The Influence of the Economy on Hospitality Industry in Nigeria.

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Abstract

In theory, many people patronize the hospitality industry when the economy is buoyant, thereby signifying a positive correlation between the industry and the economy. But is this true of the Nigerian situation? The contributions of the hospitality industry (represented by Hotels and Restaurants) to the Nigerian economy (represented by the Gross Domestic Products – GDP) and the GDP itself from 1980 – 2006 (27 years) were analyzed, using simple regression analysis. Lag variables were introduced in order to safe guard against autocorrelation while white noise heteroscedasticity tests were performed in order to make the conclusions more reliable. It was found that a positive correlation exists between the hospitality industry and the GDP and that the industry depends almost entirely on the economy, thereby confirming a priori expectation. What this means in effect is that for the hospitality industry to continue to be relevant, government must at all times ensure a stable but steadily rising economy.

Key words: *Hospitality industry Hotels Restaurants Gross Domestic Products.*

Introduction

The hospitality industry provides services for people who are away from home regardless of whether it is for long or short periods of time. These services can vary according to the specific needs of both the person away from home and the organization operating those services (Baker et al, 2000)

The hospitality industry is important to the development of many parts of the world. In some regions, income from it is one of the main sources of foreign exchange e.g. Fiji, the Caribbean and Hong Kong (Baker et al, 2000). The industry is important because it contributes to the growth of an economy by providing a lot of employment opportunities for the people, funding a large percentage of a country's Gross Domestic Product, thereby helping to raise the national income and by earning foreign currencies through the goods and services provided to foreign visitors, thus improving the balance of payments (Baker et al, 2005).

There is no doubting that hospitality industry is the livewire of tourism at all levels. The United Nations World Tourism Organization (UNWTO) confirms that between 70% and 75% of international tourists' expenditure goes to hospitality services on annual basis (Akpabio, 2007). This confirms the strategic importance of the sector to tourism.

It is estimated that there are over a million hotels in the United States of America. But in Nigeria, there are only about 12 internationally branded hotels (Amadi, 2008a). Nigeria has so few internationally branded hotels due to the former perception of the country as a high – risk destination for investments, especially in hotel businesses, which are capital intensive and require long – term for the investor to recoup his money.

Investors in hotels hardly look towards Nigeria due to exorbitant cost of landed property and high lending rates in Nigerian banks. It is a lot easier and cheaper to acquire land and build a hotel in USA than it is in Nigeria (Amadi, 2008a). Lending rate in USA is about 6 per-cent with mortgage of about 25 years in which investor has to pay back the money. But in Nigeria, the lending rate could go as high as 25 per-cent, depending on who is borrowing and for what purpose. Additionally, Nigerian banks will only give the investor about three years to pay back.

The Nigerian hospitality industry is faced with a lot of problems. Among them are: high hotel charges and the slow pace on developing tourist sites that dot the various parts of the country (Akpabio, 2007). Others are erratic power supply (Amadi, 2008a), poor services (Nwosu, 2008a) and unethical behaviors by professionals in the industry (Awoseyin, 2007).

In spite of these shortcomings, the hospitality industry in Nigeria contributed N680.1 million to the Nigerian economy in 1980, N492.4 million in 1984 (using 1984 constant basic prices for both periods), N477.9 million in 1990, N591.9 million in 2000 (CBN, 2003), N1950.0 million in 2004 and N2, 390.0 million in 2006 (using1990 constant basic prices) (CBN, 2006).

An analysis of any industry must at some stage take into account the context in which that industry exists. In more specific terms, it is important to examine the

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relationship of that industry to the government of the nation in which it functions. Government policies will determine many of the directions the industry will take and will also have an effect on the relationship of the industry to other industries in that nation (Gale and Odgers, 1990) as well as the economy of the nation as a whole. It is in the light of the above that the Nigerian economy over the years will be considered.

The Nigerian economy has not been stable over the years as it depended mainly on international economic system in the early 1980s. This unfortunately, became increasingly hostile (Koleoso, 2007). The economy had been seriously affected by massive devaluation of the national currency, the Naira, by the Structural Adjustment Programme introduced by the military. Coupled with this is the instability in the prices of crude oil in the international market, crude oil being the major source of foreign exchange earning for the country. Corruption in high and low places also took its toil on the national economy.

Despite all these, the GDP fell from N68, 246.2 million in 1980, to N62,474.2 million in 1984 (using 1984 constant basic prices for both periods) but rose to N92, 238.5 million in 1990, N121, 207.8 million in 2000, N527,580.0 in 2004 and N593, 570 million in 2006 (using 1990 constant basic prices).

Having briefly discussed what hospitality industry is all about and the state of the Nigerian economy in the last twenty-seven years, the next question to ask is: to what extent has the Nigerian economy affected the hospitality industry in the past 27 years (1980-2006)?

It is an attempt to answer this and other similar questions that motivated this write up. The rest of the paper is divided into four sections. Section two is on the review of related literature; section three is on research methodology and model specification. Section four is on findings and discussions while section five summarizes and concludes it.

Review of related literature.

The constant growth in the U.S hospitality market is due to stable economy. The economy is enjoying a rare mix of low inflation, low unemployment, and stable GDP. Despite the fears of over development and another downturn for the hospitality industry, almost all prognosticators are projecting hotel profitability to continue to grow in the market. The continued productivity gains, constant demand growth and moderate supply will dramatically strengthen the industry's profitability (Su, 2008).

An aggressive hospitality industry will be active in pricing its products and services due to the increasing demand for such products and services. PKF Consulting (1997) established that the mid-price and the economy segments would have the lead in demand and supply growth, and the leisure travelers are expected to provide most of the stimulus for demand growth over the next few years. The operating efficiency also significantly improves the industry's profitability. The number of employees per 100 rooms declined sharply (in the U.S) since 1991(Ader and LaFleur, 1997). Although this factor is not related to the occupancy or average daily rate growth, the low guest-employee ratio had effectively lowered the economic break-even in the industry (Ader and Lafleur, 1997).

When an economy pulls out of a recession, the investments in real estate grow significantly. In a research conducted by Coopers & Lybrands (1995), the new room openings reached an estimated 92,500 rooms in 1996, a 45 percent increase from 1995. The United States pulled out of an economic recession in 1996. The researchers at Smith Travel Research also found out that in 1996, out of every 31 hospitality properties (with 20 rooms or more), one was a new built in the U.S, down from one out of every 77 properties in 1992 (Su, 2008). Of interest is the fact that when hotel companies could not use all the newly acquired funds to build hotels, they went out to buy. According to Hospitality Magazine published in May 1996, there were 2, 784 hospitality properties sold (in U.S) from 1991 to 1995 and 378 were in excess of $10 million each (Su, 2008).

It could be argued that the sector most hit by the current (2008) global financial crisis is the hospitality industry. This is because entertainment, leisure and tourism are vulnerable to economic uncertainty and volatility (Amadi, 2008b). Most travel and tourism activities involve optional expenses. During times of economic recessions, people like to conserve money to cover the essentials of life such as food, shelter and family necessities. This, however, does not mean that entertainment and tourism will be endangered specie.

In almost all periods of economic crisis or global tourism scare arising from events such as the 9/11 attack on the United States, people did not stop traveling but they traveled differently from the way they used to in times of economic boom. Tourism and hospitality businesses, which will survive in the periods of economic doom, are those with the ability to adapt to new circumstances (Amadi, 2008b).

Amadi (2008b) predicted that destinations with "favourable" exchange rates might benefit from the current (2008) credit squeeze. Ironically, the surge in the value of the US dollar and the Euro may stimulate Americans, Europeans and the Japanese to resume traveling overseas. The growth of Chinese and Indian outbound travel may be slow but will continue because these economies are still growing. There is likely to be a growth in domestic travel or short hauls international travel as people choose to stay closer to home (Amadi, 2008b).

How has the global financial meltdown affected hotel businesses and tourism internationally and locally in Nigeria? Ward (2008a) opined that there is very little effect on the hotel business in Nigeria. But in Europe, the USA and elsewhere, there has been a loss of confidence in the whole banking system, which has reduced lending to businesses and consumers alike. Coupled with the reduction in house prices, there has been a marked reduction in business activities and consumer spending. This affects the hotel industry, as business travel slows, and discretionary spending on leisure travel goes down. But there will be a knock-on-effect in 2009 observed Ward (2008a). This is because as lower demand from China and elsewhere for Africa's oil and minerals reduces certain countries' income, including Nigeria, where the reduced oil price (resulting from a reduction in demand primarily in the USA and China) has a direct effect on government income and spending.

Elsewhere in Africa, particularly countries like Kenya, Tanzania, South Africa and Gambia, where large amounts of income comes from international tourism, as observed by Ward (2008a), there will be a reduction in international visitors as spending slows down. In Ghana and other countries, the amount of workers' remittances from the Diaspora is likely to reduce as workers are laid off in developed countries, and no longer have the funds to send home.

For Nwosu (2008a), as people tight their belts during the period of economic crisis, business travel is scaled down, and leisure travel is reduced too. Budget accommodation is the preferred option. Maybe not "preferred", but certainly in the UK, demand for Travelodge and Premier Inn hold up very well. In Nigeria, the knock-on-effect really scales down in-bound business travel that makes the bulk of hotel visits. There will be lower spending power too, except that big oil, which is the main driver of the economy has benefited considerably from the high oil price. In the future, budget airlines and hotels may take the lead and demand for luxury accommodation may drop until another economic boom begins a new cycle of consumer spending (Nwosu, 2008b).

The big spenders may cut back a bit during the period of economic crisis according to Nwosu (2008b), but because of the wide variety of services that cater for virtually all consumer spending capacities, there will still be business for the hospitality industry in the face of acute global economic recession.

Research method

Secondary data were used for this research work. They were of two types - the contributions of the hospitality industry (represented by Hotels and Restaurants) to the Nigerian economy (represented by the Gross Domestic Product – GDP) and the GDP itself.

The data were sourced from the Statistical bulletins of the Central Bank of Nigeria (CBN) up to 2003 and the Annual Report and Accounts of the Central Bank of Nigeria for the year ended 31st December 2006. The period covered is from 1980 – 2006 (27 years). The period is long in order to guild against committing Type II error occasioned when the period covered is inadequate or too small.

The research methodology used for this research work is simple regression analysis. This is because one dependent variable and one independent variable are involved (Oloyo, 2001, Koutsoyiannis, 2003, Fagoyinbo, 2004).

The data were analyzed using E-Views statistical package. Lag variables were introduced in order to guide against autocorrelation, while white noise heteroscedasticity tests were performed in order to make the results more reliable.

The model for this research work as earlier explained is simple regression analysis. The model is stated below:

Hospitality industry = f (GDP). ………Equation (1).

Hospitality industry = GDP + u…… Equation (2).

Where u = the error term which is assumed to be randomly distributed.

When lag variables are introduced, the equation becomes:

Hospitality industry = α + b1GDP + b2 ……..+ bn GDP (-1to –n) + u. ……Equation (3).

Where:

α = Constant value.

b1, bn = the coefficient of each of the variables on GDP.

(-1 to –n) = the lag variables introduced to guide against autocorrelation.

-n = any numeric value. 10 had been chosen for this work.

Findings and discussions.

The equation from E-views statistical package is presented thus:

Hospitality Industry = 0.003278(GDP) + 0.000242GDP(-1) +0.000296GDP(-2)
(195.6877) (11.26934) (13.78273)
0.0000* 0.0000* 0.0000*
-0.000597GDP(-6) + 0.001499GDP(-10) + 65.34967
(-3.302691) (6.683024) (6.804463)
0.00700* 0.0000* 0.0000*

R – squared = 0.999947.
Adjusted R – squared = 0.999923.
Durbin Watson Statistic = 1.723.
Probability (F-Statistic) = 0.000000.
F- Statistic = 41596.74

The t-statistic values are in parenthesis.
Probabilities of t- statistic values are asterisked.

Homoscedasticity was achieved after adjusting the end points of seventeen of the number of years. The purpose of the white noise heteroscedasticity tests is to make the variances constant, thereby making the conclusions more reliable.

From the equation, it can be seen that a positive correlation exists between hospitality industry and the Nigerian economy. This is evident from the positive coefficient of 0.003278 for the Nigerian economy. This implies that a unit increase in GDP will increase the contribution of the hospitality industry by 0.003278. Though quite small, being significant at 0.0000 makes it significant at 0.01 significant level. The t-test statistic of the GDP at 195.6877 is also significant. The coefficient of each of the lag variables, as expected, is significant at 0.01 significant level. All of them are positively correlated to the hospitality industry with the exception of one. The F-statistic of 41596.74 being significant at 0.0000 is also significant at 0.01 significant level.

The coefficient of determination, represented by R – squared (R^2) is 0.999947, which implies that holding other factors constant, the hospitality industry in Nigeria is 99.99 percent affected by the national economy, other factors accounting for just 0.01 percent. This high percent influence by the national economy suggests the existence of autocorrelation. From the result of autocorrelation test conducted however, this is not true. The Durbin-Watson statistic test of 1.72 is greater than the tabulated value of 1.13(lower level), which implies that autocorrelation does not exist (Koutsoyiannis, 2003).

` It is clear from the findings that entertainment and hospitality industry is the sector that is likely to be most hit by any national financial crisis as observed by Amadi (2008b). This is evident from the Nigerian experience. The GDP of N68,246.2 million in 1980 went down to N62,472.2 million in 1984, thus recording a 9% loss. This resulted into a more proportional loss of 28% (from N680.1 million to N492.4 million) in the contribution of the hospitality industry to the economy within the same period. The Nigerian economy, as had already been pointed out, depended mainly on international economy system in the early 1980s. This unfortunately became increasingly hostile for most part of the decade. A 13% increase in the GDP from N527,580 million in 2004 to N593,570 million in 2006 led to a more than proportional 23% increase (from N1,950.0 million to N2,390.0 million) in the contribution of the hospitality industry to the economy within the same period. Democracy was restored in Nigeria in 1999. This led to a stable economy that climaxed into the consolidation in the banking sub-sector of the economy with its attendant benefits.

That the hospitality industry is very vulnerable to economic uncertainty and volatility is due to the fact that it depends almost entirely on the economy. During the periods of economic recessions, people are likely to conserve money to cover the essentials of life such as food, shelter and family necessities. Tourism and hospitality businesses, which will survive during the economic downturn, are those with the ability to adapt to new circumstances.

A stable economy that enjoys a rare mix of low inflation and low unemployment will lead to the growth of the hospitality industry as experienced in the US. An economy that pulls out of recession experiences significant growth in investments in real estate (the hospitality industry inclusive). Other variables like the number of hotels, hotel charges, sales incomes, number of people that patronize hotels, inflation rates, unemployment rates, bank lending rates, tax rates etc which are directly or indirectly influenced by the national economy also affect the hospitality industry. Data for most of these variables for as long as 27 years are not available.

conclusion.

The paper examined the influence of the Nigerian economy on the hospitality industry. The roles expected to be played by the hospitality industry were discussed and also those of the government.

The contributions of the hospitality industry in both advanced and developing economies were discussed. In fact, some countries earn the bulk of their foreign exchange from hospitality industry. As for Nigeria, most of the hotels in the country are privately owned. Factors responsible for the low pace development of the hospitality industry include lack of clear-cut policies on the part of government. Essential infrastructural facilities are lacking coupled with the general insecurity in the country. Hospitality operators themselves do not help matters as some of them are involved in unethical practices. Luckily, quite a number of international hotel brands have been licensed to raise the standards (Ward, 2008b).

Data on the Gross Domestic Product and the contributions of the hospitality industry to the GDP from 1980 to 2006 were analyzed. Lag variables were introduced and white noise heteroscedasticity tests were performed to make the conclusions valid. The result of the analysis shows that a positive correlation exists between hospitality industry and the Nigerian economy and that the industry depends almost entirely on the economy. The finding here is quite in agreement with an earlier work of Su (2008) which established the same relationship, using the U.S economy. For the hospitability industry not to fall, and for it to be relevant to the Nigerian economy, government must live up to its responsibility by providing necessary infrastructure, beefing up security, and giving incentives to investors in the industry.

The author acknowledges the scarcity of local research works on hospitality industry in Nigeria as a limitation to this work and therefore appeals to stakeholders in this sub-sector of the economy to rise up to the challenge. Most of the write-ups are on tourism hence the scarcity of materials for literature review. This piece is intended to be part of the pioneering work on hospitality industry in Nigeria.

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