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Fall in Oil Price: Hospitality Business an Option for Nigeria Economy.

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Abstract

This study was conducted to examine the fall in oil price and option of hospitality business in Nigeria economy. A desk review of seven studies was used as tools for this study. The study thus concluded that hospitality business is an important factor for alternative revenue option for Nigeria economy. It pointed out that hospitality business is relevant to sustainable investment with holistic trade and industrial policies as bedrock to one of the pool of revenue for sustainable Nigeria economy. It therefore recommends among others the need for a functional machinery of hospitality policy driven economy that will be holistic in all areas to provide the needed dividend to Nigerians.

Keywords: Fall, Oil price, Hospitality business, Nigeria economy.

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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 (Sanni, 2009). Hospitality industry is on the rise in the recent time across developing economies. Eja, Ajake, Otu and Ndonah (2011) revealed that it has become an important industry in most countries of the world, especially those with great tourism potentials. Their work exposed further that, the industry is making heavy investment and providing new facilities such as more parking areas, swimming pools and more new buildings with larger guest rooms to provide comfort to different categories of visitors.

The Nigeria economy since 1960 has been characterized as mono-economy, where over dependence has been on crude oil as the major revenue base of the nation. Over two decades, there have been cries from different stakeholders and players of the economy for diversification in order to relief the oil sector from its over bearing. Concerns have been geared therefore to the business of hospitality with the presence of many tourism centers across the nation to serve as one of the alternative national income. Generally, hospitality industry is the livewire of tourism at all levels and The United Nations World Tourism Organization (UNWTO) confirms that between 70% and 75% of international tourists’ expenditure goes to hospitality services on annual basis (Sanni, 2009). This indicates that hospitality industry is strategically relevance to tourism sector. The thrust of this study thus review about six studies that center on relevance of hospitality industry in economic development. The review therefore provided conceptual discussion to the continuous global illness of oil price decline. It also reviews the concept of hospitality business and its drives in providing alternative revenue to Nigeria economy.

Fall In Oil Price

Economies world over is experiencing series of social, psychological and political illness due the continuous fall in the price of crude oil in the international market. As at this review, the price has fallen to $22.78 per barrel. The view of Rasak and Yusuf (NAN) pointed out that, the hardest hit has been countries whose economies depend largely on oil for appreciable percentage of their foreign exchange earnings. They opined that, crude oil accounts for about 95 of Nigeria’s foreign exchange receipts. Also, the reality of possible crippling budget shortfalls also stares many oil exporting countries in the face as the priced commodity has hit its lowest price level in four years. Bowler (2015) exposed that global fall in oil prices lead to significant revenue shortfalls in many energy exporting nations, while consumers in many importing countries are likely to have to pay less to heat their homes or drive their cars.

Rasak and Yusuf (NAN) noted that crude oil is not just the principal export commodity of the country, but indeed all aspects of the nation’s economy rely on the commodity as the major source of revenue. In fact, the annual budget, which defines the direction that the country charts, is based on crude oil price benchmarks. They exposed further that many countries on the continent depend on commodity exports as their main sources of revenue. They suggested that Nigeria and other countries on the African continent must step back and learn the lessons of the ongoing economic transformation. The report of Bowler (2015) opined two major reasons for this fall; weak demand in many countries due to insipid economic growth, coupled with surging US production. Added to this is the fact that the oil cartel OPEC is determined not to cut production as a way to prop up prices. Thus, this trending economic scenario has the winners and losers. However, whatever the side of the coin, most analyst in the world and Nigeria have advocated for alternative sources of revenue generation in their economies. Among the alternate revenue sources is the most echo private sector; an engine of growth to generate more exportable goods and services. Consequent on the need to spur the private sector, there is a need for a more responsive government intervention in area of policy driven private sector for provision of robust services to build sustainable revenue for the nation economy.

Hospitality Business and Nigeria Economy

Theoretically, hospitality is an act of being friendly and showing generous reception to guests or visitors. Business is strictly a commercial activity; it is a person’s regular occupation or trade. Conceptually, hospitality business is the business of entertaining clients in all categories. This business can be done in hotels, integrated resorts, tourism and hospitality consultancy firms, tourism bureau, food and beverage establishments, hotel management companies, cruise lines, tourist attractions, airlines and airports, etc. The hotel, catering and tourism industry is the major unit of the hospitality business in Nigeria. The report of Geneva (2010) exposed that compared to other sectors of the global economy, the industry is one of the fastest growing, accounting for more than one third of the total global services trade. According to the World Travel and Tourism Council, the hospitality industry plays a vital economic role in local communities throughout the world (Ajake, 2015). The hotel industry has been reported to have overbearing direct impacts on the economy of its host community through the provisions of employment, structural development, exposure, income generation, foreign exchange generation (Ajake, 2015). Various literatures have revealed the contribution of hotel and catering services in promoting the tourist attraction of the host communities. They have some indirect impact on the economy of the host communities through the transport system, tour guides, arts and craftsmen, food and beverages sector, security operatives, restaurants, drinking spots, club houses and the local market men and women who all benefit from the trickle-down effect or multiplier effect of the tourists’ presence in their communities.

The work of Ajake (2015) recognized that tourism is an important factor that can contribute to the development of market-oriented economy of the hospitality business. Tourism is linked to cultural, economic and intellectual potential of a nation and thus, a well-organized business can serve the promotion of the income of the nation. On area of diversification of the economy, Ajake (2015) opined that, diversification of a nation’s economy is a sign and powerful factor of development.
and a sustainable source of wealth. That is, if a country hope of economic survival is dependent on an industry like petroleum, then such industry is bound to experience pressure on its facilities and resources which may lead to economic recession which would cause poverty and starvation among the people and a breakdown of economic activities within such a region. The testimonies of this economic recession are here with us. Hospitality Business has its present in Nigeria and specifically, Lagos, a mega city in Africa. Lagos State GDP Survey (2010) revealed that hospitality industry contributed over N82B to Lagos GDP in 2010. Price Water House Coopers (PwC’s) Hospitality Outlook 2015 report, forecasted revenue gain for hospitality market in Nigeria and also revealed that the number of hotel rooms in Nigeria is expected to be more than double in the next five years, it is however, expected that this development kick-off in Lagos. Accredited hotel booking website in Africa with enhanced presence in Nigeria recorded that there are one thousand four hundred and forty-three (1,443) hotels in Lagos state with seventy-eight of these hotels in Victoria-Island, Lagos.

The impact of this business in the economy cannot be over emphasized. It can be seen in the area of employment provision. The hospitality industry has been a major source for employment in most economies; Oxford Economics (2015) reported that United Kingdom (UK) hospitality industry accounted for 9% of total employment in the UK for the year 2014. In the Gambia, approximately 30% of the workforce is directly or indirectly employed through the hospitality industry (Yamamura, 2004). In Maldives (83%), Seychelles (21%) and Jamaica (34%) of their total workforce are employed through the hospitality industry. This can be captured in the country economic variables. Also, the industry has multiplier effect as every Naira spent by visitors ripple through the local economy supporting many indirect and induced businesses. A portion of each new tourist naira is re-spent by local firms who purchase goods and services supporting other local businesses. The hospitality business also served as Improved Quality of Life for Residents: As a result of visitor spending, residents enjoy a vibrant community composed of a wide variety of restaurants and entertainment establishments right in their backyard which is often the resultants of the exotic and expensive lives on the Lagos Island. It as well, builds cultural integration and trading of cultural heritages between and among economies.

Eja, Ajake, Otu & Ndomah (2011) investigated the role of hospitality industry in Cross River state using Multiple Regression Analysis Model by evaluating the contribution of hotel industry to socio-economic variables. Their investigation showed that though much may not have been felt from the hospitality industry, however the industry still has more to offer in terms of socio-economic dividend to the growth of Cross River State when managed adequately. The socio-economic variables assessed in the study were revenue generation, employment creation, urban development, tourism development and local economic perspectives. Their study revealed that 21.95% of total variations in hotel industry have influenced socio-economic development of the state’s revenue generation, employment creation for the teeming population, urban development, tourism development and an upswing in the local economy. The view of Eja, et al (2011) is supported by many literatures that affirmed the contribution of hospitality business into nation’s economy in areas of job creation, source of revenue generation for operators in the industry, source of income to all the categories of the government; Local, State and Federal through tariffs and tax system and significant source of foreign exchange revenue for many countries of the world. The study of Sanni (2009) corroborates Eja, et al (2011) in their investigation of the influence of the economy on hospitality industry in Nigeria by assessing the contributions of the hospitality industry to the Nigerian economy. The study exposed that 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.

Sanni (2009) further revealed that there are over a million hotels in the United States of America. But in Nigeria, there are only about 12 internationally branded hotels. This few internationally branded hotels are 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; almost as high as 25% in Nigerian banks. Notably, several literatures have exposed that Nigeria is largest oil exporting country in Africa and has a rapidly growing economy. Suberu, Ajala, Akande and Olure-Bank (2015) opined that with the volatility of global oil prices and often volatile growth of Nigeria’s economy, the country has wasted much of its opportunities to break away from underdevelopment despite its massive natural and human resources endowments. It is therefore expected that the government at its various level should be more proactive and creative in building revenue options away from oil revenue. The government should look away from its dependence attitude on crude oil resources as the major source of revenue and provides business environment for both local and international investors. Political and social will should be developed for the country to rebuild the path of economic progress through diversification, especially in hospitality business.

Diversification presents the most competitive and strategic option for Nigeria in light of her developmental challenges and given her background. It has a lot of benefits for Nigeria to maximally utilize her abundant resource – base to rebuild the economy and enjoy the benefits of all the linkages, synergy, and economies of scale, grow national technology and foreign investment profile, build human capital, exploit new opportunities, lessen averagely operational costs, increase national competitiveness and grow the standard of living and confidence of the citizens for national renaissance (Suberu, Ajala, Akande and Olure-Bank, 2015). Hospitality business with its connection to tourism sector can actually drive all the listed benefits of diversification exposed by Suberu, et al (2015) therefore, the need for this option of national revenue drive should be attended to. Suberu, et al (2015) further stated that diversification does not occur in a vacuum. They emphasized the need to have in place an enabling environment to make diversification possible.
Conclusion and Recommendations

In light of the important factors of alternative revenue option for a living economy, it is imperative to point out that hospitality business is relevant to sustainable investment with holistic trade and industrial policies as bedrock to one of the pool of revenue for sustainable Nigeria economy. Also, investment in hospitality industry will lead to national growth performance, macroeconomic stability, competitive exchange rate and expansionary but responsible fiscal policy. It will aid viable institution of good governance and absence of conflict and corruption, if it is well and genuinely managed. Based on the findings of this study, it was recommended that a functional machinery of hospitality policy driven economy that will provide the needed dividend to Nigerians. A holistic government regulation on land use and acquisition act for interest of investors both locally and internationally in having landed property for hospitality investment. The investment banking should be encourage to review lending rate to encourage capital investment in the industry. There is need for enabling environment for private investment on area of security. There is need to empower government agencies and regulatory bodies to ensure and enforce standards in area of construction, service provision and manpower use of the industry.

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