

**Innovation as a survival strategy during the global financial crisis:
The Bangladesh case**

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Innovation as a survival strategy during the global financial crisis: The Bangladesh case

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Abstract

This paper explores the possible ways of coping with the current global financial crisis and investigates if business innovation would be a better way of dealing with the crisis in a developing country such as Bangladesh. The research mostly uses secondary information that is analysed in the context of the study. The literature on the relevant areas of the topic is reviewed to develop the key concepts and set the stage of this exploratory research. A conceptual framework capturing the drivers and outcomes of innovation as a survival strategy is presented towards broadening an understanding of the complexities of the issue after reviewing contemporary thoughts and related theories. The nature and relevance of the possible strategic and tactical options are then suggested with examples towards better management of the crisis. The paper highlights the major findings of the research and notes the limitations and potential of further studies.

Keywords: Financial crisis, Business innovation, Crisis management

Introduction and background

The world economy is currently passing through a critical stage which is driven by the global financial crisis (GFC). While the western advanced economies have been hard hit by the crisis, developing economies have not been able to escape the crisis either. While the crisis has created some problems, it has also led to some opportunities which call for review of the existing strategies for managing the crisis and survival in the new emerging reality. Research has suggested that the current crisis is attributed mainly to the failure of corporate governance systems (Kirkpatrick, 2009). At the decision making level, unchecked corporate greed has also contributed to the crisis. Based on economic inequalities and economic oligarchy, Batra (1985) predicted the emergence of such a crisis in 1985:

“All the signs indicated that the rising concentration of wealth would create a shaky banking system and a speculative fever in the US stock market, which would then crash, leading to a major US depression, and then, with a domino effect, culminating in a global depression (Batra,1985, p.11)”

While this prediction came true later than expected, the world was perhaps not ready to face such an unexpected disaster and accordingly no action plan was thought of and devised in anticipation of this crisis. As a result, the world was thrown into uncertainty and nations were puzzled to see the demise of many well established business organizations. This demise would have been unthinkable few years ago. These include the automotive giant General Motors, Lehman Brothers and others.

The question of how to tackle this crisis and survive is currently at the heart of discussions all over the world. It is interesting to note that while leading economic giants have been severely affected by the crisis, the developing countries - including the emerging economies - have been comparatively less affected. For example, Bangladesh as an under developed economy has been least affected by the crisis. One possible reason may be that the Bangladesh economy is not as organized and sensitive as that of an advanced economy. Also, as the internal market system is not well developed, an impact on one section does not affect the performance of the other. Furthermore, the country is not highly dependent on export earnings to finance development plans because the financing of development projects are largely dependent on foreign aid. Historically, Bangladesh does not have very strong economic and trade links with the developed world. Bangladeshi goods and services are not in high demand in the international market with the exception of ready-made textiles, garments and some selected frozen food items.

The current global economic crisis is affecting Bangladesh in some important ways. For example, the Bangladesh economy is heavily dependent on foreign aid and financial assistance for supporting its development plans both in the public and private sector. Though the inflow of foreign investment in terms of joint ventures and direct foreign investment has been increasing, because of the economic downturn in the western world, the possibilities of continuation of such support seems remote. These changes to the extent of the foreign aid is likely to have a negative impact on the economic growth of the country.

The economic crisis is also taking a toll on the foreign remittance flowing into the Bangladesh economy (Rashid, 2009). The current trend suggests that this vital source of currency would be under threat (Bhattacharya, 2008). Over the last two years, thousands of Bangladeshi workers were forced to return home from countries severely affected by the GFC. This is likely to negatively impact on the Bangladesh economy. Firstly, this will put additional pressure on the domestic employment market as these workers will now look for jobs within Bangladesh. Secondly, families depending on the remittance would be severely affected. Thirdly, the level of demand for consumer and service goods that are locally produced and marketed is likely to be affected. Ongoing infrastructure development projects are also likely to be affected. The pertinent question is how to manage the crisis and come up with the kind of strategies that would be effective in surviving in such a volatile environment. Against the above backdrop this paper is designed to examine the possible options available to manage the crisis and effectively survive in the current volatile environment.

The aims of this research are to explore the alternative options for addressing the crisis with reference to some established theories and suggest appropriate remedial measures to overcome the crisis.

Research questions

Historically, the people of Bangladesh have faced regular natural disasters such as flood, cyclone and famine from time immemorial. Over the years the government of Bangladesh and people have shown remarkable courage and commitment to manage and survive in adverse situations. A number of innovative survival plans have been in place in the past. The administration of the country has also gone through the process of developing projects and plans which have been proven to be effective in combating crises. Crises are not a new phenomenon to the Bangladeshi people and the government. However, given the distinctive nature of the current crisis, the people of Bangladesh are likely to survive by utilizing their experience and talents developed over the years. Since innovative ways of managing the crisis can contribute to the potential of overcoming the situation (Rashid, 2009), the paper proposes the following research questions:

Could innovation be the basis of survival for Bangladesh in the global financial crisis?

Literature Review and theoretical framework

Since Innovation is the main focus of the paper, a definition of innovation is provided in the context of the issues being examined in this paper. Innovation has been defined in a variety of contexts and a variety of definitions of innovation have been reported in the literature. For example, a number of definitions have emphasised the newness of ideas and their application in practice (Rogers, 2003; Zaltman et al, 1973) while others have focused on the outcomes of new ideas in terms of value creation (Higgins (1995, Holt, 1983). Some authors have looked at innovation from the perspective of improved technological systems offering improved services (Afuah, 2003).

For the purpose of this research, innovation is defined as systems/methods or ideas that are significantly new and better than the existing systems and/or ideas and/or methods yielding better outcomes in terms of adding value and enhancing the level of efficiency .

Innovation as a concept has attracted a great deal of attention of business managers and academics in recent times. Porter and Linde (1995) provided a framework as to what action to take when there is an environment pressure on the system. For

example, the authors further rejected the notion that assuming a regulation to be dynamic while others remain constant is not a workable proposition. This implies that when pressures from the changing environment are intensified, management should look for new ways of coping with the changing environment. In fact, these also suggest that all the alternatives need to be explored to find out the best possible options. Obviously, innovation is an option that can be considered in this respect. In Bangladesh, environmental pressure may come from a variety of sources. This includes the situation where external resources flowing from industrially advanced countries are crucial. If the industrially advanced western nations face problems in their economies, this could lead to them reducing their foreign aid commitment. Countries such as Bangladesh who are heavily dependent on foreign financial assistance for financing of their development plans would obviously suffer. Under the circumstances, innovation is a viable option that Bangladesh must exploit to survive in an uncertain environment (Rashid, 2009).

A conceptual model

In view of the results of the literature review relating to innovation and the current GFC, a conceptual framework has been developed to capture some of the contemporary issues surrounding innovation management in Bangladesh. The conceptual framework can be seen in figure 1. The model has three distinctive fields. These are: GFC as a driver of innovation action, innovation itself as an affected agent and the outcomes as the final consequence of the innovative action. Field 1 comprises the current GFC as antecedents to innovation, hence is dedicated to the discussion of the nature of GFC in terms of its possible impacts on innovative ideas as survival strategies and tactics with particular reference to Bangladesh. Field 2 consists of the nature and scope of the innovative practices that Bangladesh could viably explore as a means to cope with and survive in the GFC era. It is assumed that these innovations would be driven by direct pressure from the GFC. Therefore, this field is devoted to the exploration and specification of the innovative options that are considered appropriate for survival. This field is comprised of four broad areas that are hypothesized to be linked with the GFC. It is worth noting in this connection that this hypothesized link is likely to be moderated by the overall macro environmental conditions such as regulatory practices, the role of government and the participation and cooperation of the general public and the businesses in general as all these parties would make important contributions to the success of the innovative venture.

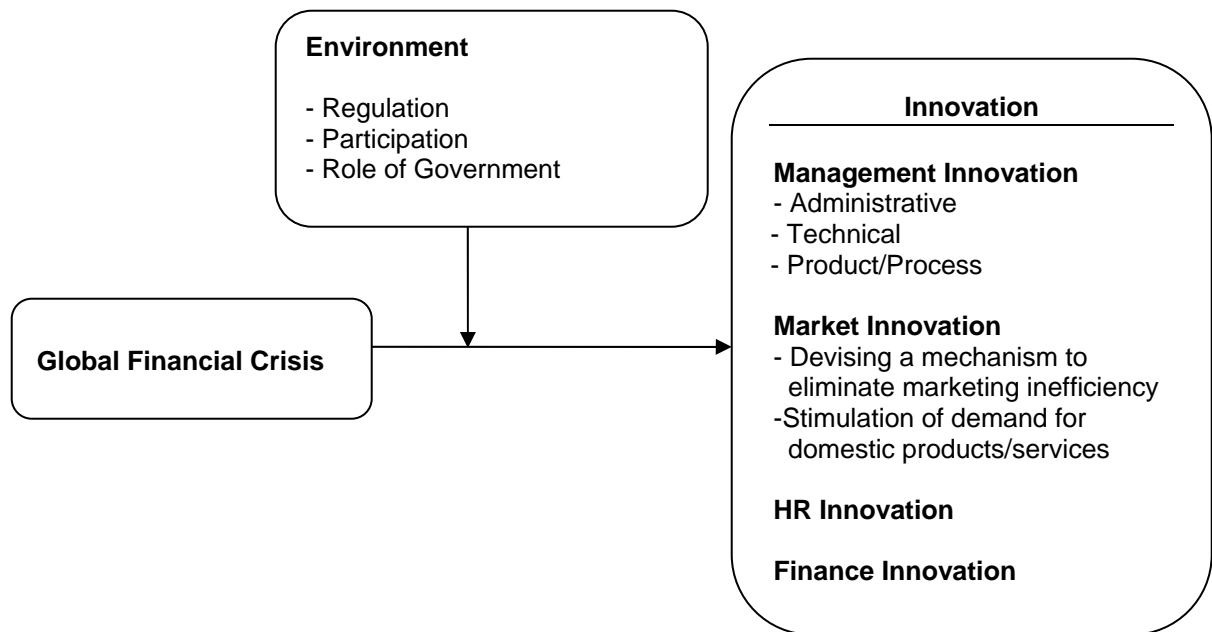


Figure 1: A conceptual Framework of Managing Financial Crisis through Innovation.

Management Innovation

Today's world is characterized by profound social, economic and technological change. "Change is ubiquitous and pervasive, and innovation facilitates the process of adaptation to many of these changes" (Gopalakrishnan & Damanpour, 1997, p.15). Innovation plays a role in nurturing the economy, in enhancing and sustaining the high performance of organizations, in building competitiveness, in creating better quality, and in improving standards and efficiency (Gopalakrishnan & Damanpour, 1997). Innovations have usually been categorized by researchers into a set of contrasting types; each providing an insight into our understanding of the innovation process. Three of the most popular typologies are based on distinctions between administrative and technical innovation, product and process innovation, and radical and incremental innovation (Gopalakrishnan & Bierly, 2001; Gopalakrishnan & Damanpour, 1997).

Administrative and technical innovations reflect a more general distinction between the social and technical system of an organization (Damanpour, 1996). "Technical innovations include products, process and technologies used to produce or render services related to the basic work activity of an organization" (Gopalakrishnan & Bierly, 2001, p.109). "Administrative innovations pertain to organizational structures, administrative processes and human resources; these innovations are indirectly

related to basic work activity of the organization and are more directly related to its management” (Gopalakrishnan & Damanpour, 1997, p.19). Technical innovations usually occur in the technical core whereas administrative innovations are more often initiated in the administrative core of an organization (Gopalakrishnan & Bierly, 2001).

Product and process innovations are distinct, based on different areas and activities that each of them affect within the organization (Gopalakrishnan & Bierly, 2001). While product innovations are outputs or services that are introduced for the benefit of customers, employees or clients (Gopalakrishnan & Damanpour, 1997), process innovations relate to the delivery of outcomes rather than being outcomes themselves and more difficult to implement. This is because their successful implementation depends on widespread changes to organizational structure and administrative systems (Damanpour, 1996).

This research is about administrative or managerial innovation. The management innovation intends to create efficiency and productivity of the management system.

The possible actions may include the following:

1. Developing management skills by training

As managing the GFC would require adequate knowledge and training in developing skills, proper training mechanisms need to be devised for employees so that they can effectively initiate innovative and creative action (Ligon., Abdullah and Talukder. (2007). For example, financial institutions such as banks are currently faced with the challenge of coping with the GFC. Suitable training may help them develop new ideas and financial packages attractive to clients. These initiatives can stimulate the willingness of clients to resume spending; resulting in a boost to the demand of products/services and thereby increase economic activity.

2. Improve efficiency of the manpower

Since efficient manpower is essential for facing any challenge such as the current GFC, programs have to be designed towards increasing the efficiency of the managers responsible for handling the GFC. For example, efficiency of the managers in the public sector can be enhanced through seminars and symposiums where financial and management experts can provide valuable clues as to how to deal with the crisis. Sharing of views amongst managers, practitioners and politicians can lead to a consciousness of the best possible ways of facing the crisis.

Product/Market Innovation

Historically, Bangladesh has been known as a “sellers’ paradise” meaning that buyers often feel helpless as their rights are not protected. This can create a power imbalance in the market place in favour of sellers. The power imbalances in the market in Bangladesh have resulted in manufacturers and marketers exploiting helpless consumers. Bangladesh has witnessed some governmental action in the past few years by is aimed at detecting and punishing dishonest business activities such as adulteration and imitation of consumer goods. Bangladesh is experiencing very high level market inefficiency in both the public and private sectors. This is mainly driven by inefficiency at the various levels of the marketing system in Bangladesh. The greatest incidences of inefficiency result from the wastage of raw materials and agricultural produce because of the lack of adequate storage facilities. For example, pineapple, jackfruit, mangos, tomatoes, cauliflower and hilsha fish are not properly stored or transported using specialized air-conditioned storage and air-conditioned vehicles. Had there been any warehouses and specialized vehicles equipped with modern facilities to store and transport the above items, the economy would certainly have benefited in term of an increased contribution to GDP growth and employment and income generation for the public and the businesses involved. This state of affairs points to the need for innovative thinking in the area of scientific preservation of perishable items considered to deliver the basic needs of the common people.

Possible steps:

1. Providing government assistance to public entrepreneurs towards establishing scientific storage facilities for perishable items at the point of production as well as at the terminal point of consumption. For example trawlers involved in catching and storing fishes can be equipped with modern storage systems.
2. Tax exemptions can be provided to private organizations for capital investment in storage equipment to encourage modernization of storage and transport technology.

HR Innovation

As mentioned earlier, Bangladesh is experiencing new problems arising from the return of a great number of un-skilled and semi skilled manpower from overseas as a result of the GFC. This has resulted from the closure of numerous industrial plants overseas. A single country such as Malaysia has cancelled the visas of 55,000 Bangladeshi workers recently (Manik, 2009). The immediate issue arising out of this phenomenon is rehabilitation and reemployment of this workforce. This has put additional pressure on the existing workforce in Bangladesh and has increased the unemployment rate even further. This issue points to a scope for innovative projects

to accommodate these workers into the workforce; many of whom have practical experience in their respective work areas.

Measures:

1. Providing the workforce with financial assistance who are skilled to build their own business
2. Setting up new industrial enterprises and reviving the sick industries so that these skilled and semi skilled workforces can be utilized for productive purposes.
3. The government should formulate specific policies whereby these experienced workers can be absorbed into private sectors.
4. These crises also provide an opportunity for NGOs to set up projects for people who already have training in respective trades.

Finance Innovation

Like any other financial institution in the world, Bangladeshi financial organizations such as bank and insurance companies have been highly affected in terms of loss of clients and assets. As the crisis is global in nature, there is no immediate remedy. However, financial institutions such as public banks can come forward with rescue packages for affected clients. This may include extending time of repayment of mortgages, and interest payments on loans. Many foreign banks such as Commonwealth Bank of Australia decided that it will not take the property of anyone who has failed to make the required mortgage payments for a year. In contrast, Grameen Bank (GB), one of the leading NGOs which extend microcredit to the poor with entrepreneurial ideas has reportedly acted harshly in recovering debt from clients in cases of failure. Since GB charges the highest rate of interest (3 times higher than that of conventional rate of interest), GB should design a policy of treating its defaulting clients with utmost sympathy during this difficult time.

Discussion and implications

Indigenous Resource Management

The need for the mobilization of domestic resources has always been an issue in Bangladesh. This has been historically neglected as national development plans have been heavily dependent on external source of resources such as foreign aid. The GFC has for the first time led the Bangladesh government to emphasize the need for mobilizing indigenous resources in a formal way. While announcing the national financial budget in 2009-2010 the Finance Minister has rightly mentioned that

“Through the budget proposals, after carefully evaluating our preparedness to tackle the impact of global recession, analysing the possible resource constraints and taking into account the capacity for implementation of development programmes, I intend to proceed with the budget proposals enshrining our promises to keep for the charter of change," (The Bangladesh Today, June 12, 2009, P.2).

The provision made in the budget with regard to whitening black money by paying 10% tax is also expected to help finance some aspects of the development plan in relation to infrastructure development, specified industrial sectors and the share market. This can be considered an innovative measure in the sense that black money remained either unutilized or invested in unproductive sectors or in sectors which are not strategically important for the development of the economy.

Another new idea for boosting the economy is reflected in the allocation of 21 crores Taka (A\$3.5 million) by the government of Bangladesh to facilitate the development of public private partnerships (The Bangladesh Today, June 12, 2009). This has been described as a bail out strategy for the recession hit sectors in Bangladesh.

"We are going to take special initiatives to involve the private sector under Public Private Partnership (PPP) to meet the probable investment gap in infrastructure development and maintenance, alongside the government's investment. We trust that successful application of PPP concept will open up the door for increased flow of investment from both local and foreign investors. This will accelerate economic growth" (The Bangladesh Today, June 12, 2009, P.3).

The Role of NGOs

Given the limited resource base of the Bangladesh government, NGOs are historically playing pivotal roles in accelerating the pace of economic growth by injecting huge amounts of capital into the economy. NGOs have a significant role in economic, social and environmental development (Sobhan, 1998). The following are the areas where NGOs can contribute:

1. Alleviate rural poverty through financial capability development, active community participation and the empowerment of women.
2. Formulate plans for the development of human resources and create opportunities for career development, capacity build up and utilization of human resources.
3. To create awareness among the masses regarding health, hygiene & the environment.
4. Assistance in the form of medicine, doctors and nurses for the treatment of common as well as epidemics following natural disaster.
5. Enhance mass education and establish educational institutions whenever and wherever deemed necessary.

Foreign Aid

Historically, Bangladesh has been heavily dependent on foreign aid to support its development plans (Sobhan, 2005). The possibility of mobilizing domestic resources to finance the country's development projects was not explored much in the past. Now that the GFC has hit hard, the flow of external resources into the country affects the implementation of a lion's portion of development projects. Bangladesh needs to explore alternative sources of finance to continue supporting these development plans. Although the government has announced programs involving Private Public Partnerships in the current budget, the main challenge in this respect would be to effectively engage business sectors in the partnership. Conventionally, the government has been entrusted with the findings fund from external sources. These roles in the game seem to be changing, given the reality of the current financial meltdown of the world's most developed economies. This state of affairs has called for fresh thoughts on the innovative approaches that Bangladesh can adopt to tackle the GFC. The following approaches could contribute to regulation of these issues:

1. By providing incentives to the private sector, the government can engage the sector in supporting some development plans and projects. For example, the private sector can play a significant role in infrastructure development such as construction of roads, highways, airports, sea ports etc. These strategies have worked well in many advanced developing countries such as Malaysia.
2. Towards materialized government business (G-B) partnership strategy, financial incentives in the form of tax holiday offered to businesses engaging in the development plans could be an effective option.

A congenial environment needs to be maintained to attract foreign direct investment in the strategic sectors such as manufacturing, warehousing, power plants, tourism, hotels and other service industries.

Possible outcomes of innovative management in Bangladesh in response to the GFC

GFC pressure	Nature of innovative action	Outcome
Decreasing foreign aid	Increase local savings and capital formation	Decreased dependence on foreign aid
Decreasing trends in remittance resulting from lost jobs abroad	Searching for new sources of external employment for returnees	Compensating lost remittance through new remittance
Unemployed workforce resulting from lost foreign jobs	Create new jobs internally through innovative projects	Reduction of unemployment levels in returnees
Decreasing internal savings	Incentive programs for savers	Boosting the rate of savings
Inefficient management	Develop suitable management training programs	Enhance management skills
Inefficient use of domestic resources	Introduce incentives for the use of indigenous resources	Improve the level of efficiency of the use of domestic resources
Inefficient marketing systems	Introduce modern technology and properly trained manpower in the management of marketing operations	Make marketing systems more efficient and workable
Wastage of human resources resulting from unplanned HR development	Introduce goal directed appropriate practical training programs	Increase the level of skilled manpower

Concluding Remarks

To sum up, this paper explores the possible innovation options that Bangladesh could pursue to manage and overcome the current GFC. The paper has based the discussions on available information, intuitions and personal experiences of the authors. The possible innovative actions are explored on the basis of existing literature in the areas of GFC and innovation. Although the Bangladesh economy has not been as badly affected as those of the developed countries, Bangladesh has a lot to learn from the experience of developed and developing countries alike. Crisis management as an issue is not new to Bangladesh as the country has been successfully managing crises such as natural disasters for a long time. Therefore, past experience has equipped the managers and administrators of the country with the required skills to address such crises. However, the possible innovation solutions provided in this paper to overcome the GFC would not be easy for Bangladesh to achieve due to the vicious cycle (low disposable income, low savings, low capital formation, low investment, low productivity, low employment generation) in which Bangladesh has been entangled for decades. However, like any other developing country Bangladesh has no other option but to pursue these strategies. The successful implementation of the suggested plans and programs needs the active support and participation of the government, people, policy makers, regulators, business leaders and other stakeholder groups.

Limitations

Because of the topical nature of the subject, the greatest limitation of this paper is the paucity of relevant academic information. This explains our reliance on available information that is non-academic in nature. Consequently, the paper has been based on limited literature, personal observation and the experience of the authors. Secondly, as a dynamic phenomenon, the nature and impact of the GFC on the economy of Bangladesh is changing rapidly. These changing trends made it even harder to make the discussion updated. Future research can be directed to capture this dynamism and come up with more comprehensive coverage of the GFC and its effect on developing countries including.

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