

UNDERSTANDING RESPONSIBLE ENTREPRENEURSHIP OF MICRO-BUSINESSES IN BANGLADESH

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Introduction

Bangladesh is a developing country in South Asia that ranks 140th out of 177 countries with an estimated 40% of the population living below poverty line (UNDP Human Development Report, 2007/08). Like other developing countries Bangladesh has been attempting a market-oriented development approach in response to pressure from international donors particularly World Bank and IMF for more than two decades. Whether or not, and to what extent these reforms have been successful is still debated, but this ideology of minimalist government has led to the emergence of numerous Micro-Businesses (MBs) in Bangladesh and their number has increased steadily in the recent years. In addition to market-based reforms, factors like urbanisation, poverty and unemployment have also contributed to their rapid growth. These MBs are now supplying the goods/services which were once the domain of the state. These businesses are generally sole-owned but can have up to a maximum of 10 employees (Mintoo, 2006). They range from petty traders to personal service workers like barbers, street hawkers and small shop owners. The MBs are generally unregistered and form a large part of the informal sector yet their contribution in

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alleviating poverty and boosting economic growth remains critical. According to Mintoo (2006: 4) in Bangladesh, businesses having only one worker are credited for having contributed 26 percent share of the total Small and Medium sized Enterprises (SME) contribution to the economy, followed by 51 percent by those having 2-5 workers, and 10 per cent by those having 6-10 workers. This reflects the importance of the micro businesses in the economy of Bangladesh. The MBs choose to operate informally for a number of reasons which mainly include: avoiding the costs, time and effort of formalization including incorporation; tax registration; obtaining licences and fulfilling other regulatory requirements and also due to their lack of literacy; skills' and entrepreneurship education (Malik and Abed, 2007).

Although the MBs play an important role in the economy of Bangladesh, their potential is being undermined by their lack of social responsibility. This is demonstrated by their irresponsible business practices such as the sale of adulterated, underweight goods, price hikes, malpractices like informal cartels, black marketing of commodities and attempts to hoard which are becoming commonplace and have emerged as a problem (Khaleque Undated)).

The term Corporate Social responsibility (CSR) has been mainly associated with large companies (Spence, 2007; Jenkins, 2006; Perrini, 2006) and doesn't match with the social responsibility of individual businesses who do not have a corporate culture nor do they follow any forms of reporting, codes of conduct, procedures, strategies and structures (Spence, 2007). Indeed there is increasing recognition that the concept of CSR can not be applied to SMEs and needs to 'be replaced with a concept closer to SMEs specific reality (Murillo and Lorenzo). The concept 'responsible entrepreneurship' is parallel to CSR except for being associated with small entrepreneurs rather than large corporate entities (Fuller and Tian, 2006; Chapple and Moon (2007). It usually refers to being responsible for one's effect on others and taking responsibility for helping others in normal business practices as well as in adjunct or non-core activities (Fuller and Tian, 2006). The term responsible entrepreneurship is therefore used in this paper to refer to the CSR practices of micro-businesses.

The concept of CSR is novel in Bangladesh and the few studies that have been undertaken are mainly limited to large multinational companies. The MBs which form the bulk of the informal

sector remain largely neglected. Malik and Abed (2007) also confirm that there is a lack of adequate data and research regarding the informal sector in Bangladesh. The focus of research on large companies can be related to their impact on the stakeholders which is more noticeable and easy to evaluate (Family and Community Development Committee, 2008). However responsible entrepreneurship of MBs is critical in the context of Bangladesh as they form a predominant part of the informal economy and have the potential to affect the society and the stakeholders in both positive and negative ways. The paper attempts to fill in the void in the literature by investigating the underlying reasons for their lack of socially responsible business practices. In doing that it presents a conceptual framework that describes the unique features of the MBs and outlines the impact of contextual factors such as business environment, culture, socioeconomic condition and the pressure from international donor agencies and civil society on shaping their perceptions of social responsibility.

The paper starts by presenting an overview of the state of CSR in Bangladesh. It then presents a framework of social responsibility of MBs. The framework is based on two dimensions: the unique features of these businesses; and the contextual factors which these businesses encounter and how these factors help shape their perceptions of social responsibility. This is followed by conclusion, limitations and implications of the study. Although it is understandable that MBs in Bangladesh operate within the framework of a generally difficult context, this paper does not presuppose that this makes them automatically all non responsible in outlook and orientation as there are evidences to the contrary as well. Some MBs manage to forge a responsible orientation despite very constraining contextual realities. This paper focuses on those MBs only that demonstrate socially irresponsible business practices.

Overview of the state of CSR in Bangladesh

The concept of CSR is evolving in response to the changing business environment, globalisation and varying customer expectations. As the term is associated with the social responsibility of businesses, it has been a subject of intense debate and controversy over the last few decades (Jamali, 2008). Consequently socially responsible corporate behaviour has become difficult to define as it means ‘different things in different places to different people and at different times’

(Campbell, 2007: 950). In this paper the definition of socially responsible behaviour as proposed by Campbell (2007) is used that has two parts. First, the businesses must not knowingly do anything that could harm their stakeholders—notably, their investors, employees, customers, suppliers, or the local community within which they operate. Second, if they do cause harm to their stakeholders, they must then rectify it whenever the harm is discovered and brought to their attention either voluntarily or in response to legal requirements or some sort of encouragement.

Although the term CSR is novel in Bangladesh, its importance is increasing as responsible businesses not only contribute to the welfare of the society but also are more profitable in the long run. They can act as a strategic tool to facilitate the private sector including the micro businesses involvement in economic activities maximising benefit to all stakeholders (Sobhan, 2006). Although the MBs form the bulk of the informal economy where production or employment arrangements are often semi-legal or illegal (e.g. because of absence of required licence, tax registration etc), most informal businesses produce and/or distribute legal goods and services (Malik and Abed, 2007). There are evidences that some companies are engaged in responsible entrepreneurship in Bangladesh despite the difficult context they face in terms of corruption, weak legal and regulatory framework. However the number of businesses which are taking advantage of the existing weak legal and regulatory system and are engaging in socially irresponsible business practices is increasing.

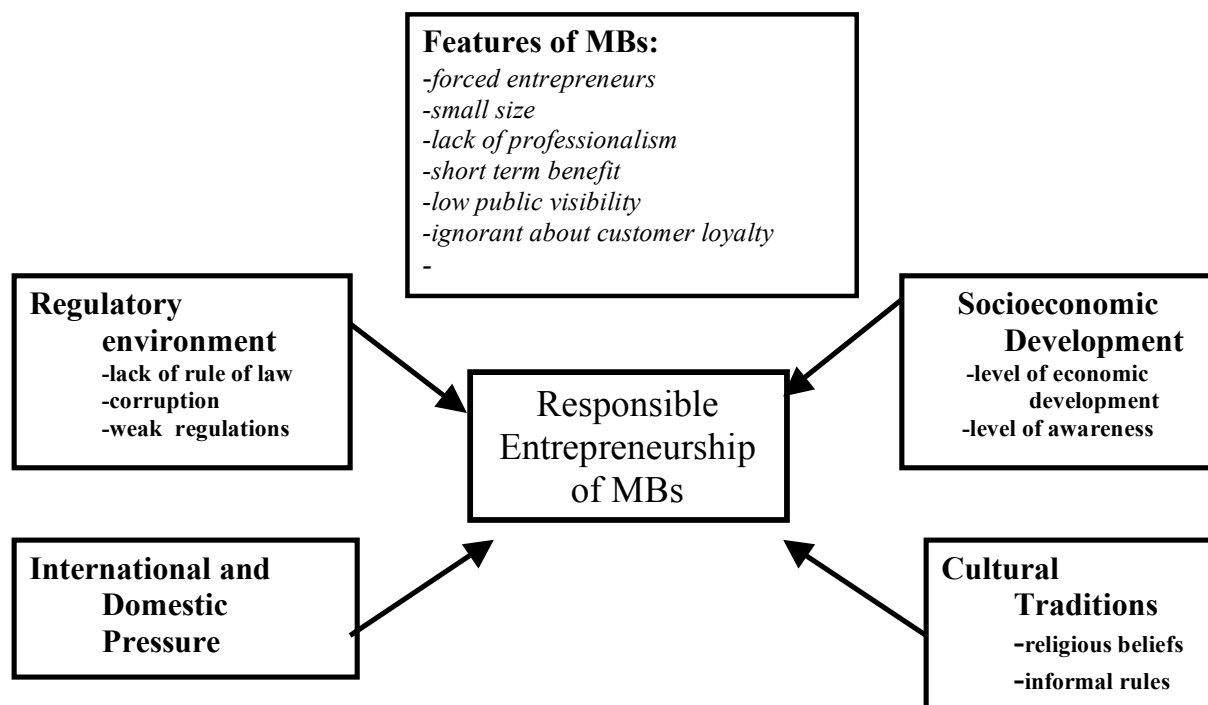
In the last decade, irresponsible business practices demonstrated by businesses across different industries that range from food, retail, garments, and manufacturing have become widespread in Bangladesh. For example the incidences of sale of low quality, underweight, contaminated fertilisers, sometimes at high prices have become frequent. It has been reported in local newspaper that dealers were selling contaminated agricultural inputs i.e. fertiliser mixed with cement granules, low quality seeds and pesticides (Reporter, 2004). The Consumers Association of Bangladesh (CAB) recently reported that most of the fertilisers used by the farmers were contaminated and substandard (UNB, 2007). Similarly, despite having a great potential, the frozen food sector is progressing at a slow pace and the exporters themselves are responsible for this (Financial Express, 2006). The European Union countries which buy about 90% of the frozen food from Bangladesh often send back the consignments on grounds of poor quality. As the

consumers in the developed economy are health conscious, they refuse to buy low quality and hazardous food products. Consequently, Bangladesh is not only losing a potentially attractive market, but also this is adversely affecting its reputation in the international market. Further there has also been great public concern over the widespread sale of adulterated, underweight food items at inflated prices and the risks associated with the consumption of such food items (The Daily Star, 20.01.2008; Editorial, 11.08.2005)

Although the term CSR has evolved in the past few decades, the two main school of thoughts lie between two extremes- CSR having an economic focus and ensuring only shareholder interest, and the focus of CSR evolving to include a number of additional dimensions which emphasis on economic, legal, ethical and discretionary responsibilities (Carroll, 1999). Jamali (2008: 213) argues that these variations in the different conceptions of CSR result from ‘differing fundamental assumptions about what CSR entails, varying from conceptions of minimal legal and economic obligations and accountability to stockholders to broader responsibilities to the wider social system in which a corporation is embedded’ Although Carroll (1999) proposed a linear progression in the model where economic responsibilities came first and philanthropic responsibility came in the last stage of CSR maturity, this does not apply in developing countries. In developing countries there are problems associated with the legal dimension of CSR due to weak legal and regulatory standards, however, a growing body of evidence suggests that CSR in developing countries strongly focus on philanthropic responsibilities (Jamali and Mirshak, 2007; Amaeshi et al. 2006) according to the religious beliefs. In the context of globalisation, Dunning (2005: 11) argues that ‘a religious and ideological perspective does have valuable insights to offer’. This might provide an explanation of why CSR practices in developing countries predominantly focus on philanthropic responsibilities as they can be linked to specific religions in different countries. This can be seen in Bangladesh as well, where businesses-large and small-are involved in philanthropic activities, providing charities and donations and are doing it unknowingly without being aware of incorporating CSR policies as such (Sobhan, 2006)

The following section establishes a conceptual framework to promote the understanding of responsible entrepreneurship of MBs in Bangladesh.

Figure 1: Factors influencing responsible entrepreneurship of MBs in Bangladesh



Understanding responsible entrepreneurship of MBs in Bangladesh

This framework is based on two broad dimensions: unique characteristics of MBs and the context of developing countries in which these businesses operate. It is necessary to take into account the unique features of the MBs, and the different context in which they operate in order to understand their responsible entrepreneurship (See Figure 1).

Features of MBs

A common feature of MBs in Bangladesh is the fact that most of them are forced to become self employed for their own survival rather than being classic entrepreneurs driven by challenge, inheritance, and independence. The MBs in general are poor, have little or no education and have no protection of labour law and social security (Maik and Abed, 2007). They therefore are driven by economic motives and focus on short-term benefits by engaging in irresponsible business practices as they struggle to survive for existence.

Another important feature of MBs is their small size and their link with local markets only. They do not have any brand capital, no national exposure instead have a low public visibility. They are not aware of the importance of developing a trusted relationship with the customers mainly due to their low level of education and lack of awareness.

MBs in Bangladesh tend to be more isolated and disconnected from the local community. They are largely alienated from local, social and political life, and concentrate narrowly on their own business activities. This can be explained by their low public status, their low level of education which makes them feel neglected and abandoned. As they are largely alienated and disengaged from the local community this has important implications for their socially responsible business practices.

Consumer loyalty and trust are increasingly being recognised as crucial ingredients for businesses, regardless of their size, to gain a unique competitive position among their competitors (Sheehy, 2006). Due to their low level of education and awareness, MBs in most cases are not aware of the importance of having a good reputation, networking with stakeholders, and to build on customer trust and loyalty.

Contextual factors

Socially responsible business practices of MBs need to be viewed within the context of Bangladesh which is very different to that of developed countries. Various contextual factors -the business environment, socio-economic conditions, cultural traditions, and international/ domestic pressures– which are likely to have a significant influence on the business practices of MBs are discussed below.

I. Regulatory Environment

The business environment in Bangladesh characterised by pervasive corruption, lack of rule of law and poor regulatory quality is allowing and offering opportunities for businesses to be socially

irresponsible rather than being socially responsible. Until recently there have been only a few laws relating to the protection of consumers' right with provisions for small fines making it very easy for offenders to pay in cases of wrong-doing. Most importantly, even these laws have not been implemented properly mainly due to poor regulatory environment and corruption. Business needs a stable and strong regulatory framework, which enforces compliance with standards in order to be socially responsible. Bangladesh has a weak regulatory environment and even though there are rules, the main problem lies in their enforcement. The enforcement of laws and rules to protect the interests of the customers are not effective and consequently ordinary customers have always remained in the mercy of the producers, distributors and sellers of goods and services (Khaleque, Undated). Further, sanctions which play a vital role to encourage enforcement and underpin compliance, are not effectively implemented as private entrepreneurs are able to circumvent them through irregular, illegal payments (Azmat and Coghill, 2005), and also through their patron-client relationship. Malek and Abed (2007) also argue that the MBs need to bribe a number of individuals which range from local extorters, government officials, and local musclemen backed by local political leaders. Despite the payment of bribes, they lack the protection of law in order to conduct their business and survive (Malek and Abed, 2007). The absence of effective sanctions, the weak monitoring capacity of the government and the prevalence of corruption allow the MBs to be less constrained to behave in the public interest and are also helping to create a weak and unethical corporate culture.

II. Socio-economic Development

Poor socio-economic conditions of the MBs at individual level also have an influence on shaping the individual perceptions and behaviour of social responsibility. Despite the microfinance revolution in Bangladesh, limited access to formal credit is another major constraint faced by MBs to start a business (Malik and Abed, 2007). In these circumstances, MBs who are mostly poor with a large family to maintain and face severe constraints in their access to finance therefore understandably remain concerned with increasing their income level through irresponsible business practices. Their limited and unsteady income not only limits their commitment to be socially responsible but also is one of the reasons for their focus on short term rather than long term profitability.

II a. Level of Awareness

The importance of the power of consumers and their impact on the success of the businesses is now widely accepted. Consumer retention is critical for the success of the businesses and incorporation of responsible business practices pave the way for increased customer retention through enhanced customer loyalty and trust as ‘consumer criticism of perceived CSR deficiency can be extremely detrimental to corporate profitability and share’ (Maloni and Brown, 2006: 35). Consumers in developed countries are increasingly attaching importance to how a company is conducting its business and whether it is adopting socially responsible business practices as per its claims (Fliess et al, 2006). Due to increased scrutiny of the consumers companies in developed countries are under pressure to adopt voluntary CSR policies and this is reflected in the rise of organic and additive free products and also products created according to fair trade, ethical and environmental principles. Therefore one of the reasons for companies adopting CSR in developed countries stems from increased customer awareness about social responsiveness. In terms of protecting consumer rights and consumer awareness, Bangladesh, however, presents a different scenario. Although the social indicators of Bangladesh have improved in terms of rising female education level, increase life expectancy, infant mortality, the adult literacy rate still stands at 47.5% (UNDP Human Development Report 2007/08) which reflects the fact majority of the consumers are very vulnerable. They are generally not aware of their fundamental rights due to low level of education and the businesses take advantage of the ignorance of the consumers and engage in deceptive practices. For example Khaleque (undated) argues that ‘many ordinary misrepresentations or vague advertisements regarding the high quality of merchandise do not necessarily constitute an actionable breach of contractual terms to be punished’.

In addition, businesses are also ignorant of the importance of having mutual trust and a committed relationship with the consumers. The problem is further aggravated by outdated laws and lack of a consumer protection law in place. A comprehensive law for protecting the rights of the consumers was drafted in 1992 but even after 16 years, the law has not been enacted (The Daily Star, 20.01.2008). As a result, consumers’ rights are frequently abused as the market favours the suppliers. Consequently there are incidences of sale of unsatisfactory goods and

services, price hikes, lack of necessary information for consumers to make informed decision, deceptive advertising, power abuse, little after sales service and very little concern for environmental protection.

III. Cultural tradition

There is considerable evidence that suggests that CSR is culture-bound (Dunning 2005; Waldman et al 2006). Being a Muslim state and with a high proportion of the population (88%) being Muslim, there is a strong culture of philanthropy and businesses -large and small- engage in donations and charities. According to Sobhan (2006) businesses play an important role in providing relief and rehabilitation in the wake of natural disasters like cyclone and flood. Further some businesses have also formed their own philanthropic trust. Amaeshi et al (2006:96) argue that this philanthropic focus of CSR in developing countries 'could lead to rent-seeking behaviours and negative power relations which may not be socially optimal in the long run'. This philanthropic focus of CSR may explain the basis of the patron-client relationship, focus on informal rules rather than formal rules and the prevalence of corruption in Bangladesh.

Due to weak regulatory quality and corruption in Bangladesh, informal rules have emerged as the norm undermining the legal obligations- one of the dimensions of CSR proposed by Carroll. Schick (1998) argues that informality is the major problem in the public sector in developing countries. In fact this problem is not only limited to the public sector in Bangladesh as many business activities are based on informal rules. Given the weaknesses of law enforcement in Bangladesh it is now being argued by some that payment of taxes, repayment of loans, payment of public utility bills should be considered as integral part of CSR activities in the context of Bangladesh as they are voluntary in nature and can be easily avoided by businesses (Sobhan, 2006).

The influence of culture on an individual's ethical perception has been supported by a number of studies. For example Joyner et al. (2002) argue that values, ethics and CSR are not mutually exclusive but are interrelated. In addition to religious beliefs and informal rules and norms, the culture of the society is also influenced by corruption, low level of education and awareness of the members of the society, that together influence an individual's perception of moral and social

responsibility. In the context of Bangladesh factors like corruption, weak regulatory environment and lack of awareness has influenced its culture which influence values, beliefs and behaviours of individuals, which in turn shape culture to evolve.

IV. Pressure from Donors/ MNCs and Civil Society

Although there remains considerable scope for the international agencies to raise public awareness about CSR initiatives in Bangladesh, in most cases they have not taken a proactive approach and their efforts to influence the perception of MBs on responsible entrepreneurship remain limited. Donor agencies, particularly the World Bank and the ADB have been mostly concerned with advocating a market led development approach and improving governance. The issue of creating awareness among the MBs and the population about the importance of promote socially responsible business practices have not been attended seriously.

As MNCs are becoming increasingly active in developing countries including Bangladesh they have the scope of contributing to sustainable business practices. Ideally MNCs should be the role model in terms of complying with the standards of their home country, obeying the laws and setting example for local companies (Ararat and Göcenoğlu 2006: 11). However rather than being a role model, most MNCs generally adopt socially responsible business practices to protect their bottom line and do not take a proactive approach to promote responsible entrepreneurship of MBs.

The contribution of civil society and media in the public policy-making process, exposing corrupt acts, creating public opinion and awareness are now widely acknowledged (OECD, 2003). These activities are particularly important for Bangladesh where there are problems of rampant corruption, accountability, and transparency, rule of law, poverty, and illiteracy, The NGOs In Bangladesh have been proactive in a number of development areas which include micro-credit, poverty alleviation, empowerment, and increasing education levels. The NGOs remain occupied with these social development programs and have not involved actively to create awareness about the importance of socially responsible business practices; about the customers' rights and empowerments. The Consumers Association of Bangladesh (CAB) – a non government and non-

profit organisation- formed in 1978 to promote consumerism has been attempting to make consumers aware of their rights and responsibilities and is also involved in organising seminars and workshops and meetings. However CAB faces multiple problems that prevent it to be active and efficient enough to promote basic consumer rights and a good example is the lack of a consumer protection law in Bangladesh even after years of attempts by CAB.

Conclusion

The framework developed in the study provides a useful insight into the irresponsible business practices of MBs that has become commonplace in Bangladesh. This conceptual framework provides an understanding of the underlying reasons for lack of responsible entrepreneurship of MBs in Bangladesh. It also establishes a path forward for both practitioners and researchers to address social responsibility concerns and to further explore responsible entrepreneurship

In the context of increasing emergence of MBs in developing countries, this paper has important implications that unless a culture of responsible entrepreneurship is created, their potential to contribute to the economy cannot be fully utilised.

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