and 2004-05 indicated a possible ratcheting up of the trend rate of GDP growth of the economy from 6% to about 7% per year. The
sectoral break-up of India’s growth shows the ratcheting up of the trend growth rate in the services sector from 6.7% in 1983-93 to 8.2% in 1993-03. Since 2004-05 the growth rate of services sector is at 10 per cent, while the general growth of the economy has moved up to 9.0% in 2005-06 and 9.4% in 2006-07. The manufacturing sector growth was more or less the same at 6% in 1993-03 compared to 6.1% in 1983-93, though it has risen to 9.1 per cent in 2005-06 and 12.3% in 2006-07 with the aim of 12% (10.5% projection for Industries) in the 11th Plan period. Agriculture sector growth was low at 2.3% in 1993-03 and fluctuated from one extreme of 10 per cent in 2003-04 to another extreme of 0.0 per cent in 2004-05. In 2005-06, agricultural growth rate was 6.0 per cent, but in 2006-07 it again fell to 2.7% and is expected to continue at 4.1% for the eleventh plan period. As a result, the share of services in India’s GDP has increased from 37.6% in 1993 to 54.1% in 2005-06 and 54.9% in 2006-07. If construction is considered as services as done by RBI, this share will increase by another 6.9% totaling to 61.8 per cent. Thus, India is nearing the shares of countries like the US, where the share of services in GDP is 73% (2003)(24).

The service industry forms a backbone of social and economic development of a region. It has emerged as the largest and fastest-growing sectors in the world economy, making higher contributions to the global output and employment. Its growth rate has been higher than that of agriculture and manufacturing sectors. It is a large and most dynamic part of the Indian economy
both in terms of employment potential and contribution to national income. It covers a wide range of activities, such as trading, transportation and communication, financial, real estate and business services, as well as community, social and personal services. The era of economic liberalisation has ushered in a rapid change in the service industry. As a result, over the years, India is witnessing a transition from agriculture-based economy to a knowledge-based economy. The knowledge economy creates, disseminates, and uses knowledge to enhance its growth and development.

Travel and tourism sector is one of the largest industry in terms of gross revenue and foreign exchange earnings, it stimulates growth and expansion in other economic sectors like agriculture, horticulture, poultry, handicrafts, transportation, construction, etc. as well as gives momentum to growth of service exports. It is a major contributor to the national integration process of the country as well as preserver of natural and cultural environments.

Services hold immense potential to accelerate the growth of an economy and promote general well-being of the people. They offer innumerable business opportunities to the investors. They have the capacity to generate substantial employment opportunities in the economy as well as increase its per capita income. Without them, Indian economy would not have acquired a strong and dominating place on the world platform. Thus,
service sector is considered to be an integral part of the economy and includes various sub-sectors spread all across the country.

The growth of the Services sector and consequently the growth of the Indian economy perhaps have a trade angle. Though external trade is taken only 'net' in the GDP and its effect may not be felt directly as the deficit in merchandise trade overshadows the positive balance in services trade, the indirect effects of exports of services is high on the domestic growth of services and even industry. For example, the domestically dynamic services like trade, hotels, transport and communications etc. are related to important services in exports like travel and transportation. The growth in export of software services has given fillip to domestic production and use of these services. The dynamic growth of professional services exports has a bearing on the growth of these services domestically. Similarly growth of shipping services and travel services exports can have a direct bearing on domestic industries related to these services.

2.16 Conclusion:

In an industrialized economy, specialized firms can supply business services to manufacturing firms more cheaply and efficiently than manufacturing firms can supply these services for themselves to improve their marketing, branding, supply and consumption. Except for basic subsistence living individual households are self-sufficient, service activities are absolutely necessary for the economy to function and to enhance the quality
of like for example the importance of banking industry to transfer funds and a transportation industry to move food products to areas that cannot produce them. A wide variety of social and personal services, such as restaurants, lodging, cleaning, and child care, has been created to move former household functions into the economy.

Public administration plays a critical role in providing a stable environment for investment and economic growth. Services such as public education, health care, well-maintained road, safe drinking water, clean air, and public safety are necessary for any nation's economy to survive and people to prosper. It is imperative to recognize that services are not peripheral activities but rather integral parts of society. They are central to a functioning a healthy economy and lie at the heart of that economy. Their service sector not only facilitates but also makes possible the goods-producing activities of the extractive and manufacturing sectors. Services are the crucial force for today's change toward a global economy.

The large and rapidly growing service sector in most nations has resulted in the emergence of a new breed of larger, more sophisticated service companies. *Fortune* magazine annually compiles a ranking of the world's leading service companies, separated into eight categories – diversified services, commercial banks, diversified financials, commercial banks, savings institutions, life insurance, retailers, transportation and utilities. These major service firms are now increasingly looking
to international markets in the search for future profitability. Globalization for services firms is becoming important, especially where domestic markets have reached a mature stage of development. Globalization is assisting the process of diffusing new service developments across national boundaries and as interest in globalization intensifies, service firms are making efforts to establish and maintain their international networks and brands.
2.17 References:


(23) Fisk, R.P., Stephen, W.B. and Bitner, M.J. 'Tracking the evolution of the services marketing literature'. *Journal of Retailing*, 69 (Spring), 1993, pp. 61 – 103.