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# Market systems approaches and informal norms in the context of Bangladesh

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All blogs

**In the context of Bangladesh, two of the most influential informal norms are family loyalty and social hierarchy, and these norms permeate many layers of social interaction and structure, including market systems and businesses.**

Markets are complex social systems in which market actors share a set of biases based on a multi-layered network of structures, rules, and norms. In order to understand a market system, development practitioners must look for patterns in the system, which can uncover formal and informal norms that have a significant impact on who and to what extent participates in different market functions, relationships between market system actors, and the behaviours and roles of market actors. For market systems development programs, like USAID/Bangladesh's Agricultural Value Chains Activity, it is important to understand the informal norms that affect firms and other market actors. This will help us to better understand the motivations behind market behaviour and cater interventions to address norms that are conflicting with inclusive market trends.

In Bangladesh, two of the most influential informal norms are family loyalty and social hierarchy. Informal norms have dramatic impacts at the meso-level, affecting how firms are governed, structured, and standard business practices; as well as the micro-level, affecting how firms interact with and retain customers and suppliers.

## Loyalty-driven business practices

## Firm management and structure

In the context of Bangladesh, family loyalty is a driving force in social structures and behaviours. Family loyalty impacts firm structure, as even large firms or NGOs remain family businesses with the senior management and leadership comprised of immediate and extended family members, and the executive positions passed down through generations. In these family owned and family operated private sector firms, individuals are promoted based on loyalty to firm leadership rather than merit or annual performance against established business expectations. Prioritising family loyalty plays a role in restricting firm growth, as it limits innovative ideas and alternate perspectives, reduces opportunities for piloting new approaches or products, and demotivates employees outside of the family circle to propose new ideas or excel in their roles. This contributes to the tendency for Bangladeshi firms to maintain slow growth patterns that minimise risk and undervalue innovation.

## Cooperation and competition between market actors

The informal norms around loyalty also impact relationships between firms in the market. Positive competition between market actors such as traders, distributors, and retailers fosters innovation and increased efficiency. However, in order for positive competition to exist, these market actors must communicate with one another to share new practices, successes, and opportunities. In the context of Bangladesh, this knowledge sharing rarely happens, as market actors are unwilling to share business information outside of their loyalty networks. Rather than seeing collaboration and positive competition among peers as an opportunity, market actors in Bangladesh assume that sharing information outside of their internal trust circle will result in competitors poaching their ideas or initiatives.

## Engaging support services

Loyalty norms similarly impact firms’ approaches to support services. Bangladeshi firms are structured to contain internal support departments such as ICT, media/event planning, marketing campaigns, re-branding, transportation and logistics, etc. Firm leadership does not trust specialised firms that are outside of their loyalty network to have access to firm or product information, strategy, or sector knowledge, which is required for support services to maximise quality and usefulness. This norm of keeping all business information within the loyalty network is further reinforced by agribusiness leadership who see this structure as a cost saving strategy. The internal departments offer services, campaigns, and activities at a cheaper price; however, because there is no competition for their work, there is limited incentive for service departments to stay current on innovative tools and tactics. This structure discounts the return on investment for these services, as the resulting services are poorly targeted and underproductive and do little to increase sales or productivity of the company.

# Hierarchy-driven business practices

## Relationship-building in the market

Related to social norms around loyalty is a rigid hierarchy within the Bangladesh social structure, in which status and social class dictate an individual's network. This permeates the market system, in that market actors do not give value to engaging with customers or suppliers that they perceive as lower class. Hierarchy norms have created a tendency for market actors to only interact and build relationships with other market actors that hold a similar social/business status, which creates a social gap between agribusinesses and poor, smallholder farmers. The result is a lack of bridging capital in the system that limits businesses' and the market systems' ability to develop alliances, build customer relationships, and evolve a more inclusive market system.

## Valuing consumer demand

A rigid social hierarchy has multiple implications. Agri-firms sell their products through distributors, and they see these distributors as their direct customers, and focus any investment in improving transactions and building relationships on the initial point of sale of their products.  Firms are not willing to invest in relationships or transactions with farmers, as they are perceived as outside of their network due to their lower social status. Because the firms do not see the value of understanding the preferences or buying patterns of farmers, there is little to no investment in market assessments or consumer demand studies. While firms are consistently rolling out new products, the initial investment in consumer assessments, product design, and product rollout is not valued among agribusiness leadership, as it would focus on market actors below their social rank. This creates a distant relationship between the agribusiness and the end consumer.

## Investing in the distribution channel

Second, agri-firms do not invest in developing a structured distribution channel or applying quality control on their distributors. Once firms sell to distributors, they consider their role in the transaction to be finished, and do not monitor the transactions from the distributor to retailer to farmer, despite the fact that these transactions have implications on their sales and the perception of their brand in the market. Agribusinesses could benefit significantly from developing a more structured distribution chain in which quality is traced and monitored through brand-loyal networks of preferred distributors, retailers, and farmer groups. These vertical networks would also improve firms' link to the end consumer, allowing the farmers to message back through the channel their preferences, customer satisfaction, and product needs. Business practices that result from social hierarchy are reinforced by loyalty norms. Customers are outside of the loyalty network of the firms, and therefore firms are hesitant to invest in building alliances or relationships, as the perception is that they will be cheated by those outside of their trust circle.

## AVC's Adaptive Response

In order for AVC to effectively address systemic constraints in firms at the management/structure level, the project first identified these informal norms of strong loyalty networks and rigid social hierarchy, and then developed a strategy to work within these norms to effectively build trust with the firms, while also pursuing interventions to push firms to see the value in breaking down some of these norms/common practices. Through strategic relationships with key lead firms, AVC aims to facilitate new innovations that will break down some of these norms and then crowd in other firms after initial successes.

- AVC is working with lead firms to improve their ability to develop long term business strategies and to improve internal governance. By increasing internal transparency, the lead firms can emerge as critical control points for transparency and merit-based relationships within the actors in the value chain.
- AVC is working to improve communication and collaboration between market actors by facilitating a number of peer learning groups and stakeholder engagement events that directly engage market actors and encourage them to share their experiences, successes and challenges with their fellow competitors. Through these initiatives, AVC is facilitating collaborative responses to shared challenges to increase the bargaining power of peer market actors and create a forum to identify opportunities to address joint challenges or take advantage of new opportunities.
- AVC is facilitating the emergence of an entrepreneurial ecosystem through a Peer to Peer SME/trader acceleration network, which promotes knowledge sharing to help SMEs identify sources of technical support, funding, and growth opportunities.
- AVC partnered lead firms with private sector marketing firms, to promote outsourcing of marketing strategies to firms that specialize in targeted marketing campaigns. AVC's expectation is that by buying down the initial risk and investment of firms to seek out competitive marketing firms, they will see the increased return on investment from sales and brand recognition among targeted consumers. This is part of a larger effort to increase the role of specialized service markets for agriculture including building networks of service providers for spraying, land prep, harvest, post-harvest, and transport, as well as business development services that include marketing, finance, ICT, and research.
- AVC further built the marketing capacity of lead firms by supporting them in launching a series of promotional events that incorporate farmer learning and training elements to support more targeted marketing and build linkages between

the agribusinesses and their end customers. These events are helping to the firms to understand the impact that farmer engagement and farmer education can have on their brand recognition and sales.

- AVC is supporting lead firms to create formalized vertical relationships with their supply/distribution channels through preferred supplier or preferred distributor networks. AVC is building the capacity of the lead firms to establish relationships with their suppliers and distributors that are based on trust and brand loyalty, and helping the firms see the value in investing in control and compliance mechanisms to monitor their distributors.

To begin shifting these long-standing informal norms, development activities must first create disruptions in the system and then adapt strategically as the initiatives see success in changing existing biases. It is important to identify lead firms that are ready to grow within an inclusive system by allowing firms to self-select to participate in initiatives that spur innovation, build trust and transparency within the market, and expand commercial networks. By aligning multiple efforts and initiatives against these rooted norms, projects can begin to chip away at norms and biases to reduce constraints to inclusivity in the market system.

- View the Agricultural Value Chain (AVC) Activity entry on BEAM's Programme index