

**ENTREPRENEURIAL CAPACITY AND STATE INCAPACITY:
FAMILY FIRMS IN BANGLADESH**

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ABSTRACT

This study examines family businesses with strong entrepreneurial capacity, operating in a developing economy governed by what can be characterized as a state with little capacity to nurture vibrant domestic firms. The empirical focus of this study is that of entrepreneurial family firms in Bangladesh and their rise as major corporate enterprises in spite of the state's incapacity to help foster the development of domestic firms. These family firms emerged in Bangladesh, a weak state marked by persistent political turmoil, a deeply fractured bureaucracy stemming from the country's double partition history, an inefficient and inexperienced political and judicial institutions, and a governance system heavily plagued by corruption and rent-seeking. Moreover, since independence, different regimes have initiated various policies through which the agrarian-dominated economy gradually turned into a manufacturing-dominated economy where family firms were the main engines of economic growth. These family firms have identified opportunities to survive and grow, have been innovative and adaptive, have taken risks and have nurtured successors with entrepreneurial skills. As policy initiatives were not adequate to nurture their growth, family firms maintained convenient, yet sometimes illegitimate, relationships with the government, a nexus that helped them secure access to various government concessions and the means to shape policies in their favour. This study uses concepts from two bodies of literature as family business and the developmental state. These two bodies of literature have not been used together while analysing the development of family firms under a weak state. Given this situation, the study deals with two key questions. First, how did family firms emerge as conglomerates while being confronted with state incapacity? Second, what do the histories of these large family businesses indicate about their entrepreneurial capacity and/or their forms of state-business nexuses? This study adopts a business history approach in order to trace the evolution of seven large family firms in Bangladesh. They are: A.K. Khan, BEXIMCO, Square, Anwar, Akij, Rahimafrooz and PRAN-

RFL. The seven case studies highlight three vital issues: firstly, the state has been incapable of adopting viable and well-planned strategies to nurture domestic enterprises. Secondly, the form of entrepreneurship and state-nexuses that these large firms adopted helped them sustain themselves even under a weak state and in a situation of economic bottlenecks and political crises. Thirdly, this study confirms that no single factors from within entrepreneurship and state nexuses could assist the family firms to survive and grow within a weak state, rather the firms needed a combination of both, which heavily influenced business strategies. This is how the ideas from scholarly work about the developmental state, and from schools of thought about entrepreneurship together have contributed to a better understanding of how large family firms survive and grow in a weak state like Bangladesh. Although these two factors mutually nurtured their business growth, however, the weak state allowed the firms to remain domestic market focused, export few products to lower and lower middle income countries, avoid public listing and professionalization of the organizational structure.

ABSTRAK

Kajian ini menilai keupayaan keusahawanan dalam kalangan perusahaan keluarga yang berkapasiti tinggi yang beroperasi dalam ekonomi yang sedang membangun dan ditadbir oleh negara yang boleh disifatkan sebagai kurang berupaya dalam memupuk pertumbuhan perusahaan tempatan. Fokus empirikal kajian ini ialah kumpulan perusahaan keluarga terbesar di Bangladesh dengan mengesan kebangkitan mereka sebagai syarikat korporat utama, sungguhpun ketidakupayaan negara untuk membantu dalam perkembangan perusahaan tempatan. Kumpulan perusahaan ini muncul di Bangladesh iaitu negara yang mengalami masalah kegawatan politik yang tidak berpenghujung, masalah birokrasi yang berpunca daripada sejarah perpecahan politik, Ketidakecapan dan kekurangan pengalaman mengurus tadbir sistem politik dan kehakiman, amalan memberi rasuah dan sogokan. Selain itu, sejak kemerdekaan, rejim yang berbeza telah merangka pelbagai dasar. Dominasi ekonomi berasaskan pertanian telah bertukar secara beransur-ansur kepada ekonomi berasaskan pembuatan. Perusahaan keluarga merupakan jentera utama pertumbuhan ekonomi tersebut. Perusahaan keluarga telah mengenal pasti peluang untuk terus bertahan dan berkembang, kemudian diubahsuai dan diadaptasi dengan mengambil risiko dan memupuk bakal pengganti dengan kemahiran keusahawanan. Sebagai dasar inisiatif, perusahaan keluarga menjalinkan hubungan dengan kerajaan yang membantu mereka untuk mendapatkan pelbagai konsesi kerajaan dengan selamat dan untuk membentuk dasar yang memihak kepada mereka walaupun kadangkala tidak sah. Hal ini kerana usaha untuk memupuk pertumbuhan dan mengekalkan perusahaan keluarga masih tidak mencukupi untuk memastikan perusahaan tersebut terus bertahan dan berkembang. Kajian ini menggunakan dua konsep dari literatur iaitu perusahaan keluarga dan pembangunan negara. Kajian sebelumnya tidak pernah menggunakan kedua-dua aspek sorotan literatur ini dalam menganalisis faktor yang membantu pembangunan

perusahaan keluarga di negara lemah. Oleh yang demikian, kajian ini mengemukakan dua persoalan utama. Pertama, bagaimana perusahaan keluarga muncul sebagai konglomerat apabila berhadapan dengan negara yang kurang berkupayaan? Kedua, apakah sejarah perusahaan keluarga yang besar ini menunjukkan tentang keupayaan keusahawanan dan/atau bentuk hubungan antara perusahaan-kerajaan? Kajian ini mengguna pakai pendekatan sejarah perniagaan bagi mengesan evolusi tujuh perusahaan keluarga di Bangladesh, iaitu AK Khan, BEXIMCO, Square, Anwar, Akij, Rahimafrooz dan PRAN Groups. Ketujuh-tujuh kajian kes ini menekankan tiga isu-isu utama; pertama, negara tidak berupaya untuk mengadaptasi strategi yang berdaya maju dan terancang untuk memupuk perusahaan domestik. Kedua, bentuk keusahawanan yang digunakan oleh perusahaan besar membantu mereka untuk mengekalkan perusahaan mereka walaupun beroperasi di negara lemah, kesesakan ekonomi dan krisis politik. Ketiga, kajian ini mengesahkan bahawa tiada faktor tunggal dalam keusahawanan dan hubungan perusahaan keluarga dengan kerajaan dapat membantu perusahaan keluarga untuk terus bertahan dan berkembang di negara yang lemah. Perusahaan keluarga memerlukan gabungan kedua-duanya faktor tersebut untuk terus bertahan dan berkembang yang banyak mempengaruhi strategi perniagaan mereka. Ini menunjukkan bagaimana idea-idea berdasarkan kerja ilmiah mengenai pembangunan negara dan dari aliran pemikiran keusahawanan bersama-sama telah menyumbang kepada pemahaman yang lebih baik bagaimana perusahaan besar yang dikendalikan oleh keluarga mampu untuk terus bertahan dan berkembang di negara yang lemah seperti Bangladesh. Walaupun kedua-dua faktor ini membantu memelihara perkembangan perusahaan keluarga, kerajaan yang lemah ini masih membenarkan mereka memfokus kepada pasaran domestik sebagai pasaran utama, mengeksport beberapa produk kepada penduduk dan negara-negara berpendapatan rendah. Sebahagian besar daripada mereka mengelak dari disenaraikan dalam senarai awam dan

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DEDICATED TO

My Father

Late Lutfar Rahman Sarkar

&

My Husband

Late Abdullah Al Mahmud Bappi

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CHAPTER 1: INTRODUCTION

This study examines family firms in Bangladesh's developing economy, where companies possess substantial entrepreneurial capacity but have to contend with equally significant state incapacity.¹ The term 'entrepreneurial capacity' in this study of family businesses in Bangladesh focuses on risk-taking, opportunity identification, innovation, adaptability, and generational development. The term 'state incapacity'² refers to the 'role of the state' and in the case of Bangladesh the weak state³ is defined as one that is fragmented, with an inefficient bureaucracy and on occasions a dysfunctional political system. Due to the problem of state incapacity in Bangladesh, one has to ask: how have family firms managed to create large enterprises, known as business groups?⁴

One consequence of state incapacity is that this problem can hamper the growth of family firms that possess entrepreneurial capacity. As a response to the issue of state incapacity, nexuses between the state and businesses have been created in Bangladesh, giving large businesses access to wealth and power through which they secure economic rents and influence public policies. Since these rents have, more often than not, been productively employed, this has contributed to the development of Bangladesh's economy. However, in return for these lucrative rents, business groups have had to provide state actors, particularly political parties and politicians, donations

¹ The 'state' here refers to the two main institutions in government, i.e. the bureaucracy and political parties that can legitimately enforce policies, collect taxes, redistribute income and wealth, and enforce social transformation (Khan, 2004).

² State incapacity refers to a state that finds it difficult to implement policies in a complex, evolving, and uncertain environment, caused by an inefficient bureaucracy incapable of altering policies and performing, among other things, urban infrastructural development (Simkins, 1996).

³ Weak states are those which do not have the ability to provide an adequate amount of political goods, offer less-than-adequate institutions, policies and services, as well as poor quality political goods (Migdal, 1988; Holsti & Holsti, 1996; Rotberg, 2004).

⁴ A business group is 'a set of firms which, though legally independent, are bound together by a constellation of formal and informal ties and are accustomed to taking coordinated action' (Khanna and Rivkin, 2001). Business groups are common in emerging economies and are often controlled by well-connected families (Chang, 2006; Cuervo-Cazurra, 2006; Mursitama, 2006; Peng and Delios, 2006).

and other services during elections. This study analyses the rise of conglomerates, including through state-business ties, by linking and assessing two core concepts: entrepreneurial capacity and state incapacity. For this assessment of big businesses in Bangladesh, this study refers to two bodies of literature: family business and the developmental state.

Bangladesh was born from two partitions. What now constitutes Bangladesh was initially part of United India, before the partition of 1947, and subsequently a part of Pakistan. Bengali-owned businesses formed under United India became more powerful as the region shrunk to Pakistan which was subsequently partitioned again, leading to the creation of Bangladesh in 1971. Although Bangladesh inherited a bureaucracy that was shaped by the British during colonial rule, the quality of its institutions deteriorated following each partition, particularly with the loss of experienced civil servants (Jamil, 1998).⁵ Moreover, in British India and Pakistan, bureaucrats were recruited and transferred based on merit, seniority and performance (Alavi, 1982; Khan, 2014; Rahman, 2002). However, the bureaucracy in Bangladesh is often alleged to be ridden with inefficiency, corruption, nepotism, lack of accountability and an assortment of other ailments (Rahman, 2002). Notwithstanding this problem, Bangladesh's family businesses survived and grew with the help of both entrepreneurship and state support, coming partially in the form of policies and hugely through collusion that resulted in the transfer of lucrative government-generated rents to well-connected companies.

⁵ Unlike the British and Pakistan periods, the bureaucracy in Bangladesh no longer attracts the 'best and brightest' young. Entrance exams to the civil service have become easier since the Pakistan period, a factor that has contributed to institutional decline within the bureaucracy in Bangladesh (see Jamil (1998) for details). Most recruits since liberation have been from the lower middle class, are poorly trained, and are products of a deteriorating educational system (Jamil, 1998).

Family businesses dominate the corporate landscape in many of the developed and developing countries (Goel, et Al., 2012; Eddy, 1996; Morck & Yeung, 2004; Gersick et al., 1997; Zachary, Rogoff, & Phinisee, 2011; Sharma et al., 1996; Shepherd & Zacharakis, 2000). As a result, the family business is a highly researched area in business studies (Astrachan & Pieper, 2010; Stewart & Miner, 2011). As in other countries, family-owned companies dominate (73.6%) Bangladesh's private sector (Joint Stock Commission, 2014).⁷ Nevertheless, the family business literature has yet to examine the development of family companies in this country. This study thus fills an empirical gap in the family business literature.

Theoretically, the developmental state literature shows why state capacity is fundamental in order to nurture infant industries. However, the developmental state model⁸ deals with strong states⁹ which have the capacity to ensure that the necessary institutions, policies and funds are put in place to help foster domestic companies. However, there is no discussion in the developmental state literature about business growth under a weak state. Additionally, the developmental state literature stresses productive state-business nexuses¹⁰, created to achieve industrialisation while maintaining control of the economy in the hands of powerful politicians or political parties. By contrast, Bangladesh's state-business nexuses took place under governments with weak institutions, where family firms grew because of their entrepreneurial capacity though they also created ties with the state to obtain lucrative rents. State-business ties helped family firms become wealthy and subsequently powerful enough to

⁷ Data collected from Joint Stock Commission on 10 December 2014 in Dhaka.

⁸ A developmental state is characterised as having strong state intervention where resources are unequally distributed. See Johnson (1982) and Woo-Cumings (1999) for an in-depth discussion of the features of a developmental state.

⁹ A strong state is one that can ensure the presence of efficient legal and financial institutions, provide stable political and regulatory frameworks, encourage foreign and domestic investments, implement sensible macroeconomic policies, provide improved standards of living by offering the highest possible quality of educational and health services, and foster technology development (Stiroh, 2001; Stiglitz, 1994; Atkinson & Coleman, 1989).

¹⁰ Creating a state-business nexus is a common strategy where state and businesses exchange benefits. The state provides a wide range of benefits to firms, in the form of state financing, subsidies, contracts and licenses; and firms provide state officials with political and private benefits in the form of control rights over company decisions and bribes (Hellman & Schankerman, 2000).

capture control of the state as through wide diversification, majority of family firms capture market demand of various sectors including the two most important sectors as financial and media. Therefore, the developmental state literature provides insights into how business groups can emerge in spite of having to deal with a weak state, though one characterised by state-business nexuses.

In the family business literature, the major concerns include firms' survival, succession¹¹, and ownership and control¹². Family business research stresses entrepreneurial attributes as fundamental for a family firm to survive and grow, though the developmental state literature argues that an additional core issue is strong state support for such enterprises. In emerging economies intent on nurturing entrepreneurial companies, including family firms, as seen in the case of South Korea and Taiwan, such developmental-based states must have strong capacity. These two bodies of literature offer important analytical tools that provide insights into how Bangladeshi family firms with entrepreneurial capacity grew under weak states.

1.1 Problem Statement

The overall goal of this research is to deal with a key puzzle: how did highly entrepreneurial family firms survive, grow and become diversified conglomerates in Bangladesh while dealing with weak state capacity? This study traces the history of seven large family groups in Bangladesh – Square, Akij, Anwar, BEXIMCO, A.K. Khan, PRAN and Rahimafrooz – with a focus on two key factors that shaped their development: entrepreneurship and the state-nexuses.

¹¹ Handler (1990, 1994) defines succession as a mutual role adjustment process between the founder and next-generation family members. Ward (1987) defines succession as the process of passing a family business from the founder to next generations to manage and control.

¹² Family ownership and control refer to one family (through one or several members) serving as a controlling shareholder of a corporation (Peng & Jiang, 2010).

1.2 Research Questions

- i. How did family businesses emerge as conglomerates while being confronted with state incapacity?
- ii. What do the histories of the large family businesses indicate about their entrepreneurial capacity and/or their forms of state-business nexuses?

1.3 Research Objectives

- i. To understand the context in which large family firms have evolved and developed under a weak state.
- ii. To identify the entrepreneurial capabilities and different forms of state nexuses of large family businesses in Bangladesh that has enabled them to survive and grow while dealing with a weak state.

1.4 Research Background

Family businesses are a significant segment of the global economy, contributing to more than 75 percent of the Gross Domestic Product (GDP) of most countries and employing more than 85 percent of the working population around the world (Poza, 2013). While looking at businesses in the Western world, family businesses constitute 80 percent in the United States, 60-90 percent in the European Union, 57 percent in France and 51 percent in Germany (Heck & Trent, 1999; Astrachan & Shanker, 2003). Although Asian family businesses are not as old as their Western counterparts, they also dominate the private sector and the economy in this continent. The top family business groups in the world are Walmart and Ford from the United States, Philips from UK, Volkswagen from Germany, Glencore (an Anglo-Swiss company), Samsung from South Korea, and Exor from Italy (Chen, 2001; La Porta et al., 1999; Claessens et al., 2000).

In East Asian countries, family businesses constitute 66.7 percent in Hong Kong, 61.6 percent in Thailand, 67.2 percent in Malaysia, 71.5 percent in Indonesia, 67.9

percent in Korea, 55.4 percent in Singapore, 65.6 percent in Taiwan, 44.6 percent in Philippine, and 9.7 percent in Japan (Claessens, Djankov, & Lang, 1999). In South Asian countries, approximately 85 percent of the businesses in India are family-owned with leading names such as the Birla, Reliance, Tata, Ambani, Godrej, Jindal, and Mittal groups (Limaye, 2014). In Pakistan, family businesses generate up to 80 percent of the employment in the country and among the leading enterprises are the Habib, Nishat, Saigol, Ittefaq, Dawood and Bawani groups (Afghan & Wiqar, 2007).

Numerous attempts have been made to articulate conceptual and operational definitions of a family business. Defining the family firm is the first and most obvious challenge facing family business researchers (Handler, 1989); the challenge remains as to date there is no widely accepted definition of a family business (Littunen & Hyrsky, 2000). Most of the earlier definitions of family firms focus on ownership (e.g., Barry, 1975; Lansberg, Perrow, & Rogolsky, 1988), ownership and management involvement of an owning family (Burch, 1972; Barnes & Hershon, 1976), and generational transfer (Ward, 1987). In contrast, more recent definitions concentrate on family business culture (Litz, 1995; Dreux IV & Brown, 1999). However, Chua et al. (1999) defined family businesses in a different way that best explains its core elements and fits this study well. According to them, a family business is one that is owned and managed by family members, where the founder intends to survive in the business and wants to hand down the business to the next generation.

Numerous theoretical and empirical family business studies have been conducted addressing family business survival issues which have mostly focused on succession

planning (Dyer, 2006; Davis & Harveston, 1998; Handler, 1990, 1992; Ward, 1997; Schwass, 2005), the importance of firm-specific assets in the form of human, social, and financial capital, termed Resource Based Theory (Habbershon & Williams, 1999; Habbershon, Williams, & MacMillan, 2003; Sirmon & Hitt, 2003), and the accomplishment of organisational goals by building managerial capabilities, as discussed in Agency Theory (Chandler, Hikino & Chandler, 2009; Sirmon & Hitt, 2003). Although family businesses sustain their competitive advantages by the efficient transfer of tacit knowledge with long-term commitment (Amran & Ahmad, 2011; Jaskiewicz, Uhlenbruck, Balkin, & Reay, 2013; Amit & Villa Longa, 2006), empirical research has identified that there is only a 30 percent survival rate of a family business in the second generation and approximately 15 percent in the third (Beckhard & Dyer Jr, 1983; Marshall et al., 2006; Morris et al., 1997; Davis & Harveston, 1998; Handler, 1990, 1992; Sonnenfeld, 1988; Ward, 1997; Schwass, 2005).¹³

Family business studies have mostly considered nations with strong states when defining entrepreneurial family businesses (Penrose, 1959; Colli & Rose, 2008) such as Germany (Klein, 2000), Italy (Colli, Perez & Rose 2003), the Gulf region (Davis, J.A., Pitts, & Cormier, 2000), Italy (Corbetta, 1995), Spain (Gallo, 1995), Sweden (Morck & Yeung, 2003), the United States (Astrachan & Shanker, 2003; Heck & Stafford, 2001), North America (Aldrich & Cliff, 2003) and Scotland (Anderson, Jack & Dodd, 2005).

This research takes its point of departure by investigating the growth of family business studies within a weak state and the implications of developing an enterprise in such an environment. Family businesses in capitalist countries are characterised as

¹³ Tacit knowledge is difficult to transfer, rare, inimitable and hard to copy or substitute (Miller & Breton-Miller, 2006). For example, firm capabilities with distinctive competencies such as talents in innovation, manufacturing or marketing; and valuable relationships (Barney & Hansen, 1994; Teece, Pisano, & Shuen, 1997).

strong and capable while receiving greater state support in the form of access to capital and technology required for nurturing business entrepreneurship (Gartner, 1985, 1988; Bygrave & Hofer, 1991; Shaver & Scott, 1991; Colli, Perez, & Rose, 2003). However, family businesses still collapse in these countries mainly due to succession issues like family feuds or split in business (Dyer, 1986; Handler, 1990, 1992, 1994; Hugron, 1993; Lansberg, 1999; Morris et al., 1997; Poutziouris, Smyrniotis, & Klein, 2008; Miller, Steier, & Miller, 2006). On the other hand, family businesses in weak states often fail due to the absence of professional/managerial skills or due to state incapacity. Companies in weak states are often disadvantaged in the form of adequate capital provisions, skilled labour, advanced technology and efficient bureaucracy/institutional frameworks (Migdal, 1988).

Understandably, the key feature of the developmental state growth model is that of the presence of a strong or guardian state. This model was followed by East Asian countries like Japan, South Korea, Taiwan, Thailand, Indonesia and Malaysia, where companies flourished under strong states with a competent bureaucracy having the ability to make credible industrial policies (Haggard, 2004; Akyüz et al., 1998). Although East Asian countries experienced late industrialisation, they achieved rapid economic development through strong state control that focused on improving resource allocation and enhancing the technical capacity of domestic businesses to achieve productivity (Olson, 1982; Stark, 2010; Amsden, 1991). These countries made investments to 'catch-up' in productive and technological capacity in pursuit of higher real wage and sustenance of high living standards (Ikpe 2008; Fine 2008). Additionally, state-business nexuses emerged in these countries as a mechanism to boost industrialisation, though the companies involved were mostly entrepreneurial given the state's focus on pursuing rapid modernisation (Olson, 1982; Stark, 2010; Amsden, 1991; Gomez, 2009; Wade, 1990). Moreover, in these countries, the state, as the

hegemonic force, was strong enough to exercise extensive control over the private sector and could create strong bureaucratic institutions that were responsible for promoting economic development (Stark, 2010; Yardley, 2012; Wong, 2004; Kochanek, 2000).

Comparatively, although South Asian countries have experienced economic liberalisation since the 1980s, their economic sphere lags far behind the East Asian countries. This is due to weaker state capacity in implementing policies and a rent-seeking culture that relies on selective patronage (Hofstede, 1991).¹⁴ Both South Asian and East Asian countries utilised state-business nexuses for rapid industrialisation, though the former states' capacities were not as strong as the latter nations due to economic and political bottlenecks. The works that merit mention include Schneider (2004) on Latin America, Gomez (1990, 2002 and 2009) on Malaysia, MacIntyre (1992) on Indonesia, Bunkanwanicha (2009) on Thailand and Culpepper (2010) on Japan.

In South Asia, studies that have dealt with business group ruling regime ties are those by Kochanek (1974) on India; Kochanek (1993) on Bangladesh; and Kochanek (1983), White (1974), Amjad (1976) on Pakistan. Although all three South Asian countries suffered from policy corruption¹⁵, political corruption¹⁶ and bureaucratic corruption¹⁷,

¹⁴ A rent-seeking culture is one where the principal route to wealth is not by creating wealth but by taking possession of or benefiting from wealth created by others (Krueger, 1974). For example, lobbying the government for loan subsidies, grants or tariff protection, bribes, etc. (see Morck & Yeung, 2004).

¹⁵ Bangladesh has resource scarcity, a reason why the state promoted only the development of a few sectors. This resulted in high inequality, a rent-seeking culture and corruption as only rich businessmen could secure access to a limited range of lucrative concessions (Khan, 2006).

¹⁶ Political corruption refers to the corruption spread by politicians who use political power for personal enrichment and that of their close allies who require access to resources, jobs and contracts (all services that honest politicians cannot possibly provide). Also, in Bangladesh and India, politics is increasingly funded by so-called 'black money' (money generated by crime or from 'grey' activities that are not declared to avoid paying tax) (Khan, 2006).

¹⁷ Bureaucratic corruption is intimately connected with political corruption and refers to corruption committed by bureaucratic officials. These officials range from police officers collecting nominal bribes for minor traffic offences to multi-million dollar bribes collected by senior army officers and defence officials in major military contracts. Developing countries have scarce public

India has managed to attain greater economic growth compared to Bangladesh and Pakistan because it had a stronger state, with the capacity to implement policies effectively, while there was adequate investment in education and technology to improve domestic productivity and competencies (Stiglitz, 2000; Kohli, 2007). Comparatively, Pakistan falls behind economically due to insufficient technological advancements, ineffective regulatory structures and ongoing political chaos (Rahman, 2002). Moreover, the history of Bangladesh clearly indicates that it lacks state capacity,¹⁸ which refers to the state's institutional capacity,¹⁹ technical capacity²⁰ and administrative capacity.²¹

After the partition of Bengal in 1947, East Pakistan (now Bangladesh) did not inherit an experienced entrepreneurial class for a variety of reasons, nor did it receive adequate attention from the government of Pakistan in terms of economic incentives to induce entrepreneurial activities. This was because this region was the agricultural hub of Pakistan where mostly poor peasants lived. A gap in entrepreneurship developed as a result of thin participation by Bengali people in trade and industry. As a result, government support and facilities concentrated more on the western part and the net result was a constrained growth of entrepreneurship in East Pakistan.

resources for which the rich are willing to pay a high price to gain privileged access. Bureaucrats and politicians select the emerging capitalists and give them access to resources to accelerate growth (Khan, 2006).

¹⁸ The basic capacities of a government include legal authority, resources, maintenance of a competitive market condition, dissemination of information, the ability to act directly and the protection of consumer rights (Wang, 2003; Christopher, H. O. O. D., 1983). In particular, state capacity is interlinked with social, political and economic conditions and the role of elites. The development of professionalism in the government and embedded state autonomy are crucial in boosting state capacity.

¹⁹ Institutional capacity depends on whether the government has the necessary power and resources (Evans, 1995).

²⁰ Technical capacity refers to whether the government is capable of setting standards, disseminating information, monitoring performance and reviewing legislation (Afifi et al., 2003; Christopher, H. O. O. D., 1983).

²¹ Administrative capacity refers to whether governing bodies have adequate skilled personnel with technical, problem-solving and communication skills, as well as management capacity (LaFond et al., 2002). The state needs to build administrative capacity in order to ensure effective implementation of government policies (Nelissen, 2002).

However, the East Pakistan Industrial Development Corporation (EPIDC) helped set up some enterprises, especially a number of jute mills, and gradually handed over ownership to their local associates. This indirectly helped the growth of an entrepreneurial class in Bangladesh, albeit a small community. Bangladesh inherited a shattered economy after the war of liberation of 1971. Mills, factories and banks were nationalised by the government immediately after liberation. A few years after independence, government policy was changed and the role of private sector was given due importance. Wide-ranging economic reforms and industrial policies adopted over the years attempted to create an investment-friendly atmosphere and encouraged entrepreneurship development.

Therefore, the partitioning on two occasions made the country much weaker in a number of core areas, i.e. resource availability, literacy rate and bureaucratic efficiency (Kochanek, 2000; Rahman, 2002; Khan, 2014). As a result, companies that emerged in the Bengal region of British India but survived and grew under Bangladesh had to deal with a weak state having a patrimonial style of governance (Sarker, 2004; Islam, 2006; Kochanek, 1996; Hossain, 2000).²² Although Bangladesh registered economic improvement because of the policy initiatives of various regimes, it could not achieve sufficient infrastructure development, technological advancement, modernisation of the education system and proper policy planning due to the state's incapacity (Zafarullah & Rahman, 2008; Kochanek, 1993, 2000). Bangladesh not only lacked an experienced and efficient bureaucracy, it also had a political regime that was deeply fractured by poor leadership, corruption and a rent-seeking culture (Zafarullah & Haque, 2001; Kochanek, 2000; Zafarullah & Rahman, 2008).

²² In patrimonial politics, formal institutions are often neglected or bypassed and decisions are made based on the advice of a handful of family members and personal advisors; this process is devoid of openness (see Kochanek, 2000). Max Weber (1978) introduced this term, which means an administration run by purely personal connections, favors, promises and privileges.

Understandably, policies such as selective patronage allowed a select group of wealthy businesspeople, mostly from family firms, to gain access to many economic rents (Kochanek, 1996; Bjerke, 1999; Ahmed, 1980). Family businesses created links with the state as a convenient way out to secure access to concessions to expand their business; these ties also allowed them to influence policies in their favour.

Moreover, the entrepreneurship literature argues that companies can grow through investments in processes that contribute to innovation (Schumpeter, 1989, 2000) and adaptation (Miller, 1983; Covin & Slevin, 1991; Estrin et al., 2006; Sternberg & Wennekers, 2005; Hart, 2003; Henrekson, 2007) and opportunity identification (Kirzner, 1973). Another core dimension of entrepreneurial firms is risk-taking capability (Kihlstrom & Laffont, 1979; Kanbur, 1979). One other necessary element for family business development is choosing the right successor, one who can ensure enterprise development (Dyer & Handler, 1994; Pollak, 1985; Lansberg & Perrow, 1991; Collins & Moore, 1964; McClelland, 1965; Ronstadt, 1984; Dyer, 1992). This indicates that family businesses can sustain growth on their own rather than being exclusively dependent on the state.

Understandably, Bangladeshi family businesses that emerged during the colonial period and survived the 1971 liberation war were undoubtedly entrepreneurial in nature as they identified opportunities to survive and grow within a context of resource limitations, took high risks, adapted to state incapacities, were innovative and developed capable successors. Chapter two, which deals with the history of family businesses, will indicate, however, that their entrepreneurial attributes were not good enough for their smooth survival under a weak state due to a rent-seeking culture. Family firms compensated for this by having either direct or indirect links with the state.

1.5 Scope of Research

This study is multifaceted. The theories followed are, therefore, an amalgamation from two areas, family business and developmental state. The aim of this study is to analyse the effect of entrepreneurship and the role of the state on the rise of seven large family businesses in Bangladesh. Firstly, this study explores theories from the family business literature, where most studies have focused on what happens inside the companies. These studies, however, neglect the effects of external factors such as the role of the state in shaping the development of family businesses. This led to the question under review: what entrepreneurial attributes must family businesses possess when confronted with a weak state to ensure their development?

On the other hand, the developmental state literature traces the rise of business groups through states with the capacity to guide how companies developed in core industries (Schneider, 2004; Gomez, 1990; MacIntyre, 1992; Grant, 1987; Kochanek, 1974; White, 1974). However, what is ignored completely in this literature is how companies can develop when confronted with a weak state. In the case of Bangladesh, family businesses that dominated the private sector emerged and became major business groups while dealing with a weak state by creating ties with government leaders while also displaying strong entrepreneurship. This unique situation found in Bangladesh is an issue that is not tackled in both bodies of literatures.

The time frame of this study is from the colonial period until 2014 for two reasons. Firstly, this study traces the development of seven family businesses in Bangladesh, of which six companies were founded during the colonial period, and one emerged in the 1980s. Secondly, understanding the history of Bangladesh is crucial when tracing the different development patterns of the family firms. Moreover, the seven family businesses selected for this study are large and highly diversified, with multiple

generations in the businesses and no reported family feuds. They have also enjoyed stable growth over the years.

Nevertheless, to capture the actual entrepreneurial capacity of these seven family businesses, this study considers all the main entrepreneurial components such as their willingness to take risks, their ability to identify opportunities, their capacity to adapt to economic change, their investment in innovation in order to create of new products and their focus on successor development. To date, no study has taken all of these elements into consideration simultaneously when investigating entrepreneurship among family businesses in Bangladesh.

1.6 Research Methodology

Business history in the broadest sense includes everything about business past, from the history of individual firms to that of entire business systems. Business history research provides insights into the economic and non-economic goals of family firms, frames the reasons of their prominence, and, through its particular research tools, documents how family firms try to pursue them (Colli, 2011). While business history research has yielded rich insights into the nature and origins of innovation and the wealth of nations, this literature mostly covered the industrialised economies (Amatori & Jones, 2003). This study adopts a qualitative business history approach while tracing the development of seven large family firms in Bangladesh.

However, the key puzzle that is the focus of this study does not require a detailed historical analysis of these companies. This study aims to highlight the historical development of these seven family firms to obtain insights into two core issues: the nature of their entrepreneurial skills and their nexuses with the state, both crucial for survival and growth under a weak state.

A case study method will be utilised to understand the similarities and differences of each family business (Yin, 2009). Seven case studies of entrepreneurial family

businesses in Bangladesh were employed to attain insight into the outcomes of links between a weak state and entrepreneurial companies.

Both primary and secondary data sources were used to trace the history of these family businesses. This study examines the business practices of three to four generations of successors through the case studies. With regard to primary sources, data collection was conducted through an in-depth interview protocol with 50 people, using direct contact as well as email and phone conversations. Interviews were conducted with family members (top management) and employees (former and current employees), bank officials and media people, government officials, for example, the former and present Commerce Minister, the Bangladesh Bank Governor, the former National Board of Revenue (NBR) Chairman, and the Secretary of Joint Stock Commission (JSC), and non-government officials (for example, the Chairman of Transparency International Bangladesh (TIB), and the Senior Research Fellow of the Center for Policy Dialogue (CPD)). Company websites, annual reports and brochures were analysed while collecting data on these seven family firms.

Secondary sources were reviewed to support the results from the primary sources. These included the internet (The Commerce Ministry and Dhaka Stock Exchange websites), archive records (Joint Stock Commission records, Bangladesh Bank records, newspaper libraries, the Bangladesh Institute of Developmental Studies library), and published documents (historical articles on Bangladesh, World Bank and Asian Development Bank reports, business articles on Bangladesh).

The data analysis in this study has a thematic perspective focusing on two broad themes, namely entrepreneurship and the role of the state, to explain the survival and

growth of large family businesses. A comparative analysis of the seven case studies is then provided as it allowed for more nuanced insights. Despite their significant contribution to the Bangladesh economy, large family-owned businesses have not been researched to understand how they have emerged as key corporate figures. This is particularly noteworthy because in Bangladesh's economy family businesses like Square, Akij, Anwar, BEXIMCO, Rahimafrooz, A.K. Khan, and PRAN are conglomerates.

1.7 Selection of the Case Studies

The appropriate number of cases was determined by how much each company added incrementally to providing insights into the puzzle (Eisenhardt, 1991). Due to the in-depth study employed here, only seven large family firms were selected for this dissertation. Table 1.1 summarizes how the seven family firms were selected.

All were chosen with the following criteria:

- i. The firms are family-owned (the family has a majority stake in the company) and family-controlled (family members are active in the day-to-day operations as well as at the management level).
- ii. They are large (listed on the Joint Stock Commission of Bangladesh, are at least 30 years old, have an annual turnover of US\$200 million and above, are highly-diversified and have 5000 employees or more).
- iii. They have survived at least two generations or more in business and there is no history of family feuds.
- iv. Family firms were selected from multiple sectors (two firms from the pharmaceuticals sector, two from the agriculture sector, one from the consumer sector and one from the energy sector) in order to see their history of development from a broad perspective.
- v. Firms that voluntarily allowed data collection for the thesis.

Table 1.1: The Case Studies

Name	Establishment	Generation	Core Business	Sector for core business	Annual turnover	Number of employees	Sectoral diversification
Anwar Group	1834	5	Textile	Consumer	US\$300 Million	15000	28
A.K.Khan & Company Ltd.	1945	3	No core business	N/A	US\$500 Million	7000	22
AKIJ Group	1950	2	Tobacco	Agro	US\$250 Million	32000	30
Rahimafrooz Group	1954	3	Renewable Energy	Energy	US\$275 Million	8000	20
BEXIMCO	1956	3	Pharmaceutical	Pharmaceutical	US\$2 Million	48000	35
Square Group	1959	4	Pharmaceutical	Pharmaceutical	US\$1 Million	33000	28
PRAN-RFL	1981	2	Food and	Agro	US\$750 Million	60000	42

Sources: Interviews with family members and employees, annual reports, magazines and newspapers.

1.8 Significance of the Study

No study has been carried out on family businesses in Bangladesh. This is surprising given the dominant role that family businesses have played historically in the economic development of the country. The private sector in Bangladesh consists mostly of family-owned businesses. According to the Joint Stock Commission of Bangladesh, 73.6 percent of the large business groups are family-owned. Recognising the scarcity of research on family businesses in Bangladesh, despite its dominance over the private sector, this study marks the first attempt to understand the factors behind their development.

This study provides novel insights into the factors influencing family business development in weak states. The study creates awareness of the fact that although entrepreneurial capabilities are necessary for business survival, state support is also essential for nurturing business growth. However, the role of the state varies in terms of

its capacity to develop and control the economy. A strong state can nurture a productive and entrepreneurial private sector by exercising control over it, while a weak state lacks this efficiency, hence allowing the private sector to expand freely through close ties with the state without overseeing its development and competitiveness, while also contributing to a rent-seeking culture.

The significance of this study is not just to provide a historical analysis of family business development of Bangladesh, particularly the seven selected large family businesses. This study also pinpoints the actual implications of the historical moments which had crafted these family firms' development structure.

The findings of this study will be useful for new or struggling businesses in countries with similar socio-economic conditions, as the factors responsible for nurturing family business development amidst state incapacity will be discussed. Furthermore, the concepts of survival and longevity of family businesses explored in this research can help policy makers adjust their current policies to accommodate existing areas of weakness and, therefore, implement appropriate business-friendly strategies. The findings of this study can also increase state awareness regarding over-dependence on state-business nexuses, which may result in businesses exercising too much control over the state.

1.9 Organization of Study

Chapter one identifies the original contribution to knowledge made by this thesis and outlines the structure and arguments of this work. It also provides an overview of the study's research objectives, methodology and framework, as well as a basis for drawing conclusions with respect to the research questions being investigated.

Chapter two provides a chronological review of industrial development in Bangladesh that will help in understanding the context in which family businesses have developed and grown. This chapter also highlights the policies formulated by each regime along with the different types of state-business nexuses that have been created over time.

Chapter three reviews previous theoretical and empirical studies based on the theme of the family firms' development through entrepreneurship and role of the state. This literature review was done in order to situate the conceptual as well as theoretical framework that underpins the thesis.

Chapter four describes the methodology used in order to derive the findings, with an elaboration of the justifications for the methods employed here. This chapter provides the reasons for the case selection, the sampling techniques and the theoretical framework framing this study. The pattern of analysis followed to conduct the study will be described.

Chapter five presents the seven case studies of the selected family firms in Bangladesh. The case studies trace how entrepreneurial capabilities as well as state-support in the form of policies and state-nexuses have helped these firms deal with a weak state and transform them into big and powerful conglomerates.

Chapter six depicts a comparative analysis of the seven case studies with reference to the thematic points of entrepreneurship and role of the state, showing the differences among each other while applying entrepreneurship and state ties in business development. In addition, this chapter briefly points out the implications of the large family businesses' development in Bangladesh on its corporate sector.

Chapter seven summarizes and concludes the key findings of the study. It also lists the primary contributions and limitations of the study and suggests avenues for future research.

CHAPTER 2: HISTORY OF THE STATE AND INDUSTRIAL DEVELOPMENT IN BANGLADESH, 1947-2014

2.1 Introduction

This chapter describes the history of industrial development in Bangladesh. It provides a detailed picture of the country's economic and political struggles and describes the initiatives of various regimes in developing a platform for business development in general and family businesses in particular. Notably, state incapacity in Bangladesh has had far reaching and damaging repercussions on the development of the country's entrepreneurial family businesses, a result of the double partition. However, key historical events have also shaped the development of family firms.

Although Bangladesh was liberated in 1971, this historical review considers a timeframe from 1947 till 2014 for two reasons. First, many of today's prominent family firms in Bangladesh emerged from 1947, especially the family firms under this study. Secondly, the industrial development in Bangladesh has been shaped by three major defining phases. The first phase was the period from 1947 to 1968, when very few Bengali-owned family firms existed in East Pakistan and they had to struggle to remain in business, surviving only because they had a strong financial base and ties with the state. The second defining phase was from 1969 to 1974, when the country experienced continuous political uprisings, such as the Bengali Language Movement and the 1971 liberation war; family firms struggled to sustain their businesses during these events. Only a handful of entrepreneurial and state-connected family firms survived this phase. The third defining phase was from 1975, when family businesses expanded and flourished, thanks to denationalisation, trade liberalisation, and generous bank loans. Privatization allowed family firms to flourish and dominate the private sector as they

Could venture into areas previously monopolized by the government, namely broadcasting, shipping, airlines, telecommunications and power generation.

Further, the bureaucratic structure of Bangladesh, inherited from the British colonialists, deteriorated over time due to the double partition. An inefficient bureaucracy eventually led to an inefficient state. Besides, allegations of extensive political nepotism and patronage emerged due to an absence of independent and competent political leadership and accountable monitoring bodies to ensure proper implementation of policies.

After independence, different regimes introduced various policy initiatives through which the economy developed gradually. Since 1990s, an average annual GDP increase of almost 5 percent meant a rise in real per capita GDP of 36 percent (World Bank, 2010). Progress in reducing poverty has also been substantial: the percentage of the population living below the poverty line went down from more than 80 percent in the early 1970s to 31.5 percent in 2010 (Mahmud et al., 2008). However, such high growth performance and social development have been perceived as a ‘paradox’ by economists at the World Bank as well as by other close observers of Bangladeshi development (World Bank, 2007a; 2007b, 2010; Mahmud et al., 2008; World Development Report, 2013). It is a paradox to the extent that growth and social development took place in the context of ‘bad’ governance characterised by systemic political (patron-clientelism) and bureaucratic corruption, an inefficient state, weak regulatory capacity, confrontational politics, political instability and politicized and corrupt judicial institutions (Mirza, 2013). Although privatization has been promoted as the remedy for such inexperience and inefficiency, the policy, however, has also been exploited to transfer or sell lucrative state assets to well-connected businessmen and corporate groups and allowed them unequal access to rent opportunities, such as loans, licenses, and contracts for the

expansion of their corporate holdings. Although Bangladesh is termed a weak state (Migdal, 1988), however, scholars also call it a fragile state when looking at its international capacity (Khan, 2014).²³

This chapter is organised into three sections. The first section briefly discusses Bangladesh's transformation from an industrial vacuum into a country embracing industrialisation. The second section focuses on the policy structures of the successive regimes and the rise of state-business nexuses. The third section describes the implications of these nexuses on industrial development in Bangladesh, particularly with regard to family businesses.

2.2 Nature of the State: From Industrial Vacuum to Industrialisation

The complications of India's partition in 1947 left an indelible mark on sub-continental politics, especially in terms of governance difficulties. The areas that became Pakistan had been considered a granary, which supplied agricultural products to other parts of India, which were in turn dependent on these other regions for their basic supply of manufactured and consumer goods (Ali & Malik, 2009). This is why there was a big difference between India and Pakistan in terms of the composition of National Product, even in the 1950s (see Table 2.1). The Korean War led to a large increase in the price of raw materials such as raw jute and raw cotton which were in demand in foreign markets. Trading became so profitable that the government relaxed the quantitative controls on trade introduced earlier, leading to a more liberal trade policy. Thus, the newly-established Pakistani trading classes benefited greatly (Ali & Malik, 2009). They bought raw materials from the agricultural sector at cheap prices because food and agricultural raw material prices were kept artificially low by the

²³ Fragile states are those where state structures lack political will and/or capacity to provide the basic functions needed for poverty reduction, development and to safeguard the security and human rights of their populations (Carment, Prest & Samy, 2009).

government through price controls. The traders then sold these raw materials in foreign markets at very high prices, making windfall profits. Thus, the Korean War boom led to the emergence of a large group of traders in Pakistan. This was the roots of industrial capital which began to rise after 1952. Eventually, when industrialization took place in Pakistan, the majority business groups that emerged were from West Pakistan (Kochanek, 2000). The historical literature on industrial development, however, rarely talks about family firms of East Pakistan (now Bangladesh).

Another common business trend in South Asia was the creation of state-business nexuses which were present long before the partition. The most clear-cut evidence of Jinnah's relationship with family businessmen before partition was seen in the role which he personally played in the mobilization of Muslim businessmen through the organization of Muslim chambers of commerce (Papanek, 1972). These family business owners included Sir Adamjee Haji Dawood (the father of the present head of the Adamjee firm), the two Ispahani brothers (M.A. and M.A.H.), Mahomedali Habib (of Habib Bank), Habib Ibrahim Rahimtoola, as well as several others who were active in provincial League activities, such as G. Allana in Karachi. Since the families of most of these men already owned considerable wealth, it is certainly not surprising that their firms became large and important in Pakistan because of their financial as well as political power. These groups were from West Pakistan. Most of the investors in the wealthy family firms were either personally close to Jinnah or had gradually moved into positions of support for the establishment of a Muslim state. They came from families which were among the wealthiest Muslims in commerce and industry in undivided India. All these families migrated to Pakistan and most of them are among the leading business-industrial families today.

Political influence obviously played an important role in the development of family business groups in West Pakistan such as Dawood, Valika, Fancy, and Saigol after

independence (Papanek, 1972). These family business groups controlled commercial banks, insurance companies, construction firms, investment arms, and trading enterprises (Papanek, 1972).

Pakistan was always behind India. Moreover, within Pakistan, Bengali Muslims from East Pakistan played almost an insignificant role in trade and commerce compared to non-Bengali Muslims who were mostly in West Pakistan (Ali & Malik, 2009). In fact, East Pakistan's paltry number of firms in trade and industry was caused by multiple factors arising from inadequate government attention, lack of capital and credit, preference for investment in land, inadequate infrastructure, shortage of skilled labour, and lack of management expertise. Since a majority of wealthy landlords and big businessmen were based in West Pakistan, the government regularly tailored policies and reforms for the benefit of the West (Sobhan, 1980). In fact, within East Pakistan, only a few Bengali Hindu, Marwari, and British traders controlled the limited trade and industry existing in East Pakistan at that time. Although Bengali Muslims owned 2,253 factories, this represented only 18 percent of total industry assets, as these were extremely small enterprises compared to the 53 public sector units owned by the non-Bengali (West Pakistani) companies (Sobhan, 1980). The poor peasants and the few middle class businessmen of East Pakistan thus struggled to survive.

Table 2.2 shows the differences of economic indicators between East Pakistan (now Bangladesh) and West Pakistan which indicates government's major focus on West Pakistan. Table 2.3 further illustrates how the government's lack of attention in terms of investment in industrialization in East Pakistan kept it far behind than West Pakistan. This is why, East Pakistan remained economically backward as West Pakistan enjoyed all of the country's economic benefits. As a result the very few family firms

that existed in East Pakistan had to struggle to survive within such economic

vulnerability (Kochanek, 1993).

Table 2.1: Comparative compositions of National Product - Pakistan and India

Pakistan (East and West) % of GNP				India % of GNP	
Sector	1950	1960	1970	1950	1960
Agriculture	60.0	53.3	44.4	50.1	41.8
Manufacturing	5.9	9.3	12.2	11.4	15.3
Large Scale	1.4	5.0	9.0	7.9	12.8

Sources: Amjad (1982); Indian National Accounts Statistics, 1990

Table 2.2: Economic indicators of East and West Pakistan

Economic indicators in %	East Pakistan				West Pakistan			
	1955	1960	1965	1970	1955	1960	1965	1970
FDI	-1.7	0.3	4.6	3.2	5.6	5.4	8.9	3.1
Gross Domestic Fixed capital Formation:		6.8	11.2	10.5		11.4	21.1	15.6
Private:		3.6	4.7	3.5		4.4	11.3	8.1
Public:		3.2	6.5	7.0		7.0	9.8	7.5
Government Consumption in		4.4	5.5	5.5		9.2	7.9	10.0
Domestic Savings		6.5	6.6	7.3		6.0	12.2	12.5

Sources: Haq, 1966; Amjad, 1982

Table 2.3: Manufacturing Assets, East and West Pakistan, 1968 (in million)

	Assets controlled by leading 43 families (1)	Total Manufacturing Assets(2)	Total Assets of Privately Controlled firms(3)	(1)As a % of (2)	(1)As a % of (3)
East Pakistan	PKR 1740.8	PKR 5581.8	PKR 3859.9	31.2%	45.1
West Pakistan	(US\$365.5)	(US\$1172.17)	(US\$810.58)		
	PKR 4563.8	PKR9477.2	PKR 8405.1	48.3	54.4
	(US\$958.8)	(US\$1990.21)	(US\$1765.07)		
Total	PKR 6314.6	PKR 15059.0	PKR 12265.0	41.9	51.5
	(US\$1326.0)	(US\$3162.39)	(US\$2575.65)		
East Pakistan	PKR 27.6 (US\$5.79)	PKR 37.1 (US\$7.79)	PKR 31.5 (US\$6.62)		
West Pakistan	PKR 72.4 (US\$15.2)	PKR 62.9 (US\$13.21)	PKR 68.5 (US\$14.39)		

Source: White, 1974

Most West Pakistani industries were based on cotton and wheat, whereas East Pakistani industries focused on jute and textile. The government provided maximum industrial incentives for cotton producers in the West, but ignored the struggling jute and textile industries in East Pakistan (White, 1974). This resulted in low production and a weak internal market in the East. Besides this, Research and Development (R&D)-industry linkages were virtually non-existent for East Pakistan except for in large West Pakistani firms (Rahman, 1968). A list detailing the top 42 wealthy families of Pakistan in the 1960s (see Table 2.4) illustrates that West Pakistani family groups were controlling Pakistan by wielding their monetary power and maintaining a presence in the country's strategic economic and political sectors.²⁴

²⁴ These 42 families were dominating the financial and economic life of the country, controlling 66 percent of the country's industrial assets and 87 percent of the banking sector (White, 1974).

Table 2.4: Top 42 wealthy families of Pakistan, 1960s. (in million)

No	Name	Total Assets
1	Dawood	PKR 557.8 (US\$117.18)
2	Saigol	PKR 556.5 (US\$116.87)
3	Adamjee	PKR 473.2 (US\$99.37)
4	Jalil	PKR 419.8 (US\$88.16)
5	Colony	PKR 342.7 (US\$71.97)
6	Fancy	PKR 330.5 (US\$69.41)
7	Valika	PKR 320 (US\$67.2)
8	Bawany	PKR 237.4 (US\$49.85)
9	Crescent	PKR 199.7 (US\$41.94)
10	Wazir Ali	PKR 199.7 (US\$41.94)
11	Gandhara	PKR 153.2 (US\$32.17)
12	Isphani	PKR 154 (US\$32.34)
13	Habib	PKR 136.2 (US\$28.6)
14	Khyber	PKR 127.5 (US\$26.78)
15	Nisaht	PKR 128.9 (US\$27.07)
16	Beco	PKR 113.8 (US\$23.9)
17	Gul Ahamad	PKR 109.2 (US\$22.93)
18	Arag	PKR 105.4 (US\$22.13)
19	Hafiz	PKR 105.3 (US\$22.12)
20	Karim	PKR 95.4 (US\$20.03)
21	Milwala	PKR 96 (US\$20.16)
22	Dada	PKR 90.6 (US\$19.03)
23	Hyesons	PKR 90.4 (US\$19.2)
24	Premier	PKR 89.3 (US\$18.75)
25	Hussain Ibrahim	PKR 88 (US\$18.48)
26	Monnoo	PKR 79.9 (US\$16.78)
27	Maula Bakash	PKR 79 (US\$16.59)
28	Adam	PKR 78 (US\$16.38)
29	A.K. Khan	PKR 74.9 (US\$15.73)
30	Ghani	PKR 71.2 (US\$14.95)
31	Rangoonwala	PKR 68.2 (US\$14.32)
32	Harijanss	PKR 61 (US\$12.81)
33	Shafi	PKR 60 (US\$12.6)
34	Fakir Chand	PKR 59 (US\$12.39)
35	Hasham	PKR 58.9 (US\$12.37)
36	Dadabhoy	PKR 53.9 (US\$11.32)
37	Shahnawaz	PKR 52.7 (US\$11.07)
38	Fateh	PKR 48 (US\$10.08)
39	Noon	PKR 46 (US\$9.66)
40	Hoti	PKR 45.8 (US\$9.62)
41	Dost Mohammad	PKR 45 (US\$9.45)
42	Farooq	PKR 36.7 (US\$7.71)

Source: White, 1974

Among the 42 West Pakistani families, Dawood, Adamjee, Bawani, Arag, Isphani, Gandhara, Dada, and Habib also had investments in East Pakistan. These family business groups settled in Bangladesh unlike some other East Pakistan industrialists who migrated to India or West Pakistan after the independence of Bangladesh.

However, most of these family firms have undergone ownership changes over time: Adamjee was taken over by the Bangladesh government in 1971, Habib and Arag are now in Chittagong but their ownership has been transferred to outsiders, while Gandhara was taken over by the great businessman Zahurul Islam of Islam Group and is now known as Aftab Group (still under family ownership) (Maniruzzaman, 1966).

After President Ayub Khan took initiatives to boost Pakistan's industrialization, some family firms emerged in East Pakistan in the 1970s. Table 2.5, adapted from Baranov (1986), confirms the rise of these family firms in East Pakistan. Some prominent family firms that this list does not mention are Square, BEXIMCO, Rahimafrooz, Akij, Karnaphuli, Alpha Tobacco, Navana, ACI, Pragati.²⁵

²⁵ As per the members directory of MCCI, 1976.

Table 2.5: Leading Bangladeshi Family Businesses in East Pakistan, 1969-1970

Business group	Number of companies	Established Assets (in million)
A.K. Khan	12	PKR 75 (US\$15.75)
Gui Baksh Bhuiya	5	PKR 65 (US\$13.65)
Zahurul Islam	14	PKR 60 (US\$12.6)
Md. Fakir Chand	10	PKR 60 (US\$12.6)
Maqbulur Rahman and Zahurul Qayyum	9	PKR 50 (US\$10.5)
Al-Haj Muslimuddin	6	PKR 50 (US\$10.5)
Al-Haj Shamsuzzoha	5	PKR 50 (US\$10.5)
Khan Bahadur Mujibur Rahman	4	PKR 45 (US\$9.45)
Afil	7	PKR 40 (US\$8.4)
Sattar	5	PKR 30 (US\$6.3)
Ashraf	4	PKR 30 (US\$6.3)
Bhandari	6	PKR 30 (US\$6.3)
Safdar Ali	7	PKR 30 (US\$6.3)
Ibrahim Mia	7	PKR 30 (US\$6.3)
Serajul Islam Chowdhury	4	PKR 25 (US\$5.25)
Mohammad Abdus Samad (Delta Group)	5	PKR 25 (US\$5.25)

Source: Baranov, 1986

After Bangladesh evolved as an independent state in December 1971, many of the West Pakistani private entrepreneurs and managers (who were at the helm of both public and private enterprises in then the East Pakistan) fled the country, leaving a huge vacuum in the corporate sector. With the birth of Bangladesh, almost all of the large private enterprises were nationalised to promote the new government's core principle of socialism. Government ownership of industrial assets jumped from 34% in 1971 to 92% in 1972 (Humphrey, 1987). That time industrial sector was contributing only 7.8 percent of the country's GDP of which only 3.7 percent was from large-scale industries (Sobhan, 1980). From August 1975 to December 1990, Bangladesh experienced the rule of two consecutive military regimes, the Zia regime (1975-1981) and Ershad regime

(1981-1990) (Zafarullah, 1994). In 1975, President Ziaur Rahman initiated industrialisation by adopting privatisation, export liberalisation, and import substitution. This is when the few existing family firms and some new family firms (City Group, Concord, Jamuna, Meghna, Sunman, Flora, Nasir) secured privileges due to policy reform and distribution of government rents, facilitated by state-business nexuses (Kochanek, 1993).

Zia's privatization process resulted in a transformation of 255 state-owned enterprises into private firms between 1975 and 1981 (The World Bank, 1997). This is when Family firms received a new start with the beginning of the privatisation process (Kochanek, 1996). More importantly, many of the privatised industries were purchased by single owners who preferred to keep the ownership of the business within their families (The World Bank, 2009; Uddin and Hopper, 2003).

After Zia's assassination, President Ershad further privatised the economy, enabling many entrepreneurs to mobilize capital from the stock market, while export-processing zones (EPZ) were established. Ershad further accelerated state-business nexuses through which family firms flourished. These firms obtained enormous bank loans, contracts, and licences (Kochanek, 1993). By the late 1980s, through the various initiatives to boost industrialization by the two military regimes, about 100 to 200 business houses (mostly family firms) had emerged. Some of the new family business groups were PRAN, Paradise, Orion, Summit, Bashundhara, Transcom, OTOBI, Dragon, PHP, and Rangs.²⁶ Among the many new and existing family firms, Table 2.6 provides a list of the 14 top wealthy and prominent family business groups in Bangladesh in the 1980s (Kochanek, 1993). The growing contributions of family firms led an increase of the

²⁶ As per the Directory of MCCI, 1990

manufacturing sector share to total GDP, from 12 percent in 1991 to 17.2 percent in 2010 (Nath, 2012).

Table 2.6: Top 14 Family Business Groups in Bangladesh, 1980s

Business group	Number of Companies	Year of Establishment
Islam Group	24	1963
Ispahani	23	Pre-1947
BEXIMCO	17	1966
Anwar	18	1971
A.K. Khan	15	1945
Panther	9	1956
W. Rahman Jute	10	1885
Apex	4	1972
Pacific	5	1974
Square	5	1958
Elite	5	1954
Alpha Tobacco	4	1969
Karnaphuli	14	1954
Kumudini	3	1933

Source: MCCI, Members Directory 1988

As a result of industrialization, the country's dependence on agriculture reduced and the share of industry and services increased. Figure 2.1 shows the gradual transformation of sectoral contribution to GDP in Bangladesh over time due to the government's focus on industrialization. This figure clearly shows how the agricultural sector's contribution dropped drastically from 70 percent in 1950 to 18 percent in 2011; on the other hand, industrial growth increased from 15 percent in 2001 to 30 percent in 2010.

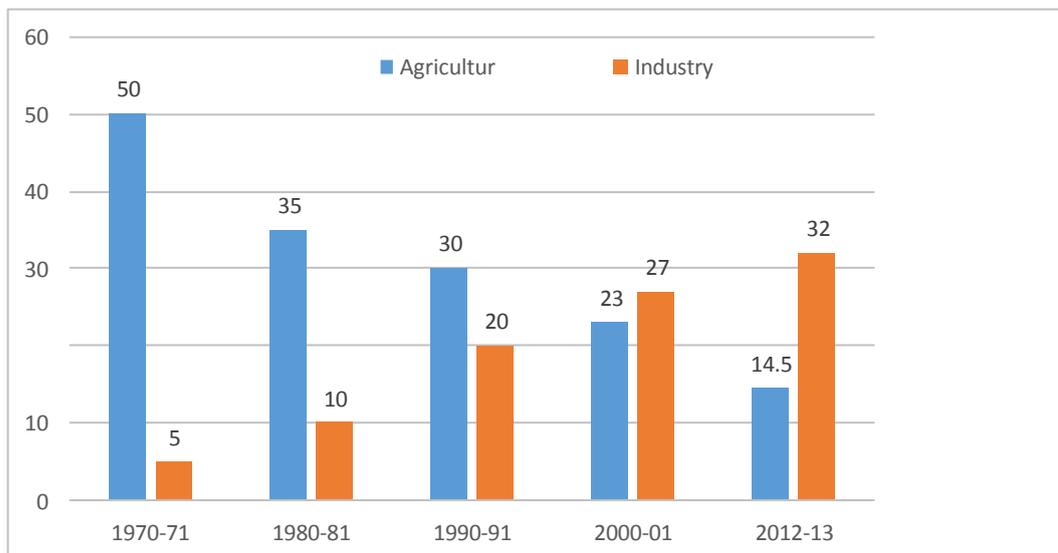


Figure 2.1: Sector wise Contribution to GDP in Bangladesh

Sources: Bangladesh Arthanaitic Samikhya, 2007; Bangladesh Bureau of Statistics (BBS), 2014; Bangladesh Economic Update, 2013.

Understandably, due to successful export liberalisation policies, growing contributions of the family firms, especially through the huge exports by the ready-made garment sector, and Dr. Mohammad Yunus’ microcredit policy since the 1990s, Bangladesh’s economy started growing by more than 5 percent a year (Ahmad, 2013; Rahman & Yusuf, 2010; Quadir 2000). Figure 2.2 shows the GDP Growth rate over the years in Bangladesh.

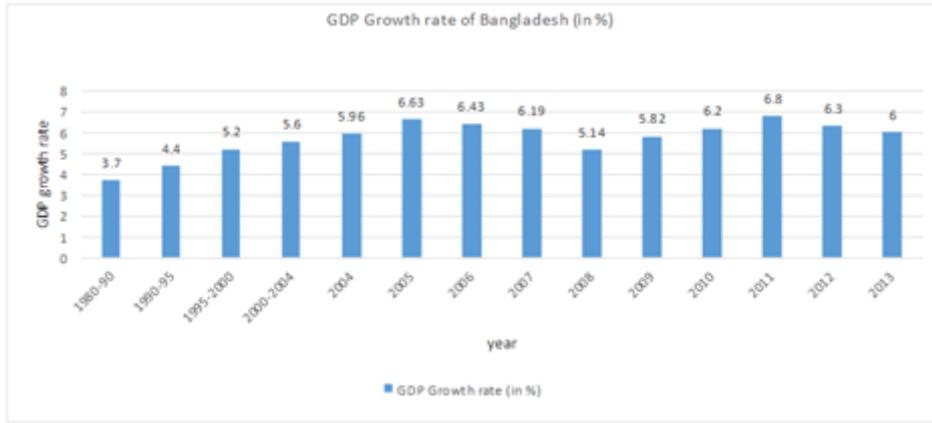


Figure 2.2: GDP Growth Rate in Bangladesh

Unfortunately, despite economic improvement in the country, the manufacturing sector struggled due to some economic, political, and infrastructural bottlenecks like energy shortage, poor availability of credit facilities, and poor inflow of Foreign Direct Investment (FDI) due to ongoing political turmoil, labour unrest, and the poor law and order situation.²⁷

2.3 Industrial Development by Regime: Platform for family firm development

Industrialisation is a process in which a country transforms itself from a primarily agricultural society into one based on the manufacturing of goods and services. Industrialisation can engender modernisation and structural transformation of the economy through diversification of the economic base and by raising living standards in society (Sadli, 1994). According to history, the double partition devastated the economy in Bangladesh. The absence of industries and government attention towards East Pakistan (now Bangladesh) had a wide-reaching effect. East Pakistan remained mainly

²⁷ As commented by the family members of seven family firms interviewed.

an agricultural hub with mostly poor peasants. Although Pakistan had implemented rapid industrialisation policies since the Ayub Khan regime, a major share of the development budget went to West Pakistan. East Pakistan, on the other hand, became heavily dependent on imports because it lacked natural resources (White, 1974). Eventually, due to the absence of sustained industrialisation policies and adequate agrarian expansion, its economy declined and the state gradually became weaker (Lesser, 1988).

Various development financial institutions (DFIs) have helped Bangladeshi industries to grow, despite tough competition from the international market. The government established numerous banks and financial institutions (the former NDFC, the IDBP, the PICIC, the ADBP, the SBFC, the RDFC, etc.) to cater specifically to the needs and demands of industries (Papanek, 1967; Lewis & Soligo, 1965).²⁸ Besides this, the government established the Corporate Industrial and Restructuring Corporation (CIRC) to tackle the longstanding problem of ailing enterprises creating financial difficulties for National Commercial Banks (NCBs) and DFIs.²⁹

Although the performance of the manufacturing sector in the 1970s was constrained by the dominance of poor performing nationalized enterprises, inadequate private investments and reckless divestiture of public enterprises. However, the pace of industrialization increased after privatization and industrialization took place in 1980s (Nath, 2012). Notably, the industrial sector certainly is dominated by family firms as currently 86 percent large firms are family dominated (Joint Stock Commission,

²⁸ The Industrial Development Bank of Pakistan (IDBP), the Pakistan Industrial Credit and Investment Corporation (PICIC), the Agricultural Development Bank of Pakistan (ADBP), the National Development Finance Corporation (NDFC), the Small Business Finance Corporation (SBFC), and the Regional Development Finance Corporation (RDFC).

²⁹ CIRC has played the role of identifying poor performing companies for sale or for transfer of ownership. It has also approved the transfer of ownership of these companies. This initiative has been successful in removing non-performing loans worth Rs12.2 billion (US\$ 2.56 billion) from the balance sheet of the financial sector.

2014).³⁰ Therefore, industrial development in Bangladesh mainly indicates the development of family firms.

Figure 2.3 illustrates the timeline for the industrial policies undertaken by each regime along with its consequences, which clearly shows how policy-making and implementation in the country that both assisted and hindered the industrial development. While some developmental policy initiatives boosted industrialization and improved the infrastructure and living standard, the pervasive corruption in bureaucracy and a fragile political situation hindered proper industrial growth. Tables 2.7 and 2.8 shows various policy measures, but many of the reforms were not implemented. The regimes implemented only those economic policies that benefited them, besides improving the economy, while ignoring policies that could improve public governance as this would curtail forms of corruption that were viewed as a source of income by politicians.³¹

³⁰ Data collected from the Joint Stock Commission office in Dhaka

³¹ Public Governance is defined here as the process by which a state manages its administrative affairs. According to the World Bank, governance is the manner in which power is exercised in the management of a country's economic resources for development (World Bank, 1992).

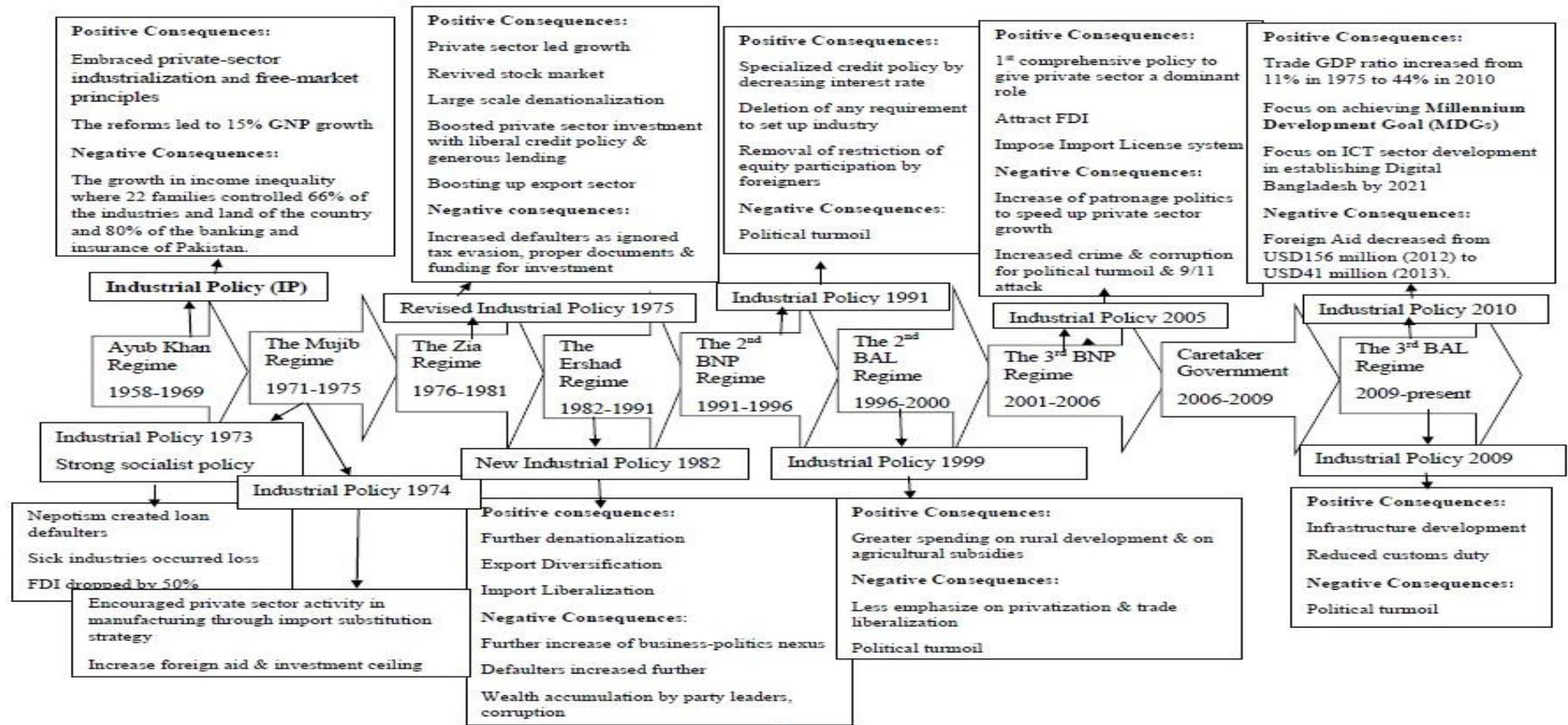


Figure 2.3: Timeline of Industrial Policies in Bangladesh under Different Regimes (drawn by researcher)

Sources: Papanek,1962; Amjad,1982; Khaled & Chowdhury,2010; Sobhan & Ahmaed, 1980; Khan,1995; Kochanek, 1996, 2000; Sen et al., 2004

Table 2.7: Overview of Past Reform Efforts

Name of the Commissions and Committees	Year	Main Focus	Status of Implementation
Civil Administration Restoration Committee (CARC)	Appointment in 1971 and report submitted in 1972	Organizational set-up for government after emergence of Bangladesh	Implemented. Secretariat administration was reorganized with 20 ministries. Constitutional bodies like Supreme Court, the High Court, the Public Service Commission, the Election Commission and the Office of the Comptroller and
Administrative and Services Reorganization Committee (ASRC).	Appointed in 1972 and Submitted report in 1973 and 1974.	Unify Civil Service Structure	Not Implemented: As it required to unify or improve the civil service structure with a continuous grading system from top to bottom.
National Pay Commission	Appointed in 1972 and submitted report in 1973	Pay Issues	Implemented. New national pay scale with 10 grades was int
Pay and Services Commission (P&SC)	Appointed in 1976 and submitted report in 1977	Services Structure and Pay Issues	Implemented The New National Grades and Scales of Pay was introduced with 21 scales of pay. 28 services under 14 main cadres were created within the civil service and a Senior Services Pool

Table 2.7: (Continued)

Name of the Commissions and Committees	Year	Main Focus	Status of Implementation
Martial Law Committee (MLC1) - Headed by Brigadier Enamul Haque) for examining organizational set-up of Ministries/Divisions and other Organizations	Appointed in 1982 and submitted report in 1982	Organization and Rationalization of Manpower in Public Sector Organizations	Implemented. Reduction of the size of government, reduction of layers of decision making; delegation of administrative and financial powers down the hierarchy.
Committee for Administrative Reform and Reorganization	Appointed in 1982 and submitted report in 1982.	Reorganization of District (Upazila) and Field Level Administration	Implemented. Upgraded of Thanas into Upazilas with Upazila Parishad
Martial Law Committee (MLC2) for Examining Organizational Setup of Public Statutory Corporations.	Appointed in 1983 and submitted report in 1983.	Public enterprise	Not Implemented. As it required more delegation of financial and administrative powers down the hierarchy; timely release of funds from ministries; rationalization of manpower; preparation of organization charts, manuals, annual activity reports; merit based promotion.
Secretaries Committee on Administrative Development (SCAD)	Appointed in 1985 and submitted report in 1986	Promotion Aspects	Not Implemented. As it required to set up the criterion for promotion.

Table 2.7: (Continued)

Name of the Commissions and Committees	Year	Main Focus	Status of Implementation
Commission for Review of Structure of the Local Government	1991	Structure of Local Government	Not Implemented. As it required a review to structure the union Parishad (the lowest tier of local government) and Zila Parishad.
Administrative Re-organization Committee (ARC).	Appointed in August 1993 and submitted in August 1996.	Structure and Rationalization of Manpower Across Ministries/Departments/Directorates	Not implemented. In fact, the report of the Committee was not made public as it needed a reduction of the number of ministries and the number of administrative organization
Local Government Structure Review Commission	1993	Study the local government	Not implemented. As it needed to establish a suitable, effective, responsible and accountable local government structure for the country
National Pay Commission (4th NPC)	Appointed in August 1996	Pay Issues	20 revised Nation Scales of Pay was introduced
Local Government Commission	1997	Strengthening of Local Government Institutions	Not Implemented as it needed the UP Chairman to write the performance report of Union level GOB staff.
Committee for Recommendation of Financial Powers and Sources of Financing LG Institution	1999	Examine the Local Government Finance system	Not implemented.

Table 2.7: (Continued)

Name of the Commissions and Committees	Year	Main Focus	Status of Implementation
Public Administration Reform Commission (PARC).	Appointed in 1997 and submitted report in 2000	Improving Transparency, Efficiency, Accountability, Effectiveness of Public Administration and Bringing Institutional and Procedural Changes & Improvement of Service Delivery	Partially implemented. Judiciary has been separated and anti-corruption commission also has been established. However, implementation not done on performance monitoring and result oriented performance, delegation of powers to subordinate and field offices; open and free access to government documents and reports for the sake of transparency and accountability.

Sources: UNDP Mission Report on Bangladesh Civil Service Reform program 2007; Mollah, 2014 Khan, 1998; Huque, 1996

Table 2.8: Public Administrative Reforms (Not Implemented)

Name of the Report	Year	Agency Involved	Main Focus	Status of Implementation
Public Administration Efficiency Studies	1989	USAID	Review & improve Secretariat System, relationship between ministries.	Not Implemented as it needed to reduce secretariat's operational activities through delegation; reducing layers in decision making; enhancing organization and management capacity; modernization of office
Report on Public Administration Sector Study in Bangladesh	1993	UNDP	Public Administration Reform in the Government with Emphasis on Certain Specific	Not Implemented as it needed an elimination of redundant government functions; merit-based selection and promotion; strengthening Public Service
Towards Better Government in Bangladesh (Four Secretaries Report)	1993	DFID	Administrative Reform	Not Implemented as it needed to implement merit based recruitment and promotion; improvement of financial management system; improvement of accountability and transparency;
Government That Works: Reforming the Public Sector	1996	World Bank	Comprehensive Administrative Reform	Not Implemented as it required an enhancement of the level and nature of accountability and responsiveness of public organization
Taming Leviathan- Reforming Governance in Bangladesh	2002	World Bank	Public Sector Reform	Not Implemented as it required greater accountability and transparency in government operations
Building a 21st Century Public Administration in Bangladesh	2007	UNDP	Civil Service Reform.	Not Implemented as needed Civil Service Reform and identification of existing drawbacks within the civil service and to recommend practical measures

Sources: Adapted from UNDP Mission Report on Bangladesh Civil Service Reform program, 2007; Huque, 1996.

2.3.1 The Colonial Era (1947-1971): Ayub Khan and the Liberation War

Pakistan's move for independence from British India was based on Muhammad Ali Jinnah's 'two-nation theory', which aimed to establish a separate homeland for Muslims in South Asia (Sayeed, 1963).³² After Pakistan's independence in 1947, the Muslim League became the ruling political party of Pakistan. Liaquat Ali Khan was appointed the first Prime Minister of Pakistan, while Jinnah became the state's first Governor-General. The Muslim League was founded in 1906 with the aim of representing the interests of Muslims in undivided India, that means for East Pakistan. In 1949, the left-leaning faction of the Muslim League in East Bengal split to form the Awami Muslim League. The word "Muslim" was later dropped from this party's name as part of an effort to secularize the organization. In the late 1960s, during East Pakistan's autonomy movement, the Awami League became prominent in the region under the leadership of Sheikh Mujibur Rahman (popularly known as Sheikh Mujib). The League's leadership was composed largely of lower middle class, village-born landowners, most of whom also held law degrees. The party had no well-knit ideology but was held together by Sheikh Mujib's charismatic leadership.

State-business nexuses were created from the very beginning after the independence of Pakistan as economic rents were created and distributed, through a process of selective patronage. West Pakistani family firms as well as a few from East Pakistan used state ties to grab these rents (Kochanek, 1993). Besides, the Pakistan Industrial Development Corporation (PIDC) was believed to have favoured established industrial families. The Adamjee family, which emerged as the biggest industrial house at the end of the

³² This theory proposes that since the Hindus and Muslims have two different religious philosophies and social customs; the Muslims of India cannot live under the same state as the Hindus of India (see Jalal, 1985). The supporters of this two-nation concept had various motivations: Muslim traders wanted a separate state that could fulfil their economic interests, the educated urban middle class desired better employment opportunities, while Muslim members of the Indian civil service aspired to dominate in bureaucracy (see Sayeed, 1963).

1950s and established a dominant position in the jute industry, was said to have achieved this position through its association with the PIDC. The Saigol, Ispahani, Amin and Crescent groups were the other major beneficiaries (White, 1974).

Lobby groups were established to link wealthy family business owners to the state after partition (Kochanek, 1993). Muslim Commercial Bank was established in July 1947, a month before partition, with Jinnah's strong encouragement, by Sir Adamjee and M.A. Ispahani. The founder-directors of the new bank included men from the large commercial or industrial Muslim families (Ispahani, Adamjee, Dada, Arag, Amin Jute) as well as Khwaja Shahabuddin, who had been a prominent member of the first Muslim ministry in Bengal (1937-40) as well as, much later, a member of the Ayub government (Minister for Information and Broadcasting, 1965-1969). Muslim Commercial Bank became a part of the Adamjee group of companies; in 1964, M.M. Ispahani was on its board of directors, along with members of the Arag and Valika families and two Adamjees, of whom one was the chairman.

Although both Liaqat and Mujib promised democracy and the cessation of corruption, its reality was very different due to the hidden motive of its members to use power for personal gains (Nair, 1990). As a result, the Awami League government, as well as West Pakistan's Liaqat government, encountered serious difficulties governing the two wings of Pakistan effectively. This eventually led to a military coup by General Ayub Khan in 1958 (Tudor, 2013).³³

³³ Ayub Khan was the first local Commander-in-Chief of Pakistan's army. In 1954, he became involved in politics when President Muhammad Ali Bogra appointed him as the Defence Minister. On 7 October 1958, when President Iskander Mirza declared martial law in Pakistan, Ayub was designated as the chief martial law administrator. However, the two leaders had problems working together. Eventually, on 27 October 1958, Ayub overthrew Mirza in a military coup and declared himself the President. Interestingly, most people in Pakistan welcomed Ayub's takeover because they were tired of continuous political instability.

After coming into power, Ayub implemented Pakistan's first industrial policy (1955-60), which focused on developing private enterprises through provisions for tax relief, land, power, transport facility, etc. (Khan, 1999). Ayub awarded businessmen import licenses and subsidies, though a major share of the development budget was channelled to West Pakistan (Naqvi, 1964), and these rents were mainly distributed among non-Bengali West Pakistani wealthy and politically well-connected family business groups (Ahmad & Amjad, 1984). As a result of Ayub's initiatives, industry's contribution to GDP expanded from 1 percent in 1947 to 6 percent in 1959 (Papanek, 1962).

In 1960, Ayub launched the country's second five-year plan (1960-65), initiating a new tax system, subsidies on industrial credit, incentives for exportable items, and increased cost of importable items that could be produced locally. (Amjad, 1982). This increased the manufacturing sector's growth to 8.51 percent by 1970, the highest in Pakistan's history (Lewis, 1969). Although these two policies boosted West Pakistani industries, a few East Pakistani family firms secured some benefits, especially those who had financial strength besides political ties (Kochanek, 1993). East Pakistan received only 30 percent of the total commercial/industrial licenses issued in 1956 and 1960. However, East Pakistan was deprived of foreign aid despite its substantial export and import contribution to Pakistan, as shown in Figures 2.4 (about 2/3 of export contributed by East Pakistan) and Figure 2.5 (about 1/3 of import contributed by East Pakistan). Unfortunately, given the focus on boosting West Pakistan industries, the government transferred the agricultural export surplus from East Pakistan to West Pakistan's industrial sector (Lesser, 1988).

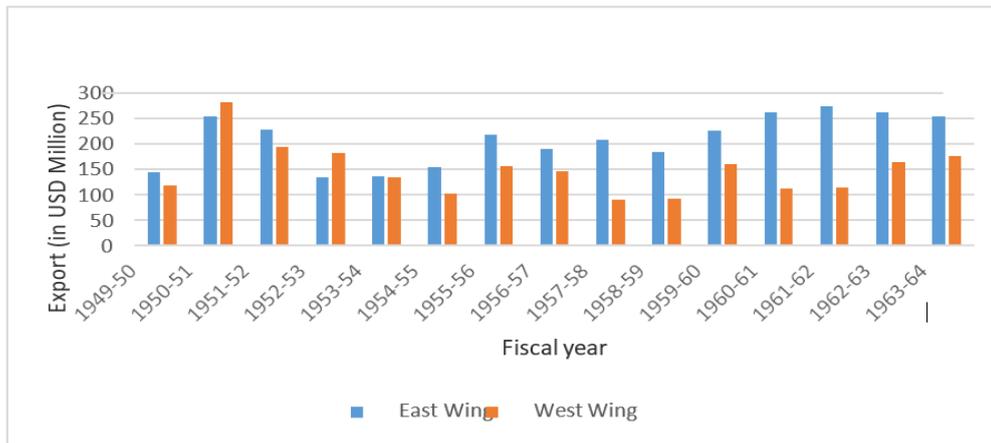


Figure 2.4: Export Trade by East and West Pakistan (in US\$ Million), 1949-1964

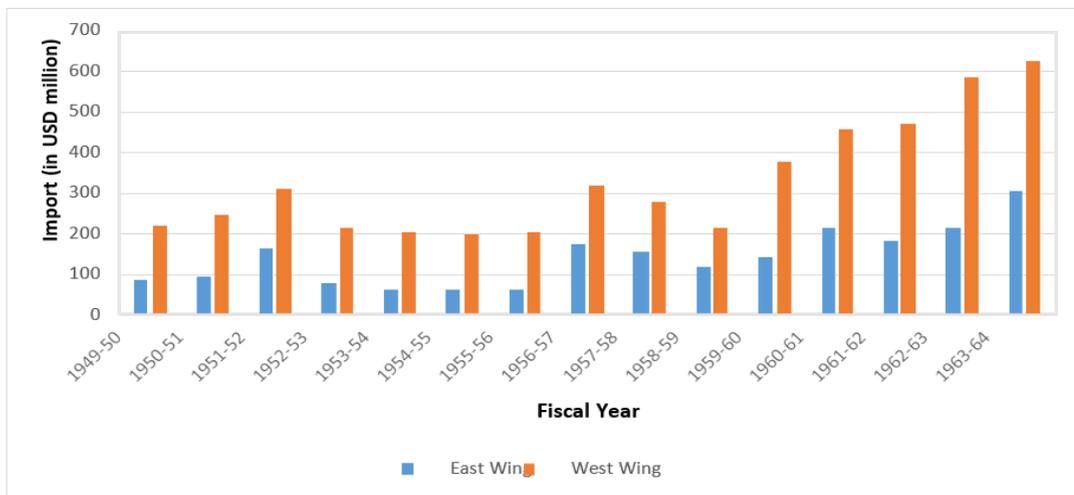


Figure 2.5: Import Trend in East and West Pakistan, 1949-1964

Further, during Ayub era, a close link between industrial and financial capital emerged (Siddiqui, 2011). Through the state nexuses, family firms controlled both banks and insurance companies, and were influential in the running of the main aid disbursing agency, PICIC (White, 1974; Kochanek, 1983). Of the 17 banks incorporated in Pakistan, seven were under the direct control of the monopoly houses. There were 47 Pakistani insurance companies in 1969, of which 14 were controlled by the monopoly houses. Seven leading family firms were represented on the board of PICIC, while one

of them, Adamjee, was the chairman. It is perhaps not surprising that almost 65 percent of total loans disbursed by PICIC from its inception in 1958 until 1970 went to 37 family firms, with 13 of the larger family firms getting 70 percent of this amount (Kochanek 1983).

PICIC and the IDBP favoured West Pakistani businessmen with industrial credit facility and import licenses. Ayub's government also overvalued the Pakistani rupee, under-priced agricultural goods and imposed export tax on agricultural products, forcing East Pakistan's poor peasants to pay two to three times the world price for manufactured goods. As a result, the peasants and small entrepreneurs in East Pakistan remained fragmented and powerless (White, 1974; Alavi, 1972).

To navigate these challenges, the few existing and new East Pakistani industrialists developed personal as well as marriage ties with civil and military families so that they could build ties with key actors within the state to obtain rents (Chengappa, 1999). They also entered politics to gain further access to government rents and power, indicating the emergence of the 'revolving door' concept (Brezis & Hellyer, 2013). In politics, the "revolving door" is a movement of personnel between roles as legislators and regulators and the industries affected by the legislation and regulation (Demir, 2004). Governments hire industry professionals for their private sector experience, their influence within corporations that the government is attempting to regulate or do business with, and in order to gain political support (donations and endorsements) from private firms. Industry, in turn, hires people out of government positions to gain personal access to government officials, seek favorable legislation/regulation and government contracts in exchange for high-paying employment offers, and get inside information on what is going on in government. The 'revolving door' is a phenomenon widely seen in the politics of the United States, South America and Japan.

Moreover, during the British colonial period, most of the Science and Technology

(S&T) infrastructure and R&D institutions were located in and around Calcutta. The only research station inherited by Pakistan after the partition from India was an agriculture research institute specializing in rice research. In 1954, the Pakistani government set up the Regional Laboratory, Pakistan Atomic Energy Centre, Jute Research Institute, and Hydraulic Research Institute (for water resources). Additionally, agricultural incentives such as subsidized irrigation water, low fertiliser prices, and low tariffs for buying farm machineries were implemented which benefited East Pakistani Bengali businessmen who were primarily involved in the agricultural sector; this helped to increase the East's agricultural production as well as the number of entrepreneurs (Sobhan, 1980; Kochanek, 1983).³⁵

Everything was going well until the Indo-Pakistan War broke out in 1965, which caused the country's economy to rapidly decline. Although Pakistan's manufacturing, industrial and agricultural sectors improved during the Ayub era (Jalal, 1990), under mounting pressure he had to hand over power to another general, Yahya Khan. Yahya did not comprehend the magnitude of the uprising in East Pakistan and Pakistan broke up because of a denial of democracy and administrative mismanagement (Ziring, 1971). The subsequent political chaos and drop of foreign capital led to the decline of industrialization, by 25 percent by the late 1960s (Sobhan, 1980). Meanwhile, the discrimination amongst East Pakistanis eventually gave rise to continuous riots, leading to the liberation war in 1971, and subsequently, East Pakistan's independence as the new state of Bangladesh (Maniruzzaman, 1971; Rahim, 1973).

³⁵ Agricultural production in East Pakistan increased from 89% in 1949 to 93% in 1958, and reached 158% in 1970. Also, by 1971, 16 small and medium Bengali business houses were created in East Pakistan whose combined assets were Rs 700 million (Barron, cited in Sobhan, 1980). These business groups were mostly entrepreneurs with political ties (Kochanek, 1983)

2.3.2 Bangladesh Awami League (1972-1975): Provisional Government by Sheikh Mujibur Rahman - a failed socialism

After independence, Bangladesh Awami League (BAL), headed by Sheikh Mujib, governed Bangladesh. The government pursued an interventionist planned economic model involving extensive nationalization in order to facilitate the country's recovery from the damages of the war and to protect domestic firms from foreign competition (Khaled & Chowdhury, 2010). In 1973, the New Industrial Policy (NIP) introduced a rigid import-substitution strategy based on socialism, increased nationalisation of industries, from 34 percent to 92 percent, imposed high import tariffs, and overvalued the exchange rate (Sobhan & Ahmaed, 1980).

Unfortunately, this nationalisation strategy failed as it created large-scale 'sick industries' in the public sector, as control over nationalised industries was by inefficient party leaders whose only aim was wealth accumulation. This government appointed many pro-BAL business executives to manage the industrial and financial agencies, where appointments were determined on the basis of patronage, not merit (Ahmed 1980; Zafarullah & Khan, 1983). People who never held public office were quick to find themselves seated in government. Some of the BAL adherents with little or no experience in administration were placed in such responsible positions as secretaries of ministries, chairmen and directors of corporations and ambassadors (Zafarullah, 1987).

These inefficient and under-qualified bureaucrats instituted a patron-client culture (Ahmed, 1980). For example, they sanctioned bank loans without proper documentation. This led to an increase of bank loan defaulters (Mahmud et al., 2008; Rashiduzzaman, 2001; Jahan, 2000).

To address the country's ailing economy, Mujib launched a revised policy, the New Industrial Policy 1974, which introduced business permits and licenses, increased the investment ceiling from US\$0.15 million to US\$0.20 million, devalued the currency,

and initiated tax holidays. However, this too did not improve the economic situation, as party leaders manipulated permit distribution in exchange for personal gains (Kochaneck, 2000, Maniruzzam, 1980; Sarker, 2002). Furthermore, responsibility for the distribution of products manufactured by poorly performing state-owned firms was given to well-connected businessmen, rather than professional traders (Guhathakurta, 2002; Huque, 1988). This widespread adoption of political patronage eventually gave birth to a nouveau riche, despite the fact that the country's overall economic performance was not even minimally satisfactory (Mollah, 2011; Huque, 1988). Eventually, Mujib was assassinated in a bloody military coup, on 15 August 1975.

2.3.3 Bangladesh National Party (BNP) and General Ziaur Rahman (1976-1981): Rise of Business-Politics Nexus

After Mujib's assassination in August 1975, General Ziaur Rahman re-established a bureaucratic-militarist model of governance, similar to the Ayub Khan administration. Like Ayub, Zia also created his own political party, BNP where most members were drawn from the upper strata of the Bangladeshi middle class, including rich farmers from the rural areas.

Zia mainly focused on private sector-led growth through administrative reforms boosted by liberal credit policies and generous loans from commercial banks and DFIs (Khan, 1995).³⁶ Zia denationalised industries, selling them at cheaper rates to the few existing wealthy families (Kochanek, 1996; Rahman, 2010; Maniruzzaman, 1982).

His first five-year plan provided an allocation of Tk1395 million (US\$81.97 million) for the private sector, while the following two-year plan (from 1981-82) increased this amount to Tk2460 million (US\$113.83) (Khan, 2013).

³⁶ Administrative reform is the deliberate use of authority and influence to modify the goals, structure, procedures, and behavior of an administrative system with a view to improving organizational effectiveness and attaining national development goals (Quah, 1981).

Besides this, Zia continued Khan's export-oriented industrialisation policy. He attempted to upgrade technology and research by establishing a National Council for Science and Technology (NCST) in 1983 (Kochanek, 1996). This assisted the family firms to gear up their production.

In 1975, Zia implemented the Revised Industrial Policy which directed Bangladesh Shilpa Bank (BSB) and Bangladesh Shilpa Rin Santha (BSRS) to assist entrepreneurs (Kochanek, 2000). He also revitalized the stock market, issuing a directive to not query entrepreneurs regarding the source of their funds for investment into productive streams (Mollah, 2011; Shehabuddin, 2016). Tax holidays were announced for new industries up to seven years, while concessions were granted to entrepreneurs for power, water, gas, and transportation. Zia's policy reforms led an export growth, from 6.3 percent in 1975-76 to 48 percent in 1976-77 (Quadir, 2000). By 2012, the garment industry alone earned 80 percent of Bangladesh's foreign exchange (Khan, 1995). This encouraged family firms to export their products, to diversify into different sectors, to improve their production facilities, and to list their companies on the stock market (Khan, 1995).

However, the generous lending to the firms in order to speed up their development led Bangladesh Bank to ignore large-scale tax evasions by these elites (Quadir, 2000). For this reason, Zia's approach to private sector development was satirically called 'crony capitalism'. Moreover, his market-oriented liberalizing policy reforms were initiated in close consultation with influential business communities, especially family firms (Mahmud, et al., 2008). Inevitably, Zia's government suffered from corruption just like the Ayub and Mujib administrations despite his contribution to industrialization and economic improvement (Khan 2012, 2013, 1995). Even though Zia was not personally involved in corruption, he was reputed to have institutionalised corrupt activities (Franda, 1982; Kochanek, 1993; Khan & Zafrullah, 1979).

Zia was assassinated in May 1981 during a failed military coup. The BNP

government retained power after his assassination and a new president, Abdus Sattar, was chosen through a general election in December 1981. However, one year later, the Sattar government was overthrown by Bangladesh's army chief, General Hussain Ershad, in a bloodless military coup.

2.3.4 Jatio Party under General Hussain Mohammed Ershad (1982-1990): Further Expansion of Business-Politics Nexuses and Corruption

Under the leadership of General Ershad, the 1982 NIP was launched, which intensified the previous regime's privatisation programs by distributing even more generous credit facilities to businessmen, divesting state-owned jute and textile mills, liberalizing import procedures, and activating EPZs to attract foreign investments (Sen, Mujeri & Shahabuddin, 2004). Ershad completely erased socialist tendencies from the country's constitution, which had previously only been curtailed by Zia (Mahmud, et al., 2008; Kochanek, 2000).³⁷ This favoured the new and existing family firms which flourished further.

The Ershad regime was, however, severely suffering from a legitimacy crisis as no effective measure was adopted to hold bureaucrats accountable (Ahmed, 1995). Corruption was institutionalized during his rule. The politics of patronage and corruption became the norm during the delivery of local services (Kochanek, 1993; Siddiquee 1997). By the late 1980s, 34 families had successfully accumulated a deposit of Tk25.38 billion (US\$780 million) and earning assets of Tk17.59 billion (US\$537.62 million), giving rise to a new 'banking bourgeoisie' in Bangladesh (Nuruzzaman, 2004). Besides, Ershad's policies led to an over dependence on foreign aid (Quadir, 2000).³⁸ He allowed the wealthy and well-connected family firms access to generous lending from banks, even without producing proper documentations (Abdullah, 1991). By June

³⁷ The public sector control of industrial assets declined from 92 percent in 1972 to 40 percent in 1988 (see Kochanek, 2000).

³⁸ 60 percent of Bangladesh's investment, 85 percent of its development budget and 68 percent of its commodity imports came from foreign aid. As a result, the country's debt-service ratio reached 30.6 in 1987.

1990, the total overdue to DFIs, including principle amount and interest, stood at about Tk11000 million (US\$323.73 million) and 96 percent of private sector borrowers were classified as defaulters (Abdullah, 1991).

Ershad reputedly personally received a fixed percentage on any government deal involving money (Maniruzzaman, 1994). In addition to this, he allowed the sanctioning of projects without proper review, as this gave him room to expropriate wealth for himself and his political followers (Maniruzzaman, 1994). Ershad eventually had to resign from presidency in December 1990 due to tremendous pressure from an anti-Ershad movement led by opposing political parties (Kim & Monem, 2009; Zafarullah & Huque, 2001). Ershad was subsequently charged with 17 major corruption cases involving millions of dollars when he was forced to step down from the power. In 1991, he was sent to jail by the caretaker government for misappropriation of public resources (Morshed 1997). He was released in 1997 when Bangladesh Awami League came in power.

2.3.5 Caretaker Government (1990-1991): A Disenchanted Democracy

Following the forced resignation of General Ershad, a caretaker government was introduced in 1990 under the leadership of Chief Justice Shahabuddin Ahmed (CPD, 2004).³⁹ In 1991, this caretaker government organised Bangladesh's first ever free and fair election, signalling the return of Bangladesh to a parliamentary democracy.

Although Awami League was expected to win the elections, BNP emerged as the victor. Its victory was attributed to the steadfast anti-Ershad platform of BNP's leader, Begum Khaleda Zia, the contributions of the BNP student's wing in electoral mobilisation, Awami League's political isolation and complacency, as well as a residual public hostility towards the League due to its corrupt governmental record.

³⁹ The caretaker government was headed by a Chief Adviser who enjoyed the same power as the prime minister of the country, except in defense matters. The other advisors functioned as Ministers.

During the caretaker government, many family firms that were directly connected to politics were financially affected as their businesses depended highly on state-ties which were restricted at that time.⁴⁰ However, the entrepreneurial family firms remained unaffected.⁴¹

2.3.6 Bangladesh National Party (BNP) under Begum Khaleda Zia (1991-1995): Aggressive Development Measures & Political Blame Games

The BNP survived the assassination of Zia in 1981 and remained a major political force in Bangladesh under the leadership of Zia's widow, Begum Khaleda Zia (Hossain, 1988). After BNP regained power, the Khaleda government adopted a macroeconomic program through its 1991 Industrial Policy (Kochanek, 2000).⁴² This policy was aimed at enabling Bangladesh to meet the targets set by the IMF and World Bank.⁴³ It also allowed businesses, especially family firms, access to loans and import of machinery without any hindrance, removed unnecessary requirements for establishing industries, and restrictions in equity participation by foreigners (Kochanek, 2000). Changes were also made in S&T planning, with an eye to upgrading and broadening local research techniques (Kahan et al., 1996).

However, Khaleda's slow, highly centralized, and personalized decision-making style resulted in poor political management, narrow focus on policy issues, and a tendency to

⁴⁰ Commented by the TIB Chairman and an anonymous TV reporter during an interview.

⁴¹ Commented by TIB Chairman during an interview.

⁴² The most striking aspect of this development policy was the Fourth Five-Year Plan (1991-1995) which, under donor pressure, rapidly implemented reform measures such as trade liberalisation, privatisation, sectoral performance and efficiency improvement, export promotion, growth in FDI domestic resource mobilisation, introduction of Value Added (VAT) Tax and Supplementary Duty, restructuring of the Board of Investment and Export Promotion Bureau, etc. The 1991 Industrial Policy also included elimination of subsidies for the jute sector, diversification of the country's export base, as well as tax exemption for foreign investors on the interest of foreign loans, royalties, and technical assistance.

⁴³ The targets of the IMF and the World Bank included increasing tax revenue through newly-imposed value-added tax, decreasing inflation, raising investment, decreasing government deficit, increasing foreign reserves to US\$2 billion, increasing exports, and reaching food sufficiency.

drift from one political crisis to another. BNP's patron-client style of governance also led to administrative paralysis, rendering the government incapable of implementing its macroeconomic policies. Although BNP-connected family firms got bank loans and project approvals, the economy remained sluggish with low levels of investment and savings, as well as rising local debt (Kochanek, 1996).

The BNP government suffered from the same corruption that plagued earlier Bangladeshi parties. For instance, through business-politics nexuses, wealthy and influential family firms continued to gain special access to bank loans, projects, etc. In addition to this, BNP was accused by the Awami League of manipulating votes to win the elections. In an effort to regain power, the League also instigated terrible political turbulence through repeated hartals (strikes), demanding that Khaleda's government resign.⁴⁴ Eventually, on 28 December 1994, after a mass resignation of all Parliament opposition members, BNP called for elections and was re-elected by a landslide victory (Kochanek, 1996). However, opposition parties again criticized these elections as unfair. As a result of this pressure, a caretaker government was established to supervise another election in 1996, which was won by BAL.

2.3.7 Bangladesh Awami League under Sheikh Hasina Wazed (1996-2001): Personal Interests versus Party Interests

Sheikh Hasina's highest priority was restoring the image of her father Mujibur and punishing his killers. She removed anyone connected with the government of Khondakar Mustaque Ahmed, which had taken power following Mujib's death and arrested several retired military officers implicated in Mujib's assassination. Her second priority was to improve relations with India by settling outstanding differences

⁴⁴ From 1994 to 1996, Bangladesh suffered a total of 92 days of hartals and 22 days of continuous non-cooperation, which had a devastating effect on the economy. Each hartal was estimated to cost US\$60 to US\$80 million per day.

regarding water rights, transit, and trade, and addressing the Chittagong Hill Tract problem.⁴⁵ Through the Industrial Policy 1999, BAL also provided greater support for rural spending and agricultural subsidies, resulting in exports rising to 11.2 percent and the agricultural sector's GDP increasing from 5.3 percent in 1996 to 5.7 percent in 1997 (Kochanek, 1997; Mahmud et al., 2008). This also benefited the family firms which grew further by focusing on agro-based businesses.

By contrast, industrial growth decreased to a dismal 3.3 percent under BAL from a high of 5.3 percent under the BNP. Due to this deterioration, BAL was criticized for poor economic management and sluggish, centralised decision-making. The party's failure to implement privatisation and trade liberalisation (Mahmud et al., 2008) created a stagnant industrial sector, rife with high interest rates, lack of working capital, struggling stock markets, infrastructure bottlenecks, unchecked lawlessness, rampant corruption, smuggling, and arbitrary governance. The few privatisation initiatives that were carried out failed miserably in solving these problems, as only 21 State Owned Enterprises (SOEs) out of the 217 identified for sale/divestments were transferred to private owners (Sen, Mujeri & Shahabuddin, 2004). Meanwhile, the banking sector was plagued by problems of nonperforming loans, political patronage, and political interference in management. This lack of focus on privatization effected some family firms businesses as they were struggling from high interest rates imposed on bank loans.

Further complicating these matters were the political turmoil and economic paralysis created by BNP through repeated hartals. Banks, ports, factories, and shops closed,

⁴⁵ Shortly after her election, Hasina fulfilled her campaign pledge to bring water from the Ganges to Bangladesh by signing a 30-year Ganges water-sharing treaty with India. This diplomatic success was later followed by peace talks designed to end hostilities in the Chittagong Hill Tract and repatriate some 30,000 to 40,000 Chakma refugees living in India. Bilateral talks were also held on outstanding issues involving travel and transit. These foreign policy successes, however, were condemned by the BNP as a sellout of Bangladeshi sovereignty to India.

while all transportation and communications ceased to function (Kochanek, 1996). This in fact effected the family firms business as they were struggling to deliver goods on time due to ongoing political turmoil.⁴⁶ Surprisingly, BNP was eventually successful in its attempts to regain power, by winning the 2001 election. One core reason was the support of the businesses who wanted BNP in power as this party focused more on privatization and industrialization.⁴⁷

2.3.8 BNP under Khaleda Zia (2001-2006): Further Rise of Corruption

After regaining power, the BNP government adopted a National Information and Communication Technology Policy (NICTP) in October 2002. This policy acknowledged the impact of information and communication technology (ICT) on the development of the economy and focused on building an ICT-driven economy comprising a knowledge-based society (Shehabuddin, 2016). This is when many firms including family firms diversified their businesses into the ICT sector (Sobhan, 1980). The BNP government implemented the Industrial Policy 2005, which imposed import licensing to reduce the scope of rent-seeking; however, Bangladesh was too firmly entrenched in patronage politics for this initiative to be successful (Mahmud et al., 2008; Mahmud, 2001). Family firms kept getting government rents (Kochanek, 1996). Unfortunately, BNP also had to deal with deteriorating law and order in Bangladesh, caused by the rise of religious extremism following the 9/11 attack on the World Trade Centre and the Pentagon. During this period, Bangladesh witnessed crimes like suicide bombings and coordinated bombings. Large business groups, mostly family firms,

⁴⁶ Commented by family members during interviews.

⁴⁷ Commented by TIB Chairman during an interview.

suffered with their foreign buyers and exports due to these incidents. A caretaker government had to be instituted to settle the situation.

2.3.9 Second Caretaker Government (2006-2008): Corruption Halted

Due to extensive corruption, disorder, and political violence, emergency law was declared on 11 January 2007 and a military-backed caretaker government was installed. Under the supervision of Chief Advisor Fakhruddin Ahmed, the caretaker government was tasked with the responsibility of organising the next general election. The caretaker government arrested more than 160 people, including politicians, civil servants, and businessmen. Khaleda Zia and her two sons, Tarek and Koko, were arrested in 2006 for embezzlement of the nation's wealth. During this period, Bangladesh's position in Transparency International's Corruption Perceptions Index improved marginally. However, the head of the caretaker government soon stepped down under pressure from the military, and BAL was voted back into power in December 2008.

2.3.10 Bangladesh Awami League (BAL) under Sheikh Hasina Wazed (2009 till present): Economic Fluctuations

BAL's victory in the 2008 elections proved beneficial to the country. Through the implementation of the Industrial Policy 2009, crime rates dropped. Through the Industrial Policy 2010, average per head income and national GDP value increased, while initiatives taken to further boost the ICT and other promising sectors. Exports increased and infrastructural bottlenecks decreased (D'costa, 2011). One major campaign was to promote "Digital Bangladesh" by 2021 (D'costa, 2011).⁴⁸

⁴⁸ This ambitious program aspires, in part, to embark on e-governance by integrating digital technology in various public sector mechanisms and service delivery, improve transparency in both the public and private sectors, and provide broader access to information by ensuring affordable internet connectivity for all by 2021 (See D'costa, 2011).

Three important developments in Bangladesh's political history took place in 2010. First, Bangladesh finally took the major step of putting on trial the alleged war criminals of the 1971 war that culminated into the emergence of Bangladesh as an independent nation-state, when five key suspects were subsequently arrested (D'costa, 2011). Second, Bangladesh received US\$697 million of FDI during the first 10 months of 2010. During 2009, FDI inflow into Bangladesh stood at US\$700.16 million. Yet, Bangladesh's potential for growth was impaired by serious power and energy crises, in addition to corruption and a weak investment environment. Existing production industries were particularly affected by inadequate power and gas supplies. Bangladesh's export growth, which slowed from 10.1 percent in 2009 to 4.2 percent in 2010, was affected by the global decline in retail sales, weak institutional incentives at home, and recurrent labor unrest stemming from poor pay and working condition (D'costa, 2011). Third, remittances increased at an average annual rate of 19 percent over the past 30 years from 1979 to 2008, which reached US\$10.97 billion in 2009-10 (*Daily Star*, November 26, 2010).

In 2012, the War Crimes Trial started. However, corruption remained a pressing issue, the rule of law and human rights in the country became increasingly tenuous, and the political environment continued to be turbulent and uncertain. Moreover, issues regarding the country's relationship with both India and the United States were poorly resolved (Ahmad, 2013).

Due to these achievements and in spite of these problems, BAL won the elections again in 2014. However, domestic political instability was created by BNP, which instigated repeated strikes and violence. Exporters could not transport their products on time, while transport costs increased. As power was concentrated in the executive, state violence increased (Feldman, 2015). The year 2015 was the most violent in Bangladesh

since independence. A growing sense of fear and insecurity prevailed, along with a crisis of governance that limited social accountability. However, there were notable contributions to global climate change initiatives, and the Land Boundary Agreement with India offered enclave dwellers the right of citizenship after almost 70 years (Feldman, 2016). Meanwhile, state-business nexuses continued and as a result the number of bank defaulters increased.

2.4 Concluding remarks

This chapter outlined industrial development under different regimes in Bangladesh, where family firms evolved and flourished. Bangladesh was able to achieve industrial deregulation only in the 1980s when the private sector obtained the opportunity to contribute to industrial growth and productivity improvement. For example, the New Industrial Policy of 1982 and the Revised Industrial Policy of 1986 limited public sector monopolies to only seven strategic industries and which benefited companies in the pharmaceuticals, jute, cement, and food and beverage industries, a factor that allowed family firms like Akij, Anwar, Square, A.K. Khan, BEXIMCO, and PRAN to flourish. The trade policy in the 1980s boosted the garments sector by providing duty drawbacks and export financing at concessionary rates, bonded warehouses, and quota allocations. For this family firms like BEXIMCO, Anwar, Akij, and Square that have textile business benefited. Moreover, since 1990, the government undertook significant trade liberalization by removing quantitative restrictions on imports, lowering tariff rates substantially, improving export incentives, and relaxing exchange controls which have given ample opportunity for family businesses to import machineries and raw materials with low tax. Additionally, new bridges and highways were built to connect rural areas to towns, which benefited family businesses that had factories outside cities.

CHAPTER 3: LITERATURE REVIEW

This chapter reviews the relevant literature by employing a thematic approach. This chapter considers two broad themes, entrepreneurship and the role of the state, drawn from the family business and developmental state literatures, to explain family firms' survival and growth under a weak state in Bangladesh. Extant literature on the state's role in nurturing businesses and entrepreneurial attributes has focused only on nations with strong states. This chapter is therefore a pioneering contribution to the question of how family firms develop entrepreneurship skills and ties with the state for their survival and growth while operating under a weak state.

The chapter is divided into three sections. The first section provides an overview of family businesses while highlighting the uniqueness of Bangladesh's family firms. The second section reviews the family business and entrepreneurship literature focusing particularly on the entrepreneurial sub-themes: identifying opportunities, risk-taking, innovation, adaptability, and generational development, and relates them with the context of Bangladesh. The third section draws on the developmental state literature, discussing the 'role of the state' under the sub-themes of state capacity in the forms of strong state versus weak state and state-business nexuses and relates them to the Bangladeshi context.

3.1 Family Businesses: Overview

Family-owned businesses currently dominate the global economic landscape (see Figure 3.1).⁴⁹ Although there is no one widely agreed definition of family businesses,

⁴⁹ See also Rashid, 2013; Bernard, 2013; Dutta, 1997; Habbershon & Pistrui, 2002; Debicki, Matherne, Kellermanns, and Chrisman, 2009.

these firms are generally defined as businesses that are owned and managed by families, passed down from generation to generation.

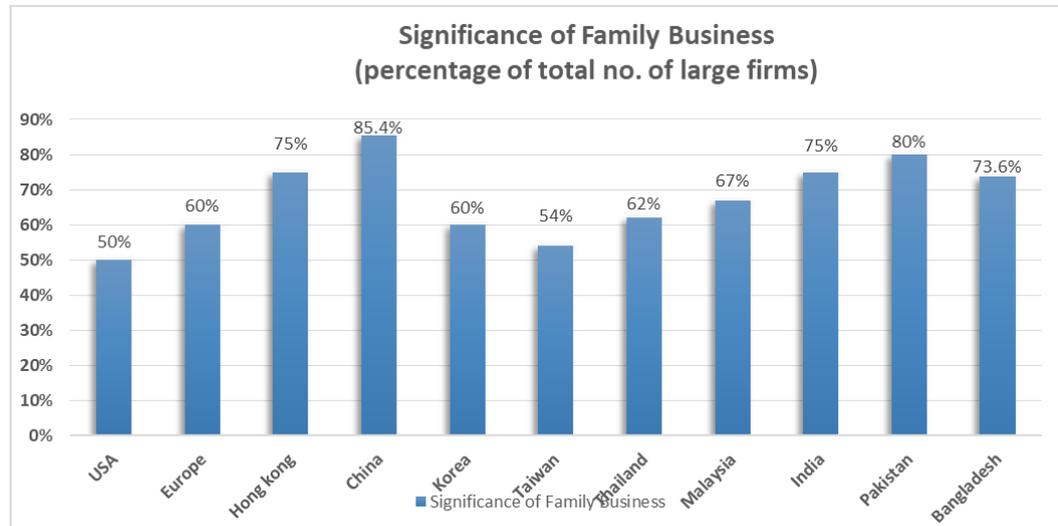


Figure 3.1: Significance of Family Business (percentage of total number of large firms)

Sources: Rashid, 2013; Bernard, 2013; Joint Stock Commission Bangladesh 2014; Dutta, 1997; Pistrui, 2006

According to Handler (1989b) and Christensen (1953), a majority of family business studies focus on issues like ownership and succession. Scholars addressing family business survival issues have focused on succession planning (Dyer, 2006; Davis & Harveston, 1998; Handler, 1990, 1992; Ward, 1997; Schwass, 2005). For example, the notable ‘Three Generations Syndrome’ posits that the first generation builds businesses, the second generation maintains them, and the third generation runs them down (Beckhard & Dyer Jr, 1983; Marshall et al., 2006; Morris et al., 1997; Davis & Harveston, 1998; Sonnenfeld, 1988). Nevertheless, studies have also shown that family firms can succeed when managed by competent and committed successors (Fox, et al., 1996; Sardeshmukh, 2008; Sharma & Irving, 2002).

Three prominent family business theories are *Resource Based Theory*⁵⁰, *Stewardship Theory*⁵¹ and *Agency Theory*⁵². Resource Based Theory conceptualises family resources as a bundle of assets that shapes the performance of firms and provides them with a competitive advantage.⁵³ Stewardship theory portrays individuals as stewards, intrinsically motivated to put the interests of the principal ahead of self-serving interests (Corbetta and Salvato, 2004; Zahra, et al., 2008).

Agency theory focuses on the question of agency costs and argues that family businesses save on the agency costs of monitoring conflicts between owners and managers as these businesses usually do not separate ownership and control (Claessens, Djankov, & Lang, 2000). However, additional costs may be incurred from inefficient management and other sources of family conflict. Agency costs can be reduced by ensuring trust and shared values amongst family members while avoiding altruism or nepotism when choosing qualified successors (Dyer, 2006; Schulze et al., 2003a, 2003b; Nicholls & Ahmed, 1995; Fama & Jensen, 1983; Fleming, Heaney, & McCosker, 2005; Schulze, Lubatkin, Dino, & Buchholtz, 2001).⁵⁴

A successful survival of a family firm implies a transformation of the family members' ownership and control patterns (Colli, 2011; Moya, 2010; Casson, 1999).

⁵⁰ The bundle of resources that are distinctive to a firm as a result of family involvement is identified as the "familiness" of the firm. The familiness bundle of resources needs to be managed and maintained if it is to provide a competitive advantage. These assets include human capital (training, skill, flexibility, and motivation), social capital (relationships that generate goodwill), and financial capital (the physical or financial assets of the family). See Cabrera Suarez et al. (2001) for details.

⁵¹ This theory uses a humanistic and self-actualizing model of humankind, where an individual views himself or herself as a 'steward who has self-serving behaviors' (see, Davis, Schoorman, & Donaldson, 1997; Greenwood, 2003).

⁵² Agency theory is about the relationship between two parties, the principal and the agent-manager. Specifically, agency theory suggests that agents will choose opportunistic self-interested behavior rather than behavior aimed at maximizing the principal's interest (see more in Eisenhardt, 1989; Jensen and Meckling, 1976).

⁵³ For details, see Habbershon & Williams, 1999; Chrisman, Chua, & Litz, 2004; Christman, Chua, & Sharma, 2005; Sirmon & Hitt, 2003; Irava & Moores, 2010; Frank, Lueger, Nose', & Suchy, 2010; Zellweger, Eddleston, & Kellermanns, 2010; Memili, Eddleston, Kellermanns, Zellweger, & Barnett, 2010; Webb, Ketchen, & Ireland, 2010; Amit & Villa Longa, 2006; Amran & Ahmad, 2011.

⁵⁴ Altruism in this context refers to favouring certain people within the family, which can undermine effective monitoring.

Additionally, successful survival of family firms also depends on their social embeddedness (Niehm, Swinney, & Miller, 2008). Family firms must enjoy a deep embeddedness with the local community in which they develop and grow. This is why family firms engage in corporate social activities.

Moreover, social embeddedness not only means doing things for the community, but also the need to preserve unity among the family members and employees, which also includes the local community (Johns, 2006). For example, low absenteeism, commitment and loyalty on the part of their employees, a low rate of workforce turnover, and the presence of family members in local institutions such as municipalities and governments are part of their social embeddedness which help them to survive (Colli, 2011).

Family ownership and control refer to one family (through one or several members) serving as a controlling shareholder of a corporation (Peng & Jiang, 2010). Berle and Means (1932) advanced a hypothesis suggesting that as firms grow, concentrated family ownership and control will inevitably be replaced by a separation of ownership and control. In fact, failure to separate ownership and control 'tends to penalize the organization in the competition for survival (Fogel, 2006; Morck et al., 2005; Fama and Jensen, 1983).

The survival and the persistence of family ownership is associated with the ability of families to select the most capable managers both inside and outside the family (Fernandez & Puig, 2007). However, the evidence for this argument are from Swiss, Spanish and French family firms which are industrialized countries (Ginalski, 2010; Colli, 2011). Moreover, successful survival also means the presence of family members in management positions, with the degree of openness of the family firms measured by the presence of outsiders in managing roles (Colli, 2011).

The three-circle model of family businesses developed by Tagiuri & Davis (1982), as shown in Figure 3.2, is helpful in illustrating the different roles played by various family members in ownership and control of family firms. The first version of the model on left shows a common family business structure where family members are involved in ownership and control of the business, but have outside professionals, investors and shareholders. However, this model was later altered by Gersick et al. (1997) as shown in right side to demonstrate a more realistic view of family business where there is more concentrated ownership structure and very little presence of outsiders, as family members are mostly in charge of both ownership and management (Walsh, 2011).

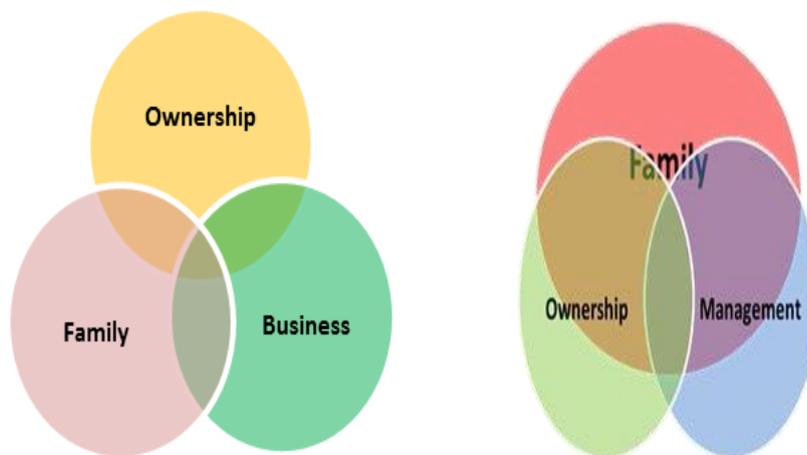


Figure 3.2 Two Versions of Three Cycle Model of Family Business

Sources: Tagiuri & Davis, 1982; Gersick et al.,1997

Dyer (2006) has proposed a more useful typology of family firms. According to him, when a family firm is first established, it is owned and managed by highly committed family members with the dual goal of family and business success; at this stage, it is called a *Clan Family Firm*. After the family firm grows and begins relying on professional managers to run the enterprise, it transforms into a *Professional Family Firm*. However, in some family firms, nepotism takes place and non-qualified family

members end up running the firm. Dyer (2006) labels this type of firm a *Mom & Pop Family Firm*. There is also a type of family firm where family members work to serve their own self-interests, at the expense of the firm and other family members. As a result, family conflicts arise. This type of firm is called a *Self-Interested Family Firm*.

Outside the United States and United Kingdom, a vast majority of large firms have concentrated family ownership and control (La Porta et al., 1999; Shleifer and Vishny, 1997; Fama & Jensen, 1983). Interestingly, a group of scholars find no difference in growth and performance between founder managed and professionally managed firms (Daily and Dalton, 1992; Willard et al., 1992), implying that family ownership and control are irrelevant for firm value (Miller et al., 2007).

Moreover, institutions are a crucial factor in defining the ownership pattern of family firms. Most modern United States and United Kingdom corporations started with concentrated family ownership (Chandler, 1990), though over time they evolved to a situation where there was diffused ownership (Berle and Means, 1932). However, this evolution is not observed in the rest of the world (Roe, 2002). Better formal legal protection of investor rights and minority shareholders' rights in the United States and the United Kingdom encouraged founding families and their heirs to dilute their equity to attract minority shareholders and delegate day-to-day management to professional managers. However, bestowing management rights to non-family professional managers may invite abuse and theft – in other words, rampant agency problems. Keeping that in mind, founding families in other countries such as South East and South Asian countries are not willing to hire outside managers, unless they allow these managers to marry into the family (Burkart et al., 2003).

On the other hand, when formal legal and regulatory institutions are dysfunctional, founding families must run their firms directly given the absence of effective investor

protection. In addition, prospective minority shareholders may be less willing to invest without sufficient protection, thus forcing concentrated ownership to become the default mode. That means, the weaker the formal legal and regulatory institutions protecting shareholders, the more concentrated ownership rights become (La Porta et al., 1998; Young et al., 2008; Gedajlovic and Shapiro, 1998).

3.2 Justification of choosing family firms: Bangladesh Context

In the Bangladesh context, the nature of the family firms is not something which is in the public domain. The focus of family firms is a core concept in the Bangladesh context is extremely important especially because the Bangladeshi people also know these firms as conglomerates or business groups. They do not recognize one fundamental point that the majority of these firms are family owned. The very fact that they are family owned already raises an important point is how they are owned and controlled. As already mentioned, the ownership and control pattern of family firms differ from privately owned or government owned or multinational firms. So, the focus of this study is on family firms, which is particularly crucial because in the public policy domain too the government does not seem to recognize the significance of the fact that the majority of these firms are family firms. The government also does not realize that these firms are owned by families for which the public policies should be constructed very carefully in order to help these firms grow.

Secondly, family firms go through generational shifts and when they do so, they encounter significant transitions. The implications of these transitions on the corporate sector is also not known to public policy or to general public as they do not recognize the transitions when occurred.

The focus of this study is on the family firms in terms of how they are owned and controlled, and how shifts occur during generational change. The implications of generational change has been profound among Bangladeshi family firms as it is found in

this study. While looking at the implications of generational change, some firms have been better off whereas some firms have not.

Nevertheless, some very important lessons can be garnered studying these companies as family firms. Firstly, these family firms have very close ties with the state. These families have continued to sustain their ties with the state. Each of the ties with the family firm also constantly changes with regime change. The nature of the ties also changes when educational qualification of new generation increases. The nature of the ties also change when the firms become huge conglomerates.

Unlike East Asian countries, South Asian countries lack good governance due to an inefficient bureaucracy and a culture of corruption. The partitions have made Pakistan and Bangladesh weaker in terms of the quality of the bureaucracy, compared to India (Papanek, 1968). This has resulted in state incapacity that affected the development of family firms. Businesses have to live under a rent-seeking culture to survive. Moreover, firms keep political connection through which they can exploit the weaknesses in the institutional environment and derive economic benefits in the form of favourable regulation, easier access to financing, market protection, anticompetitive measures and preferential tax treatments (Muttakin, et al., 2015).

India, Pakistan, and Bangladesh share similar governance styles in family firms where family members play overlapping roles of ownership and control. (Huovinen & Tihula, 2008). However, among these three countries, the Indian government has developed a sustainable economy by investing heavily in health, education, and technology, bringing global visibility to Indian products and services (Kundu & Katza, 2003; Correa, 1996). This is why Indian family firms could grow with better technological capacity compared to that of Pakistan and Bangladeshi family firms as the latter two countries do not focus on investing enough in education and technology.

Again, the modernization of family structure in India led to family feuds to many

business breakups, for example, the splits of Reliance, Birla, Dabur, Bajaj, Wadia, and Tata groups (Bernard, 2013; Prasad, Nath, & Ramnath, 2010; Krishnakumar, 2013). By contrast, Pakistan and Bangladesh are not sufficiently developed in terms of education and technology and family firms there still hold a concentrated ownership structure. This has resulted in less family business breakups through family feuds (Siddiqui, 2011).

Families own and control a majority of the firms in Bangladesh (Imam & Malik, 2007; Muttakin et al., 2012; Asaf, 2011; Rashid, 2013; Joint Stock Commission, Bangladesh, 2014).⁵⁵ Around 73.6 percent large firms are family-owned in Bangladesh (Joint Stock Commission, Bangladesh, 2014). Bangladeshi family firms have performed with great resilience, contributing to economic development despite living under conditions of resource scarcity. Table 3.1 snapshots the gradual development of large family-owned businesses in Bangladesh. According to the Joint Stock Commission of Bangladesh, firms are defined as large family firms that are owned and controlled by single family, have annual turnover of minimum US\$200, have minimum 5000 employees, and have at least 8 business subsidiaries (Joint Stock Commission, 2013).

Table 3.1: Large Family Owned Firms Development in Bangladesh over Time

Before 1940	1940s	1950s	1960s	1970s	1980s	1990s	2000s
Khan Bahadur and Co. W. Rahman Jute Kumudini Anwar Apex Ispahani Habib	A.K. Khan Islam Delta	Md Bhai Square Elite Abul Khair Pacific BEXIMCO Akij Rahimafrooz Partex Opsonin Hamid Abdul Monem Pride	Karnaphuli Alpha Tobacco Navana Safdar Ali Ibrahim Mia ACI Pragoti	City Concord Jamuna Meghna Sunman Flora Nasir	PRAN-RFL Paradise Orion Summit Bashundhara Transco m OTOBI Dragon PHP Rangs	MGH Kazi Farms	Zaman Walton Runner

Sources: Papanek, 1972, Kochanek, 1996, Joint Stock Commission (Dhaka), 2015

⁵⁵ Only 22 percent of family firms are listed on the stock market (DSE website, 2014).

3.3 Influencing Factors: History and Culture

History and culture have highly influenced the entrepreneurial attributes of a society, and together shape the institutional framework as well as the economic, cultural, political, and legal antecedents that underpin the entrepreneurial behaviour of a nation and its economy (Chrisman et al., 2002; Landes, 1998; Shane, Venkataraman, & MacMillan, 1995; Kirzner, 1985). Decision-making within family firms and their potential for growth is shaped partly by the market, but also by a formal and informal set of 'rules of the game': the formal rules are the legal system, including property rights, company law, taxation, inheritance tax, and bankruptcy law. These are not formed in a legal vacuum and are also the product of interactions between governments and business and other interested parties. The institutional and legal environment is shaped by historical forces and is thus path dependent, so there can emerge considerable international differences in the privileges and restrictions faced by family businesses (David, 1997).⁵⁶

There are striking contrasts in values and attitudes between America and Europe which relate to enterprise, to firms, to innovation, and to technology. In the United States, business enterprise is viewed as a commodity which can be bought or sold, whereas in Europe it is associated with community (Rose, 2000). Dynastic entrepreneurship has been common in Europe, especially in Italy and Greece with their strong family-based cultures (Colli & Rose, 2008; Colli et al. 2003).

Family is the centre of social identity in South Asian countries (Corbetta, 2001; Dutta, 1997; Rose, 1993; Cromie et al., 1995; Kets de Vries, 1996). In India, the family lies at the very core of culture: "The centre of the Indian social identity is the family.

⁵⁶ Path dependency refers to the influence of past events (David, 1997).

Family businesses are not merely an economic structure, for most individuals, they are the source of social identity. There is a strong social obligation to continue one's father's work" (Dutta 1997). However, Bangladeshi family firms in particular have been focusing both on family relationships as well as professionalism as they know that smooth business survival requires family harmony as well as professionalism. This also belies Chandler's argument that family firms fail due to decision-making based on nepotism rather than merit (Chandler, 1977, 1990).

The theory of convergence posits that as a result of rapid industrialisation, East Asian countries attempted to preserve their societal traditions by focusing on interpersonal relationships rather than on professionalism (Marsella & Choi, 1993; Abraham, 1980; Yamaguchi, 1994; Lal, 1998). However, in Indonesian conglomerates and Korean chaebols, top and key management positions were and still are reserved for relatives and family members (Lee 1997). By contrast, in Japan, zaibatsu family groups employ salaried managers who were seen as 'adopted family' (Morikawa 1992). In Japan, the main objective of the succession is to protect and expand the wealth of the family led by a capable individual, rather than to bequeath the wealth only to blood-related family members. (Chen 1995; Morikawa, 2001). In Singapore too, professional managers are relied on to run family firms.

3.4 Entrepreneurship and Family Business

Entrepreneurship is a process by which people discover and exploit new business opportunities, often through creation of new business ventures (Davidsson & Wiklund, 2001; Shane and Venkataraman, 2000; Timmons, 1999). Family businesses play an important role in the entrepreneurial phenomena of opportunity emergence, opportunity recognition, venture creation decisions, and resource mobilization processes (Aldrich & Cliff, 2003; Certo, Covin, Daily & Dalton, 2001; Ireland, Kuratko & Covin, 2003).

Family is the first and most influential source of entrepreneurial skill development (Aldrich & Cliff, 2003; Rogoff & Heck, 2003; Zahra, 2005; Zahra et al., 2004; Pistrui et al., 1997; Heck et al., 2006). Since family businesses are mainly established by families, who are the most persuasive social institution (Gersick et al., 1997; Poza, 1989), and entrepreneurship is more accurately viewed as a social activity (Byers et al., 1997), family firms are undoubtedly units of entrepreneurial analysis (Hart & Stevenson, 1994). However, despite the family's role in creating entrepreneurial business ventures, entrepreneurship in general has been under-researched in the family business context, especially under a weak state (Eddleston et al., 2008; Aldrich & Cliff, 2003; Timmons, 2004; Chrisman et al., 2002).

Although an entrepreneur is primarily a founder who creates a firm (Colli & Rose, 2006; Chirico & Nordqvist, 2010; Hall, Melin, & Nordqvist, 2001), family businesses usually encourage entrepreneurial activities in every generation with the intention of developing the business further (Kellermanns & Eddleston, 2006; Webb, Ketchen, & Ireland, 2010). Indeed, family and entrepreneurial dynamics are intimately interconnected. Successors usually follow the role model of their parents, while entrepreneurial founders tend to groom heirs with similar skills (Dyer & Handler, 1994; Pollak, 1980; Lansberg & Perrow, 1991; Collins & Moore, 1964; McClelland, 1965; Ronstadt, 1984; Dyer, 1992). Multigenerational involvement in business also helps to influence strategic entrepreneurship as each new generation brings ideas of new technology and product development (Salvato, Chirico, & Sharma, 2010; Dalton & Holdaway, 1989).

3.4.1 Major Elements in Entrepreneurship

Various entrepreneurship theories have highlighted primary entrepreneurial attributes which include identifying opportunities (Kirzner, 1973), risk-taking (Kihlstrom &

Laffont, 1979; Kanbur, 1979), innovation (Schumpeter, 1989, 2000), managerial ability (Lucas, 1978), marketing knowledge (Lopes & Casson, 2007), wealth (Evans, David, & Jovanovic, 1989), having control (Hamilton, 2000), and pro-activeness or adaptability (Miller, 1983; Covin & Slevin, 1991; Estrin et al., 2006; Sternberg & Wennekers, 2005; Hart, 2003; Henrekson, 2007). Morris, Lewes, and Sexton (1994) have developed an entrepreneurship model which categorises identifying opportunity, risk-taking and pro-activeness as inputs, and business ventures, value creation, new products or processes, new technology, profit, jobs, and economic growth as outputs. Scholars clearly have focused on identifying opportunity, risk-taking, innovativeness, and adaptability; however, this thesis proposes generational development as an essential entrepreneurial attribute when it is a family firm.

3.4.1.1 Opportunity Identification

Some have argued that entrepreneurship focuses on newness and novelty in the form of new products, new processes, and new markets as the drivers of wealth creation (Daily, et al., 2002; Lumpkin & Dess, 1996; Sharma & Chrisman, 1999; Smith & Di Gregorio, 2002). Somewhat differently, Shane and Venkataraman (2000) suggest that discovering and exploiting profitable opportunities is the foundation for wealth creation through entrepreneurship. Both viewpoints agree that opportunity recognition is at the heart of entrepreneurship (Brown & Eisenhardt, 2000; McCline, Bhat, & Baj, 2000). Indeed, the ability to create additional wealth accrues to firms and individuals with superior skills in sensing and seizing entrepreneurial opportunities (Teece, 1998). Exploiting entrepreneurial opportunities contributes to a firm's efforts to form sustainable competitive advantages and create wealth.

As Schumpeter noted, mechanisms of economic change in capitalist society pivot on entrepreneurial activity (Schumpeter, 1947). Environmental changes create information

asymmetries, gaps, or ‘other vacuums in an industry’ (Timmons, 1999), more specifically by the effects of technological, regulatory, political, and economic changes that drive entrepreneurial opportunities (Shane, 2000). For instance, major historical changes over time create business opportunities. The trends in transitions in life, involving marriage, divorce, and childbirth, have implications on the emergence and recognition of entrepreneurial opportunities. This is because people’s need for products and service and buying habits change with these transitions in life. The changes in social bonds between family members are also creating entrepreneurial opportunities. For example, between 1962 and 1984, the proportion of the elderly seeing a child at least once a week declined by 25 percent in the United States (Bumpass, 1990). Similarly, the increasing amount of time spent by children without adult supervision has created sizeable markets for such products as convenience foods, security systems, and appliances that young children can operate on their own (Hawkins et al., 2001; Solomon et al., 2002).

Understandably, local firms in developing countries are accustomed to dominant positions in protected markets; however, they encounter difficulty when suddenly facing foreign rivals wielding a daunting array of advantages like substantial financial resources, advanced technology, superior products, powerful brands, and seasoned marketing and management skills (Zacharakis, 1997). Often, the very survival of local companies in these developing countries is at stake. So they apply one or more strategies through which the local firm can enter foreign markets through exporting, licensing⁵⁷, and franchising⁵⁸, adding additional company

⁵⁷ One country (Licensor) allows the business of another country (Licensee) to use its technical know-how (patents, trademarks, copyrights, etc.), where the licensor charges a fee.

⁵⁸ Businesses of one nation (franchiser) grants rights to do business in a particular manner to businesses of another nation (Franchisee). This right can be with regard to selling the goods under the brand name of the franchiser.

owned outlets⁵⁹, agents⁶⁰, distributorships/dealerships, joint-ventures⁶¹, contract manufacturing⁶², and foreign collaboration⁶³ (Porter, 1986; Root, 1994; Kotler, 2009).

Moreover, changing conditions also motivate entrepreneurs to create brand products (da Silva Lopes & Casson, 2007). Radical changes in the environment, such as increased competition and liberalized markets (characterized by different preferences), forced entrepreneurs to become more flexible and to acquire new forms of marketing knowledge in order to rejuvenate their brands and change their routines and procedures (Schumpeter 1934).

However, declining parental interaction with their offspring reduced the preparation of children for business, to continue in their parent's entrepreneurial footsteps. Therefore, both opportunity-seeking (i.e., entrepreneurship) and advantage-seeking (i.e., strategic management) behaviours are necessary for wealth creation, yet neither alone is sufficient (Amit & Zott, 2001; Hitt & Ireland, 2000; McGrath & MacMillan, 2000).

Entrepreneurs are able to identify business opportunities and apply meaningful knowledge from existing business opportunities (Casson, 2005; Shane, 2003; Gartner, 1988). However, prior to identifying opportunities, entrepreneurs need to accumulate resources and then choose a legal business structure to establish a company.

⁵⁹ A business may increase growth by building additional outlets regionally, nationally, or internationally. This could mean adding additional retail locations, additional manufacturing facilities, additional sales offices, additional distribution facilities, etc.

⁶⁰ Agents are individuals or organizations that are contracted to a business, and market on its behalf in a particular country.

⁶¹ A foreign partner makes an arrangement with a local unit of another country in which ownership and management are shared by the local unit and the foreign partner.

⁶² Businesses of one nation enter into an agreement with manufacturers of other nations to allow them to manufacture the goods on their behalf, but the right to market these goods is retained by the parent foreign enterprise.

⁶³ Foreign collaboration is an agreement or contract between two or more companies from different countries for mutual benefit. Usually, the collaboration is technical in nature where the foreign company provides technological know-how, professional services, and expertise, installs automated machineries, etc., in the domestic country.

Generally, entrepreneurs with adequate capital can start a business as a sole proprietorship, whereas those who need investment capital go into partnership, while those who are not financially viable choose to establish corporations. The capital (debt and equity) for starting a business can come from personal savings, family assets, 'angels' (people who have money to invest), seed capital, venture capital, and bank loans. Another option is raising capital through the stock market.

3.4.1.2 Innovation

Product innovation refers to the ability of a company to create new products or modify existing ones to meet the demands of current or future markets (Schumpeter, 1934; Zahra & Covin, 1995; Knight, 1997). Innovation can be invention (a completely new product or service), extension (new use or different application of an existing product, service or process), duplication (replication of an existing concept), or synthesis (combination of existing concepts into a new formulation or use (Kuratko & Hodgetts, 2004).

Chandler (1977, 1990) argues that technology is the most important tool for business survival, but this in fact is only applicable to technologically advanced countries like the United States, and not to countries that lack financial and human capital. Due to the paucity of empirical studies on developing countries, nothing yet can be concluded on entrepreneurial innovation in such situations (Autio, 2008). However, this thesis ventures to propose that in countries where technological adaptation is minimal, the term 'innovation' can be broadened to include the mere introduction of a new product into a market (Mani, 2008).

To illustrate this point, note that almost half of all innovative new goods imported by the United States come from China (Puga & Trefler, 2008), a country neither noted for its entrepreneurial or capitalist culture, nor for its freedom, liberties, or clear property

rights. This reiterates the fact that radical innovations are not essential in poor economies to move production and technology forward, as in developed economies. Thus, in developing nations, innovation can be defined as entrepreneurs creating extensions or duplications of products and services, rather than novel inventions.

One major part of innovation is brand development (da Silva Lopes, 2012).⁶⁴ A brand may be defined as a product identity that differentiates a product from substitutes by associating it with specific characteristics (da Silva Lopes, 2007). Brands are often used to signal quality or enhance the value of a product to the consumer by signalling that the owner of the branded product is discriminating, wealthy, or of high status. They are particularly useful in non-durable goods where repeat buys are likely, as a memorable brand makes it easy for the consumer to recognise the product on a subsequent occasion (Jennifer, 1997). One noticeable trend is that successful global brands usually originate in developed countries, where the institutional environment (in terms of legislation, consumption, infrastructure, and capital) tends to be more benign (da Silva Lopes & Casson, 2007). Global brands are mostly based in Western countries, such as the United Kingdom, the United States, France, and Switzerland, or in Japan, where organization-centered entrepreneurs have opportunities to prove their worth and receive recognition for their success. These are also countries where the nature of the educational system (particularly the capability to grant specialized degrees), the relative status of entrepreneurial careers, the regulatory environment, the religious beliefs, and the entrepreneurial culture in general are favourable to developing entrepreneurship (Jones & Zeitlin, 2008).

⁶⁴ A brand is a name, term, symbol, or design (or combination of these) used by a firm to identify its goods or services and differentiate them from competitors (da Silva Lopes & Duguid, 2010).

Branding provides reputation to the family firms. This reputation can be seen as a sort of capital that provides value to the family firm, a so-called family capital (Danes, et al., 2009). Entrepreneurs and dynasties are extremely committed to preserving the reputation of the family through the reputation of their business. This is particularly so when the family decides to put its name in the name of the enterprise (James, 2006). Brand name gives reputation to the family and the family firm (Colli, 2011).

The early stages in the life of a brand require marketing knowledge, which is essentially non-transferable, pragmatic, and dependent on the ideas of the entrepreneur who created it (da Silva Lopes & Casson, 2007). At this stage, the brand is essentially local, although it might have been adopted in countries that are culturally and geographically close. Over time, as a result of its natural path of growth, the increasingly homogenized make-up of its consumers and the liberalization of its markets, the brand can be sold in markets around the world. This step requires gathering more marketing knowledge and assembling a team of professional managers to investigate the particular requirements of different markets. Bangladeshi family firms are still young and so in the first stage of branding they focused on the domestic market.

Two other important elements in innovation are investment in R&D and the utilisation of new plants and machineries (Cohen & Levinthal, 1989). Since the Bangladesh government still do not adequately focus on R&D, big business groups including family firms often own private research labs, hire researchers from universities, and import technologies and machineries from abroad in order to develop their products. Additionally, they embark on foreign joint-ventures that offer modern technology and expertise (see Chapter 5 for details).

Moreover, a business can also innovate by adding new businesses. The most common approach is diversification, as this can bring in new product lines, diminish business

risks, create new business opportunities, exploit existing competencies and capabilities, and take advantage of prior well-established brand images (Alam, 2012). Diversification includes developing new businesses in the same industry (related or horizontal diversification), in different industries (unrelated or vertical diversification), or both (combined diversification). After diversification, a business is termed ‘groups of companies’, ‘diversified companies’, or ‘conglomerates’. Large Bangladeshi family firms commonly diversify into multiple sectors to take advantage of business opportunities in different sectors and to reduce the business risk of operating in a politically vulnerable economy. Therefore, they are innovators.

3.4.1.3 Proactivity or Adaptability

Proactivity or adaptability refers to action taken despite stifling organisational constraints (Lumpkin & Dess, 1996). This is a distinct characteristic of entrepreneurship where an entrepreneur adapts to uncertainty and crises in the face of both internal and external constraints and acts accordingly. Internal constraints refer to inefficient management techniques, unskilled labour, family issues, and internal conflict, while external constraints include poor infrastructure, backdated technology, lack of credit facilities, and bureaucratic delays. Due to the possibility of facing internal constraints, family firms are likely to set non-financial goals in addition to economic targets, such as adapting to different situations, emotional wellbeing, balancing between family and business issues (Astrachan & Shanker, 1996), family pride (Donnelley, 1964), and job creation for family members (Morris et al., 1997).

Miles, Snow, Meyer, & Coleman, (1978) have developed a model which describes four strategic orientations in business adaptation: *Prospectors*, *Defenders*, *Analysers*, and *Reactors*. Prospectors are extremely innovative, and constantly monitor their external environment to change accordingly; defenders do not innovate much, have a

limited range of products, and do not like to change; analysers innovate only when they see others have found business potential in innovating something, and are thus considered imitators, not innovators; while reactors adopt changes only by force. In general, prospectors have greater capacity to adapt to external trends compared to analysers and defenders (Veliyath & Shortell, 1993). In this case, Bangladeshi family firms can be considered as defenders and analysers. There is no such case of prospectors or reactors.

Nevertheless, adopting a clear strategy to navigate rapidly changing business environments is important for organisational survival and growth (Burgelman, 1983). Therefore, professionalization of the organization should be an obvious strategy for a firm's growth. Family firms generally are small and medium-sized; slow growing; characterised by 'flat' organisational structures and internal succession patterns; relying upon self-financing or on local, often informal credit sources and avoiding stock-market finance; implicitly backward. If family firms want to grow, they need to transform into a managerial firm.⁶⁵ In this manner, the family firm should be considered as only one of the initial stages in the life of the enterprise, following the start-up period and preceding the public company phase (see Dyer 1986; Casson 2000).

3.4.1.4 Risk Taking

Organisational studies consider risk-taking as an integral entrepreneurial function that can lead to success (Brockhaus, 1980; Shapira, 1995). Economic theory assumes that many firms are risk averse and do not take risks unless high returns are expected (Singh, 1986). However, entrepreneurs routinely take risks to identify new business

⁶⁵ According to Chandler, firms in which representatives of the founding families or of financial interests no longer make top-level management decisions can be labelled managerial enterprises (Chandler, 1977). This is the evidence of the growing separation between ownership and control, as well as of the fragmentation of stock ownership which determined the birth of the so-called 'public company' (Berle and Means, 1932).

opportunities in order to register profit and achieve business goals (Khan, 2000; Lumpkin & Dess, 1996; Dess & Lumpkin, 2005). Such risks include financial risks (committing a large amount of assets and/or heavy borrowing of money), career risks (sacrificing a regular job to start a business), family and social risks (spending valuable time and energy on the business), and psychological risks (tension caused by fear of failure) (Lumpkin, Katz, & Stewart, 2010).

Furthermore, according to organisational identity theory, family members often engage in risk-taking activities to sustain the business, create wealth and jobs for family members, and preserve the family's image (Dyer & Whetten, 2006). This belies the theory that most family firms are risk averse (Habbershon & Pistrui, 2002; Hall, Melin, & Nordqvist, 2001; Ward, 1997).

The risk of failure is far greater, however, for businesses operating under unstable conditions. Strikes, fires, and labour unions are just a few of the hazards routinely faced by businesses in countries with vulnerable political situations like India, Pakistan, and Bangladesh. Nevertheless, Bangladeshi family firms have remarkably survived and grown, despite the state's inability to provide them with sufficient infrastructure, technology, skilled labour, efficient policy-making, and sound law and order – all essential tools of a business friendly environment. Business groups in these countries commonly apply diversification strategy in business in order to reduce the risk of failure.

3.4.1.5 Generational Development

Family firms where entrepreneurial capabilities are shared and transferred across generations are usually successful, as all generations possess similar entrepreneurial attributes. The skills, capabilities, and work experience of each and every family

member contribute towards new and strategic entrepreneurship (Sirmon & Hitt, 2003). Strategic entrepreneurship involves simultaneous opportunity-seeking and advantage-seeking behaviours and results in superior firm performance. An entrepreneurial mindset, an entrepreneurial culture and entrepreneurial leadership among all generations, the strategic management of resources and applying creativity to develop innovations are important dimensions of strategic entrepreneurship (Ireland, et al., 2003).

Some founders communicate higher values of group orientation to their successors who are encouraged to join the firm at a young age and at a lower position. On the other hand, some founders view business as an end in itself and encourage successors to achieve high levels of formal education and experience outside the business before joining the family firm at senior levels (Sharma, 2004). Integrity, commitment to business, ability to gain respect of non-family employees, decision-making abilities and experience, inter-personal skills, intelligence, and self-confidence as the most desirable next-generation attributes from the viewpoint of the firm leaders (Chrisman, Chua, & Sharma, 1998; Sharma & Rao, 2000; Handler, 1989b). Furthermore, through generational development in entrepreneurship, ownership and control can be professionalised for further business growth. Specifically, generational development is useful for family business survival and growth with respect to the following variables:

i. Succession

The succession process involves actions and events that take place in family businesses during leadership transition from one generation to the next (Handler & Kram, 1988; Sharma et al., 2001). The succession process is an integral part of a family business, as it ensures that the business will be sustained by the next generation. In this respect, family harmony, a non-economic goal of family businesses (Chrisman, Chua,

Pearson, & Barnett, 2012), is also important as it can prevent conflicts or feuds over succession.

In India, for example, the elderly are revered as part of the extended family, making intergenerational succession less problematic. There is certainly rivalry in Indian business families, but apparently lower levels of hostility than in the West (Dutta 1997).

Although formal succession planning is important for business continuity (Beckhard & Dyer, 1983a; Handler, 1990), family businesses often do not implement such planning (Bowman-Upton, 1987; Dean, 1992; MassMutual, 1995; Ward, 1987). In smaller businesses, this may be because founders feel that transferring the business to the next generation is unnecessary until it grows larger (Ambrose, 1983; Bowman-Upton, 1987). Also, since founders are emotionally attached to their companies (Davis & Taguiri, 1989), they often view letting go as giving up power (Berenbeim, 1984; Danco, 1980; Davis, 1982; Dyer, 1986; Lansberg, 1988), and thus succession planning is often seen as tantamount to signing a death warrant (Barnes & Hershon, 1976) or preparing for death (Bechard & Dyer, 1983a). Founders need to bear in mind, however, that since succession planning involves identifying and developing potential successors for key positions, mutual role adjustment between the founder and next generation family members is unavoidable and essential.

Additionally, studies indicate a positive relationship between strategic succession planning and long-term business survival and success (Astrachan & Kolenko, 1994). Successor grooming is therefore very important, as successors can either bring business disaster (Blotnick, 1984) or act as a source of growth and regeneration (Poza, 1989). Many studies have investigated how successors can be groomed as future leaders (Barach et al., 1988; Birley, 1986; Blotnick, 1984; Goldberg & Wooldridge, 1993;

Patrick, 1986; Seymour, 1993; Stavrou, 1996; Upton, 1990; Fiegenger et al., 1994). Interestingly, studies also indicate that family firms' rate formal education, training, and experience as less important elements of grooming than network building (Fiegenger et al., 1994).

Offspring should not be forced to enter the business; rather, they should be internally motivated to join. This is because a committed and willing next generation is crucial if a family firm is to survive (Bjornberg & Nicholson, 2012). Gaining outside working experience before joining the family business is also important as it broadens perceptions and enables successors to develop new ways of handling problems (Ward, 1987).

ii. Ownership and Control

Concentrated ownership and control or personal capitalism arises when family members own the majority of shares in a business (Singell & Thornton, 1997). To maintain family control of the firm, owners often avoid public listings and make it difficult for non-family members to invest in shares (Nyman & Silbertson, 1978). Nevertheless, to ensure business survival, some owners do sell to outsiders' ordinary voting shares not drawn from the dominant family business ownership (Mishra & McConaughy, 1999).

Managerial capitalism is also important for a firm to grow and perform better. The transition from family firm to professional management has often been taken for granted in technologically advanced countries, in the sense that it is technologically driven by the imperatives of scale and scope economies (Ramachandran, Joshi, & Bhatnagar, 2016). A key point to be noted is that sustainability of family firms does not mean the persistence of family ownership and control in any case or at any cost. Balancing growth and family ownership requires the ability of families to open the company to skilled external people and, at the same time, to promote skilled internal people,

contributing to the professionalization of family executives (Casson, 1999). In order to expand, families progressively cede control to managers and then ownership to the public. This is why the managerial public company is the natural evolution of entrepreneurial ventures that are committed to growth (Ramachandran, Joshi, & Bhatnagar, 2016; Colli, 2011).

Current business theories provide conflicting discussions about this: stewardship theory suggests that family members in control will responsibly control assets to meet the principle's interest, therefore increasing business profitability and value (Romano, Tanewski, & Smyrnios, 2001) conversely, agency theory suggests that family managers may act in their own self-interests, thereby hindering business development (Hayward, 1989). Family firms therefore groom successors with best education and training so that they can join the family business and fill up the managerial gap by avoiding outsiders. Some founders apply apprenticeship while grooming successors, some apply job rotation, and some allow successors to join business after they get some working experience elsewhere.

Family firms in South Asian countries commonly have concentrated ownership structure and dominate the business sector (Chakrabarti, Megginson, & Yadav, 2008).

iii. Professionalising the family firm

Professionalising refers to bringing outsiders into the firm (Levinson, 1971). Usually, family firms try to keep ownership within the family, and fill up managerial gaps by grooming successors with the best possible education (Ibrahim et al., 2008; Ward, 1991). However, when family members lack managerial talent, outside professional management is needed for a firm's growth (Dyer, 1989). Most Bangladeshi family firms adopt an integrative approach, where family members are professionalised but maintain

influence alongside employing outside professional talents (Dyer, 1989). Such firms are termed hybrid professional family firms (Stewart & Hitt, 2012).

The fact remains, however, that an active board with outsiders is needed to maintain objectivity (Sidwell, 1989), accountability (Ford, 1989; Ward & Handy, 1988), and transparent and neutral decision-making systems. Accordingly, large family firms often develop foreign affiliations and joint-ventures to involve independent foreign directors in decision making processes. Bangladeshi family firms are also known for appointing outsiders to the board who are either ex-government employees or have links with the state, to help the firm obtain state nexuses.

Since the quality and experience of the family managerial labour pool may not always be able to cater to the wide range of specialist managerial functions that a competitive growing firm requires (Casson, 1982), it is preferable that some outside managers and directors are recruited to secure firm development (Westhead & Howorth, 2006). This separation of ownership and control can also improve corporate governance issues, reduce potential agency problems, and help defuse personal conflicts.

In South Asia, India has performed better than Pakistan and Bangladesh in professionalizing their family firms. As in Pakistan and Bangladesh, the founders of Indian family firms generally lacked formal management or technical education. However, the successors are well educated, often from prestigious institutions (Masulis, Pham, & Zein, 2011). Along with the induction of well-educated and professionally qualified family members at the top, competent professional managers are being inducted at all levels. In fact, the recruited professional managers are given sufficient freedom that they feel accepted into the organization (Singer & Doronho, 1992). This manner of evolution indicates a clear transition trend: from being family-centered to being business-centered (Masulis, Pham, & Zein, 2011).

3.4.2 Bangladesh Family Firms and Entrepreneurship

From the historical analysis of family firm development within the Bangladeshi context, as outlined in Chapter 2, Bangladeshi firms have survived and grown as major enterprises despite living under state incapacity. Family firms have identified opportunities within a situation of resource scarcity, taken high risks by expanding businesses in vulnerable economic and political conditions, adapted to poor infrastructure and technology and unskilled labour, innovated new goods, services, and technologies, and groomed successors with education and training who could lead their business with managerial skills.

Based on these attributes, this study proposes that an appropriate entrepreneurship definition for Bangladeshi family businesses would be: *An entrepreneur is one who identifies and pursues opportunities and makes decisions about the coordination of scarce resources with an economic aim and under conditions of uncertainty* (Casson, 1982; Shane, 2003).

This means that the entrepreneur is not necessarily a capitalist or an inventor, but rather is someone who is not afraid of risk and who ‘gets things done’ and has an economic aim (Casson, 1982). Although the above definition particularly mentions identifying opportunity, it does not mention the other four entrepreneurial attributes. Yet, while making decisions about scarce resources and surviving under uncertainty led the family firms to adopt innovation, risk taking, adaptability, and successor development.

3.5 Role of the State

State capacity refers to the capacity of the state to achieve its chosen policy outcomes (Matthews 2012). So, the role of the state refers to what a state should do to develop its country, which involves much more than just economic growth (Sen, 2000; Stiglitz, 1998).

Among the various models that deal with the role of the state, the service delivery model argues that a state's major roles include effective policy reforms for trade liberalisation, adequate and modern infrastructure and technology development, sufficient investment in health and education, increased economic integration, and incentives to draw foreign direct investments to promote economic development (Szirmai et al., 2013; Ács & Naudé, 2013; Hausmann & Rodrik, 2003).⁶⁶ Historically, success in service delivery has generally depended on the state's success in pushing social transformation rapidly in the direction of creating a viable capitalist economy (Khan, 2004). Therefore, the service delivery model is misleading for poorly performing developing countries.

The social transformation model reviews the role of the state in transforming pre-industrial societies into a dynamic industrial ones where the state adopts privatization⁶⁷ and trade liberalization (Khan, 2004). Privatization also reduces the state's direct role in enterprise decisions and thereby 'de-politicizes' the firm which results in further reforms to improve the business environment and improve governance (Boycko, Shleifer, and Vishny, 1995).

Some states follow a 'picking winner's strategy' by selecting high growth potential sectors for development with favourable policy reforms and incentives while attempting to promote economic development (Bhagwati, 1986). This is why this strategy is also known as the 'unbalanced' growth strategy, where not all but only leading sectors are identified and supported (Hirschman, 1958). Like many other countries, Bangladesh adopted this strategy and promoted the ready-made garments sector (Gwartney et al., 1999).

⁶⁶ Reforms are instruments that can overcome state failure and help achieve economic take off (Khan, 2004).

⁶⁷ Privatization means shifting ownership rights from the state to private individuals and institutions (Hellman & Schankerman, 2000).

Another major role of the state is to ensure good governance. The key elements in a good governance system include law and order maintenance, macroeconomic stability, adequate infrastructure, and a transparent and fair tax and regulatory framework. That means, the quality of governance is ensured by the state when the state provides these services in an efficient and non-discriminatory manner (Kaufmann, Kraay, and Zoido-Lobaton, 1999a, 1999b). However, it is very important to identify the institutions that can ensure good governance.⁶⁸ This is where the developmental state model is useful to understand the role of the state with proper institutions to ensure good performance.

Skocpol (1979) and Evans (1995) highlight the importance of a professional bureaucracy for state capacity. In weak states, the government, in most cases, plays the role of a patron due to the lack of a professional bureaucracy. Here, a relationship of exchange exists between incumbents and supporters, where incumbents distribute to supporters resources such as subsidies, cheap loans, jobs, and contracts, and in return, extract a share of the rent for themselves (Krueger, 1974). This type of state is called ‘authoritarian’ or ‘patronage’-based, as the state uses its power to benefit certain persons and groups at the expense of others and thus state-business nexuses become an easy way to support each other (Zald, 1970).

⁶⁸ Institutions are the rules of the game that set incentives, opportunities, and limitations for individuals and organizations. The key institutions enforce a system of property rights and promote interventions that define rents and incentive structures like tax and subsidies, while the higher level political institutions set the rules (Khan, 2004).

3.5.1 Strong State vs Weak State

The strength or weakness of a state can be determined by the degree to which the state is able and willing to intervene in its economy. A strong state is one that ensures efficient legal and financial institutions, provides political stability and regulatory frameworks, encourages foreign and domestic investments, implements sensible macroeconomic policies, develops a regulatory environment that stimulates economic growth, keeps inflation low, provides improved standards of living, and ensures human development by offering the highest possible quality of educational and health services (Stiroh, 2001; Stiglitz, 2007, 1989; Atkinson & Coleman, 1989). Weak states tend to supply lesser or less-than-adequate institutions, policies, services, and goods (Migdal, 1988; Holsti & Holsti, 1996). Taking this definition into account, the United States, the United Kingdom, Australia, and Japan are examples of strong states, whereas Myanmar, Fiji, Solomon Islands, Congo, Bangladesh, Cambodia, Vietnam, Afghanistan, Russia, Pakistan, Yemen, Papua New Guinea, and Laos can be classified as weak states (Paterson et al., 2006; Dollery & Snowball, 2003). Strong states cannot emerge unless sufficient resources, in the form of money, skilled manpower, and organizational and technical knowledge, are available (Johnson, 1989; Migdal, 1988).

Strong states are better than weak ones at structuring societal behaviour and more successful at guiding and controlling military behaviour. State capacity is therefore relevant in the evolution of military entrepreneurship: the stronger the state, the more beholden the military will be to needs and goals determined by state officials, rather than to its own interests (Mani, 2007). In both Pakistan and Bangladesh the economy improved during military regimes.

3.5.2 Developmental State Model: key features of a strong state

The rise of the developmental state model was catalysed by the global economic depression of 1929, caused by large and overly powerful businesses. After the Second World War, states realised that allowing big businesses unlimited control was dangerous. Subsequently, a developmental state economic model was adopted where the state was responsible for protecting the country's welfare through extensive interventions. The concept of the developmental state was first set out by Chalmers Johnson in his 1982 book, *MITI and the Japanese Miracle*. For Johnson, the key element of a developmental state is intervention in the economy to guide and promote industrialisation while nurturing entrepreneurial domestic companies (Johnson, 1982).

The logic behind the developmental state model is rapid industrialisation by a strong and autonomous state that provides directional thrust to a market that is guided by a conception of long-term equitable socioeconomic development (Öniş et al., 1991; Woo-Cumming, 1999). The core features of the developmental state model are determined by political leaders, highly competent bureaucrats, a weak and subordinated civil society, adequate investment in education and technology, state-business cooperation, the effective management of non-state economic interests, and performance-based legitimacy that is able to promote and sustain development (Castells, 1992; Johnson, 1982; Balassa, 1988; Leftwich, 1995; Fallows 1994). In this model, the state supports domestic firms through state-business nexuses so that they can grow and compete with global brands. However, the state maintains control over the businesses (Balassa, 1988).

This study turns to developmental state literature for insight into two key concepts for understanding Bangladeshi family business development. The first is for ideas of the nature of a state to properly define a weak state. Although the developmental state literature does not discuss how family firms develop under a weak state, it helps in

understanding the state's capacity in Bangladesh and the methods entrepreneurial family firms apply when dealing with this situation. The second is that the developmental state literature discusses strong states in East Asian countries where industrialisation took place under a system of close state-business ties (White & Wade, 1988). As these states have strong institutions, state-business nexuses took place in a productive manner. Selective patronage was employed to promote the rise of firms in East Asia, where the businesses remained subservient to the state (Gomez, 2002). In fact, the businesses were financed by state-controlled banks and were continuously monitored.

The countries that adopted the developmental state model are Japan followed by South Korea, Taiwan, and Singapore (Deyo 1987; Gold 1986; Haggard and Moon 1983; Koo 1984; Lim 1983; Rodan 1989; Whang 1987). The 'East Asian Miracles' (Japan, South Korea, Taiwan, Malaysia, Singapore, Thailand, and Indonesia) are good examples of strong states that achieved rapid economic growth (Stiglitz & Uy, 1996; Holliday & Tam, 2004; Wade, 1996; Salvatore & Hatcher, 1991; Naya & Imada, 1990). In these countries, the state played a large role in developing physical and human capital, filling the knowledge-technology gap, accumulating financial capital through high domestic savings and efficient allocation of investments, and applying sound macroeconomic management, including low inflation and responsible fiscal policies (Gopinathan, 2007). However, the evidence from these countries indicate state intervention with a particular focus on technology acquisition (Wade 1990, Amsden 1989). Moreover, the East Asian countries encouraged outward orientation liberalisation and foreign direct investment to transfer technology and knowledge (Jomo, 1997; Balassa, 1988). Singapore, Thailand, Taiwan, South Korea and Malaysia introduced technology first from the advanced industrial West, then later from within the East Asian region. Management spill over too was internalised through foreign investment ventures (Balassa, 1988; Jomo, 1997; Bhagwati, 1988; ADB, 1997; World Bank, 1993).

Chang (1994) argues that state intervention in South Korea reduced transaction costs by enabling the coordination of technology acquisition at a lower cost.

Moreover, the forms and features of East Asian countries indicate that their industrial development were not simply a function of their administrative structures or principles of governance, but also of their political efficiency (Leftwich, 1995). By contrast, economically backwards countries provide more rent-seeking opportunities than economically advanced countries. This is because, in the latter, governments and businesses both abide by strict regulatory frameworks, whereas in the former, government inefficiencies in regulating institutions allows businesses to grow freely through business-state nexuses (Sadli, 1994). Moreover, a weak state lacks control over the financial sector and policies that usually boost the economy, such as raising interest rates, which becomes counter-productive. Additionally, weak states often plan market liberalisation without adequate regulation and monitoring, allowing the banking sector to approve high-risk loans repeatedly, thereby creating numerous loan defaulters (Stiglitz, 1998e).

3.5.3 Neoliberal Model: Another avenue for state-business nexuses

During the 1960s, when the economy in the United States and Britain began performing poorly, Hayek's (1988) idea of the minimum state gained much currency. Hayek's core free market propositions, or what has now come to be termed 'neoliberalism', constituted a system where the state intervened at a minimum level, allowing businesses to flourish through trade liberalization and state-business nexuses. The core tenets of neoliberalism is best described by the 'Washington Consensus', which means economic growth can only be achieved through a combination of deregulation of the market, fiscal discipline, reduced public expenditure through privatization to encourage competition, tax reforms, competitive exchange rates,

promotion of FDI, secure property rights, and trade liberalization (Williamson, 1990,1997).

The tenets of the neoliberalism model, first actively promoted by Britain's Margaret Thatcher and America's Ronald Reagan, were adopted by the World Bank and IMF and soon emerged as key public policies in countries in the world. While the state in East Asia adopted developmental state model followed by neoliberalism, the state monitored the pattern of development of private enterprise and disciplined them to drive industrialization (Migdal, 1988). They adopted a mixture of market discipline and state support and thus could produce stellar economic growth such that the World Bank acknowledged them as 'High-Performing Asian Economies' (World Bank, 1993). On the other hand, the experience of China, Poland, India, and Pakistan that followed the proponents of neoliberalism drew no attention to the fact that big business could become powerful enough to influence policy-making, encourage unequal distribution of wealth, and can capture the state.

Neoliberal ideas, often associated with globalization, contradicted the state interventionist ideas of the developmental state. As Weiss (1995) notes, strong states that adopted a mixture of both developmental state and neoliberal ideas then had to deal with a strong industry; that means, the capacities of both were generally enhanced. In fact, as Pirie (2005) argued, strong state intervention has led to the creation of a generally successful neoliberal economy. The developmental state clearly helped these countries to drive rapid industrialization, create employment, reduce poverty, foster the rise of a new middle class; meanwhile, neoliberal policies contributed to the growth of capital and income as well as wealth inequalities with immense wealth concentration (Gomez, Bafoil, & Cheong, 2014).

State-business nexuses are a common strategy where state and businesses exchange benefits to each other and keep close relations. The state gives a wide range of

benefits to firms, in the form of state financing, subsidies, contracts, and licenses (Hellman & Schankerman, 2000). Through political patronage, firms provide state officials with political and private benefits in the form of control rights over company decisions and through bribes (Hellman & Schankerman, 2000).⁶⁹ In addition to time spent with government officials, firms also have to pay direct private benefits to public officials in the form of bribes. These are paid for a variety of purposes, such as to obtain public services, to avoid taxes or existing regulations, to gain government contracts, to obtain subsidies and other state financing, to influence policy, and to appease predatory officials (Hellman & Schankerman, 2000). Bribes are a 'substitute' for state involvement in enterprise decision-making. Since states control rights, this presumably imposes costs on firms. Firms therefore bribe, an implicit bargain with government officials to reduce such intervention (Shleifer and Vishny, 1997).

Additionally, state-business nexuses provide firms with opportunities to access government rents; in return, firms provide bureaucrats and political parties with funds. With state nexuses, business groups often enjoy considerable political bargaining power, which in turn benefit and reinforce their businesses (Cain and Hopkins 1993; Rose, 2000). Politicians keep ties with business elites because influence over the business community is viewed by ruling politicians as power over the most dynamic and resilient element in society (Gomez & Jomo, 1999). Moreover, state nexuses are not limited to business ties involving bureaucrats and politicians, but also relationships with banks, particularly if this sector is predominantly owned and controlled by the government. An emerging economy is likely to be short of both resources and the capability to deploy the available resources efficiently. In this situation, it is relatively easy for firms with

⁶⁹Political patronage means abuse of power, favouritism and nepotism during government rents distribution (Gomez & Jomo, 1999; Gomez, 2012)

favourable access to resources and the ability to build relationships with policy makers to establish a superior position (Hoskisson et al., 2000).

Although neoliberalism model has been useful in countries with strong states; however, when applied in weak states like Bangladesh and Pakistan, privatization and the state-business nexuses have caused inequality, increased poverty, unemployment, and corruption (Krueger, 1974; Posner, 1975). States with less capacity, when nurturing state-business nexuses, have interestingly helped improve economic conditions, though when business people entered politics to influence public policies for personal benefit, this led to the spread of inequality and corruption (Kochanek, 1993). For developing countries, state-business nexuses can be termed as 'clientelism' which refers to an asymmetrical relationship in which a powerful person provides reward to and protection for a weaker person or persons in return for loyalty, service, and support (Islam, 2006).

In developing economies, the rent management problem is more acute due to lack of technological capacity and entrepreneurial capacity, which are needed to compete in world market (Khan & Jomo, 2000). State-created rents create incentives for agents to leave productive activities for so-called unproductive ones which give them quicker access to wealth (Krueger, 1974; Buchanan, Robert & Gordon, 1980; Bhagwati, 1982). Interestingly, empirical evidence indicates that there has been sustained corruption between political elites and big business in East Asia. This has undermined the political legitimacy of the region's developmental states, a situation termed the 'East Asian paradox'. This combination of high corruption and high growth is particularly obvious in Indonesia, Malaysia, and Thailand (Rock & Bonnett, 2004).

Further, while looking at South Asian countries, we see that South Asian countries (India and Pakistan) adopted socialism followed by neo-liberalism, a similar policy as East Asian countries, however, the economic development of South Asian countries was much less efficient than East Asian countries (Siddiqui, 2011; Khera, 1963;

Ahluwalia, 2002; Ali & Malik, 2009). Because, South Asian countries had less focus on health, education, and technology in India and Pakistan, as compared to East Asian countries (Papanek, 1967).

(). Through socialism, India and Pakistan both proposed industrial units to obtain licenses from the central government, which led to widespread rent-seeking (Jalan, 1996; Goswami, 2002). Comparatively, Pakistan's socialism was in a worse shape than that of India, as it was filled with wide spread mismanagement and lack of accountability in the nationalized industries (Gulzar & Wang, 2010; Siddiqui, 2011). Clearly, networks and connections have been crucially important to negotiating the government bureaucracy (Chakrabarti, Megginson, Yadav, 2008).

India adopted liberalization in 1999, which improved corporate governance drastically by bringing in professionalism and transparency in family firms' operation (Dandekar, 1992). Besides, India ranks high on the ease of getting credit, a well-functioning banking sector with one of the lowest proportions of non-performing assets, and a top performing stock market in the world (Chakrabarti, Megginson, & Yadav, 2008; Masulis, Pham, & Zein, 2011). On the other hand, Pakistan adopted trade liberalism in 1960s by Ayub Khan which improved the economy. Unfortunately again after the 1971 war with Bangladesh, Bhutto adopted socialism, which further deteriorated the administrative system with corruption and rent seeking activities (Taha, 2012). Even the privatization initiated by Nawaz Sharif's government in 1990 was mismanaged and ill prepared for lack of transparency, corruption and concentration of wealth in a few hands (Gulzar & Wang, 2010). This is how successive governments in Pakistan have miserably failed to provide an effective institutional framework in the country as malpractice and rent seeking marked the emergence of industrial entrepreneurs in Pakistan. (Gulzar & Wang, 2010; Ali & Malik, 2009).

Moreover, state-business nexuses sometimes create problem as too much dependence

on business groups often results in state capture (Frydman and Rapaczynski, 1994; Frye and Shleifer, 1997).⁷⁰ In countries with a high degree of state capture, progress in economic reform (including privatization) is slower, and the quality of governance is much poorer (Hellman & Schankerman, 2000). This is what happened in Bangladesh. The state in Bangladesh employed selective patronage, but depended too much on the businesses to the point where it could not maintain control over big businesses. Businesses with economic strength and political connections became powerful. Bangladeshi entrepreneurial family firms that developed in a weak state with poor institutions kept their close ties with political elites and gradually captured control over policy-making.

3.5.4 Defining State Incapacity in Bangladesh

In the earlier discussion of developmental state, the idea of a strong state is very clearly defined. But in case of Bangladesh we do not see a similar well-functioning strong state. What we do see is what we call state incapacity. State incapacity concept was developed from the ideas from developmental state literature. Developmental state literature very clearly states for a need of a strong state with very efficient bureaucracy led by highly competent people who have capacity to create public policies as well as create a proper infrastructure needed for companies to drive. However, in case of Bangladesh, the state didn't have capacity to deliver these facilities.

⁷⁰State capture means the extent to which the formation of laws and regulations are influenced by illicit private payments from firms to public officials.

State incapacity in Bangladesh can be defined through its poor bureaucratic and political capacity. For Bangladesh, state incapacity is a consequence of history. The double partition seriously crippled Bangladesh's economic and administrative system. The state did not have a proper functioning bureaucracy meant by the most competent people because the bureaucracy was weakened by double partition. The partitions resulted in the absence of an industrial heritage, the poor number of qualified civil servants, an acute paucity of managerial talents, an inexperienced and corrupted political system, and a devastated economy. The quality of bureaucracy diminished with each partition and after that never really emerged as a strong bureaucracy. This is why bureaucracy had very little capacity to develop public policy as well as to implement them. This is what we mean by state incapacity.

Again, within the developmental state literature, there is a strong emphasis of a political power led by people with a vision of how they want to industrialize the economy that can help bring about the industrialization that we saw in East Asia which is not the case here. In case of Bangladesh, there is a significant political turmoil, constant regime change with further impaired the capacity of the state to implement policies properly.

In Bangladesh, as mentioned in Chapter 2, the initial nationalisation strategy in the immediate post-independence soon transformed into neoliberalism through the adoption of privatisation and export-oriented industrialisation. However, the country was never able to take on the role of a strong state. State incapacity prevented the effective execution of various economic models and policymaking was never open and transparent (Kochanek, 2000; Sobhan, 1993). This state incapacity made the major two government institutions as bureaucracy and politics weak.

After the independence of Bangladesh, the very first political party Bangladesh Awami League adopted socialism which was a failed attempt to recover the economy from the war damage. In fact, it devastated the situation further as the vacant industries were

running by the inefficient BAL political leaders. It was only after 1975 when Zia government privatized the economy when the economy started recovering. The successive governments took further steps to industrialize the economy. These initiatives did help the country to improve its economic condition, however, the bureaucracy and politics have largely failed here as the inefficient and inexperienced bureaucracy along with a corrupt and rent seeking political system never allowed an efficient policy implementation and adequate infrastructure development (Islam, 2006).

Bangladesh can be considered a predatory state as it allows large family firms to dominate the state in exchange for rents (Evans, 1995). Furthermore, the incapacity of Bangladesh's state apparatus limits its ability to replicate the performance of East Asian developmental states. Its incapacity is the result of bureaucratic incompetence, excessive red tape, and rampant fraud and corruption (Blumenfeld, 1997). The state's relation with industrial capitalists is also complicated when compared to East Asian states as state incapacity has allowed business elites to grow freely without proper competition (Krueger, 1974)⁷¹.

As part of United India, Bangladesh was under British rule until 1947, and then under Pakistani rule until 1971. Its current administrative system reflects this legacy, though it includes a lack of political and administrative accountability (Quah, 2015; Khan, 1999). During colonial rule, British or Hindus occupied the top positions in the civil service (Rahman, 2002). Bureaucrats in British India required not only academic excellence possessed through attendance at top universities in England and later in India but also the right category of social background (Khan, 1980; Alavi, 1982). The recruitment examination in British India was highly competitive and held in England. Very few Indians could have become a member of the Indian Civil Service (ICS).

⁷¹ Official corruption diverts resources and talent away from real investment into political rent-seeking, such as lobbying politicians, influencing judges, and currying favour with bureaucrats (Krueger, 1974; Murphy et al., 1991).

3.5.4.1 Bureaucratic Incapacity

Successful candidates were symbols of excellence. Promotion and transfer was based on seniority, merit, and performance (Rahman, 2002). Moreover, in British-India, the bureaucrats were accountable for their actions and decisions to their professional superiors in the civil service who were in turn accountable to the British imperial rulers. Politicians were treated as threat to the stability and advancement of the country. The bureaucrats were not accustomed to account themselves to Indian politicians.

After the first partition, or Pakistan's independence, there was an acute paucity of managerial talents. The ICS appeared to be the sole repository of such talents (Alavi, 1982). The Civil Service of Pakistan (CSP), the generalist elite cadre, was composed of some 157 officers: 95 former ICS (Muslim) who opted for Pakistan and the rest British ICS officers who were hired on contract to fill the most senior positions in Pakistan's bureaucracy (Islam, 2004). In fact, the standard of recruitment examination for civil service in Pakistan was also high and competitive. Promotion and transfer was based on seniority, merit, and performance (Rahman, 2002). By contrast, Bangladesh no longer attracts bright graduates (Jamil, 1998), while most recruits lower middle class, poorly trained, and products of a deteriorating educational system (Kochanek, cited in Jamil, 1998; Mollah, 2011).

Inevitably, Bangladesh's bureaucracy was deprived of relevant knowledge, skills, and clearly defined duties and responsibilities (Jahan, 2006). Bangladesh's patronage-based political pattern goes back to the colonial period. Due to overly personalised relationships, loyalties were prioritised over rules, while the lack of political and administrative consciousness in enforcing regulations stunted bureaucratic performance (Zafarullah, & Rahman, 2008).

Although numerous reform programmes were undertaken during the Pakistani period, these efforts failed to produce significant results as the bureaucracy manipulated all

reform measures to its favour (Khan, 1980). The entire bureaucracy saw itself as a regulator rather than a promoter of private sector development; thus, liberalisation policies were never implemented. Moreover, instead of shouldering responsibility, the two largest political parties spent time in a blame game. This resulted in parliament boycotts and strikes (Hossain, 2000).

3.5.4.2 Political Incapacity

Political instability can be viewed as a reflection of a feudal character in a traditional society, where most people are poorly educated, socially backward, and politically uninformed, thus possessing unsophisticated character traits, including feudal or tribal rivalry. Jealousy, suspicion, mistrust, and vengeance are hallmarks of this political culture (Kochanek, 1993; Shehabuddin, 2016). Political leaders lacked technocratic experience. Politics for them was merely a shortcut to money-making; therefore, they abused their power to gain wealth.

Although most leaders during the Pakistani era originated from among the urbanised rich and propertied classes, the present crop of leaders in Bangladesh are mostly drawn from the middle or lower middle class, with rural or semi-urban social backgrounds (Aalvi, 1972; Ahmed, 1995). Awami League leaders, for example, have political experience but belong to the rural class and are therefore less educated. On the other hand, BNP leaders belong to the upper middle class and are educated, but have little political experience (Kochanek, 1996). Political instability occurs due to the political leaders' inefficiency and mismanagement, leading to a patron-client political culture (Novak, 1993). Unqualified and inefficient political leaders display little commitment to constitutionalism and are unable to democratically solve political problems (Zafarullah & Rahman, 2008). This has given rise to a multitude of problems such as weak institutions, wayward institutional development, ineffective implementation of policies, pervasive corruption, non-transparent administrative activities, deviant political and

bureaucratic behaviour, and an absence of public accountability (Kochanek, 2000). This resulted in continuous political instability, arising from intra-elite contestation between its two major political party leaders. Political parties routinely exploit power to help business people secure control over the corporate sector and in return enjoy advantages in the form of extra election funds.

Although there are several political parties, the BNP and BAL are the two major parties that have come to power by turn since Bangladesh entered into a democratic environment. In spite of a good beginning, parliament was never made the centre of politics. In fact, parliament has been largely ineffective (Ahmed, 2001; 2003). In response to authoritarianism or state repression, opposition parties or alliances have moved out of parliament and occupied the political space of the street with the goal of venting its anger in a manner that often breeds violence (Sobhan 2001). Moreover, every opposition in Bangladesh has deployed a variety of protest stratagems and the key instrument of protest is the hartal (strike) (Hasanuzzaman, 1998; Ahmed, 2003). The number of hartals increased during the democratic era. A total of 827 hartals were observed between 1991 and 2002. The frequency of hartals was not much different between the governments of Begum Khaleda Zia's BNP (1991-96) and Sheikh Hasina's Awami League (1996-2001) (Islam, 2005a).

Bangladesh has manifested patron-clientelism like other peasant societies (Jansen, 1988). In fact, political clientelism expanded and almost encapsulated the state and civil society. There has been two major forms of patron clientelism, horizontal and vertical. Horizontal clientelism means the nexus between political parties and the bureaucracy (Khan, Islam, and Haque, 1996). The party rewards the loyal civil servant by quicker promotions and profitable postings and with important positions within the party after his retirement (Siddiqui, 1996). Whoever comes to power among the two major political parties, they forge an embedded patron-client relationship with the bureaucracy to

deploy it for coercion of the opposition and rigging the election (Islam, 2006).

One survey indicated that 37 percent of the civil service respondents thought that political connections and nepotism were necessary for promotion (World Bank, 2002). Also, recalcitrant civil servants are punished by frequent transfers and postings to difficult or less important portfolios (Islam, 2006). Besides, the opposition parties or alliances keep their clients in the public administration who lie low, but support them in the hope for future rewards (Islam, 2006). It thus turns into what has been called 'dark social capital' (Maiz and Requejo, 2001), fuelling corruption and violence. Patron-clientelism, in the context of weak regulatory framework, provides huge opportunities for rent-seeking. The absence of explicit rules for collection of party funds makes it an indispensable aspect of the party structure.

Under this patron-client culture, coupled with state-business nexuses, the forms and effects of corruption have worsened, contributing to less efficiency in politics and the bureaucracy (Sobhan, 1980). In the 1990s, 33 percent of the Jatiya Party MPs, 65 percent of BNP MPs and 33 percent of BAL MPs were businessmen and industrialists (Mahmud et al., 2008). Family businesses have direct political involvement such as the A.K. Khan, BEXIMCO, and Islam groups which have become powerful (Kochanek, 2000; Hossain, 2001). State incapacity has inevitably been exacerbated by poor political leadership and an inefficient bureaucracy (Zafarullah & Rahman, 2008).

3.6 Conclusion

The review of the literatures from both family business and developmental state clearly show a research gap of family firm development under a weak state. The family business literature has not discussed firm development through entrepreneurial skills under a weak state. Additionally, this literature has completely ignored Bangladeshi family firms, the main engine of growth in the country. The developmental state literature mainly focused on a guardian state or strong states, specifically

reviewing rapid industrialization in East Asia; however, there is no evidence of how weak states have nurtured industrialization. The historical review on South Asian countries, Bangladesh in particular, indicates that they followed similar economic models (socialism followed by neoliberalism) as East Asian countries. However, Bangladesh remained a weak state due to lack of resources and poor bureaucratic and political capacity, and so family firms here are unique as they survived and developed as conglomerates even under a weak state.

CHAPTER 4: THEORETICAL FRAMEWORK AND RESEARCH

METHODOLOGY

4.1 Introduction

This chapter illustrates the study's theoretical and conceptual frameworks and outlines the research method used to study the empirical data. The chapter starts with an overview of the two major theoretical concepts used in this study. It then formulates a conceptual framework based on these concepts. It moves on to discuss the research methodology, describing the research design, the data collection process, and the pivotal interview questions. The chapter ends with a discussion on the validity and reliability of the data, a description of the data analysis procedures, and comments on the limitations of the research.

4.2 Theoretical Framework

The theoretical framework of a study provides a general representation of relationships between variables for a given phenomenon. In contrast, the conceptual framework of a study is the researcher's vision of how the research problem should be explored and specifies the variables to be investigated in the current investigation. The conceptual framework is founded on the theoretical framework, which lies on a much broader scale of resolution. This section outlines the theoretical framework of this study, while the following section presents the study's conceptual framework.

History and institutions highly influence the entrepreneurial attributes of a society and shape the institutional framework as well as the economic, social, political and legal antecedents that determine the entrepreneurial behaviour of a nation (Chrisman et al., 2002; Landes, 1998; Shane, Venkataraman, & MacMillan, 1995; Kirzner, 1985). This is why the evolution of family firms differs from country to country and is strongly

influenced by path dependency⁷² (David, 1997). As mentioned in Chapter two, the nature of the Bangladesh state and the entrepreneurial character of its family firms have been significantly shaped by the country's history. In fact, Bangladesh's state incapacity is a direct consequence of the country's double partition, dividing Pakistan from India and Bangladesh from Pakistan.

In tracing how Bangladeshi family firms developed under a situation where state incapacity prevailed, this study examines two key concepts: entrepreneurship and the role of the state. These two concepts belong to theoretical frameworks found in two different bodies of literature: the family business literature and developmental state literature respectively. With regard to entrepreneurial capabilities, this study takes into consideration five elements of entrepreneurship: identifying opportunities, risk-taking, adaptability, innovation, and successor development. With regard to the role of the state, this study examines, firstly, state capacity and, secondly, state-business nexuses that have helped firms to survive and grow. These concepts are applied here in order to understand how family businesses in Bangladesh succeeded in flourishing while operating in an economy governed by a weak state.

4.2.1 Theories from Family Business Literature

Since family businesses are mainly established by families, which are the most persuasive social institution (Gersick et al., 1997; Poza, 1989), and entrepreneurship is most accurately viewed as a social activity (Byers et al., 1997), family firms are undoubtedly units of entrepreneurial analysis (Hart & Stevenson, 1994). The founder of a family business is considered an entrepreneur, who establishes a firm (Colli & Rose, 2006; Chirico & Nordqvist, 2010; Hall, Melin, & Nordqvist, 2001) and considers his

⁷² Path dependency refers to the influence of past events (David, 1997).

business as an extension of himself, investing his knowledge and social network into its development (Neubauer & Lank, 1998).

Many family business studies have researched the entrepreneurial features of firms developed under strong states. However, there is inadequate research of how family firms develop entrepreneurial capacities under a weak state. Bangladeshi family firms are therefore a unique case, as they have survived and developed with strong entrepreneurial features under a weak state with limited resources and inadequate and ineffective policies to nurture business environment.

Indeed, entrepreneurship development is a powerful instrument that can aid in the survival of large family businesses (Nawaz, 2012). Among many entrepreneurial variables, five entrepreneurial attributes as identifying opportunities, risk-taking (McConaughy, Matthews & Fialko, 2001; Zahra, 2005), adaptability (Daily & Dollinger, 1992), innovativeness (Schumpeter, 1934), and successor grooming (Fiegenger et al., 1994) are considered for this study, which fit for the family firms in Bangladesh.

Entrepreneurs are able to identify existing business opportunities and can learn and apply meaningful knowledge from existing business opportunities (Casson, 2005; Shane, 2003; Gartner, 1988). Entrepreneurs are also able to take risks in identifying opportunities, making profit, and achieving their goals (Khan, 2000). Additionally, an entrepreneur should be able to adapt to uncertainty and crises, both internally as well as externally, for survival (Lumpkin & Dess, 1996). Innovation within the context of entrepreneurship refers to the ability of a company to create new products or modify existing ones to meet the demands of current or future markets (Schumpeter, 1934; Zahra & Covin, 1995; Knight, 1997). However, this is mainly applicable in capitalist economies. Understandably, weak states lack financial and human capital, leading to

limited technological innovation. In this case, any product that is introduced for the first time into the local market can be considered an innovation for these countries, although it is termed as imitation.

Successor grooming is also considered a crucial element for business development. The grooming of successors with the best possible education and by investing in long-term successor training, family businesses are able to fill managerial gaps with family members, thereby avoiding outsiders and maintaining family ownership (Ibrahim et al., 2008; Ward, 1991; Levinson, 1971). The grooming also helps the family firm prevent succession-related problems as successors grow up learning to deal with both business and family issues rationally, rather than emotionally. As a result, successors can relinquish their control when the business needs to grow, and appoint professional managers who help them to run the business. Chapter six explores whether the Bangladeshi family firms under study possess these five entrepreneurial attributes, and to what degree.

4.2.2 Theories from Developmental State Literature

The state is responsible for ensuring political stability, efficiency in legal and financial institutions, and well-functioning regulatory frameworks (Stiglitz, 1994; Atkinson & Coleman, 1989). However, the extent of state capacity determines the delivery of these services. A strong state has an effective governance system, a high degree of state autonomy, and an independent judicial system. It can therefore achieve development at both micro and macro levels, enabling businesses to operate efficiently. A weak or incapacitated state, on the other hand, usually suffers from a collapse of policy initiatives resulting from administrative inefficiency due to bureaucratic incompetence, excessive red tape, and allegations of fraud and corruption (Blumenfeld, 1997).

The concept of the 'developmental state' helps in understanding the role of a strong

state in nurturing business development. In East Asian developmental states, political elites were able to devise functional state institutions that facilitated both political stability and economic development (Waldner, 1999). The state established incentives and disincentives to direct private investments; the success of enterprises in turn reinforced state legitimacy (Ng et al., 2012). Political elites also gave their bureaucracies sufficient scope to take initiatives and act authoritatively in pursuit of the desired development goals (Wade 1990).

Moreover, East Asian states were not only able to promote the ability of the private sector to compete at the international level, but, more crucially, to ‘create’ and ‘reward’ good performing businesses as well as ‘punishing’ bad ones (Wade 1990; Amsden 1989). For example, the Korean chaebols and the Japanese zaibatsu and keiretsu had to meet performance standards in order to access various rents. (Hattori, 1989). State-business nexuses also boosted rapid industrialization, though control remained with the state.

The historical review presented in Chapter two of industrial development in Bangladesh indicates that the government initially implemented a nationalization strategy. However, not long later a neoliberal policy framework was instituted with the adoption of privatisation and export-oriented industrialisation. However, due to state incapacity, the Bangladesh state could not retain full control over the businesses, particularly large family firms. Rather, the state had to depend on big businesses to generate economic development. In fact, the Bangladesh state has proved weak and incapable of implementing effective policies. This has resulted in businesses gaining control over the state through their economic and political strength. The business sector, dominated by family firms, has political strength through various forms of state-

nexuses, in the form of political involvement, lobby groups involvement, personal contacts with politicians and bureaucrats, marriage ties with political and bureaucrat families, directorships in local and private banks, and ownership of the media. Therefore, in Bangladesh, growth strategies adopted by businesses have only been lightly conditioned by public policies, but heavily conditioned by state-business nexuses, a matter that has had a bearing on these businesses' longevity and sustainability (Kochanek, 2000).

4.3 Conceptual Framework

Family firms in Bangladesh have thrived to survive and grow in a context where the state was incapable of creating an enabling environment with sufficient infrastructures and appropriate policies. The history of industrial development in Bangladesh is therefore the crucial factor in understanding the context of the development of entrepreneurial family firms and the role of the state in nurturing their development. This history clearly indicates how challenging it was for businesses to exercise entrepreneurship where the state nurtured their entrepreneurial capacities inadequately. Additionally, the history shows why state-business nexus was a necessary element to be considered besides entrepreneurial skills for business development under a weak state. This is why the conceptual framework that well answers the research questions of this study deals with two major variables: entrepreneurship and role of the state.

Although most of the theories under consideration originate from strong states with different contexts, important points can still be gleaned from them when developing a conceptual framework. This study, in particular, highlights how these two variables worked to gradually transform certain family firms in Bangladesh, from small and fragile enterprises into business giants with wealth and power.

The conceptual framework considers the two objectives of the research and its key questions. These questions not only focus on investigating the developmental history of

Bangladeshi family firms, but also reviews the context of why and how they have developed under a weak state and explores reasons for the inability of the state to discipline them. The major concepts of entrepreneurship and state's role are applied in the Bangladesh context, as shown in Figure 4.1.⁷³

In Western economies, the survival challenges of family firms mostly revolve around succession problems as discussed in Chapter 3, whereas family firms in developing economies mostly struggle with lack of technology and management skills. Interestingly, many Bangladeshi family firms have managed to survive and grow even under a weak state, due to various entrepreneurial attributes as identifying opportunities, risk taking, adaptability, innovativeness and successor development (details of each elements are discussed in Chapter 3).

⁷³ For these details on these concepts see Chapter three.

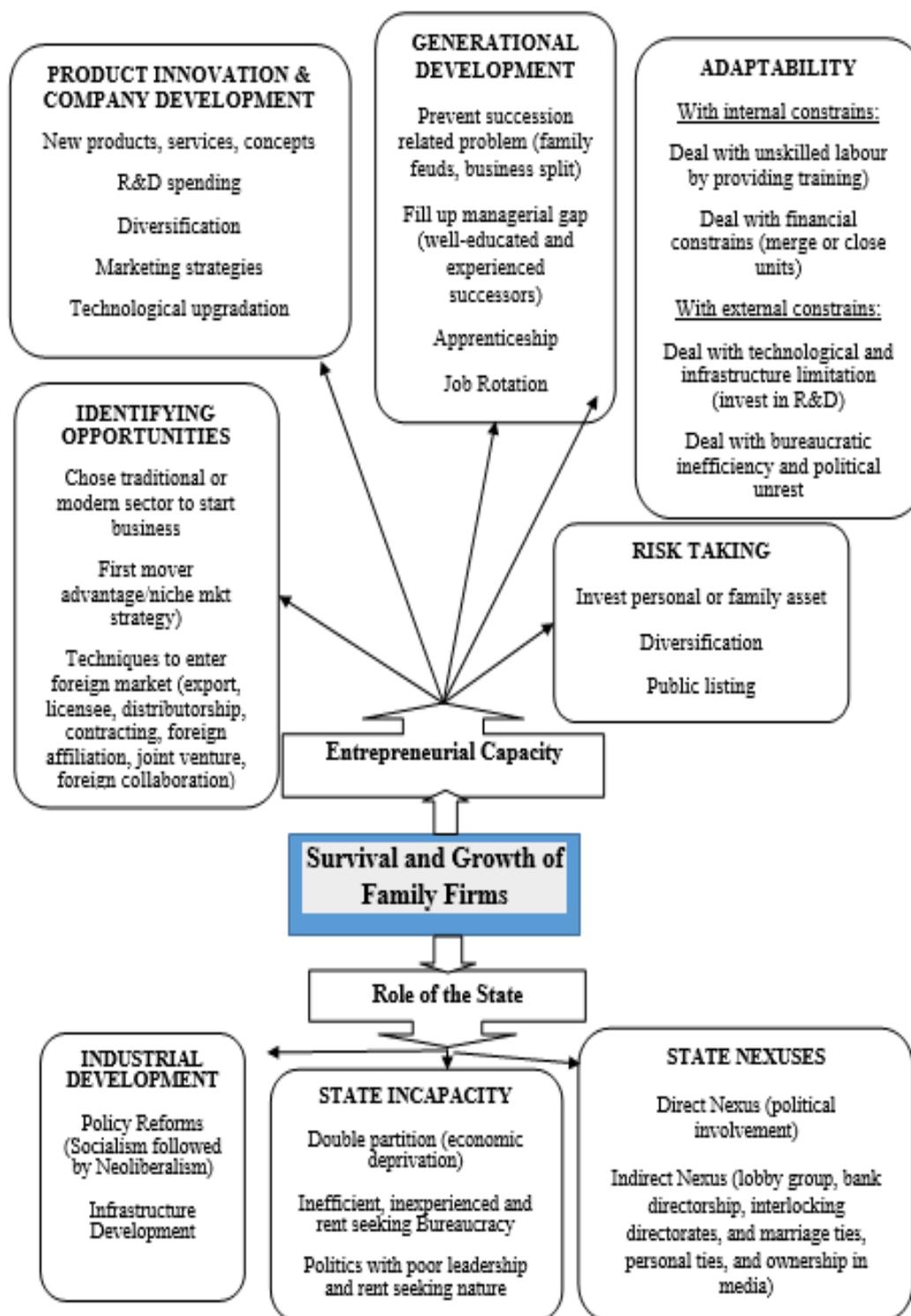


Figure 4.1: Conceptual framework

Source: Researcher

Unfortunately, there is a lack of empirical as well as theoretical evidence of the outcomes of the links between entrepreneurial capacity and a weak state. This

conceptual framework therefore helps determine the respective contributions of entrepreneurship and the role of the state towards business development within a weak state like Bangladesh. Within this framework, the study hypothesises that the survival and growth of large family firms in Bangladesh is the result of business entrepreneurial capability as well as state-business nexuses. Through entrepreneurial capacity, family businesses could attain wealth, while through state nexuses they have gained power to secure influence over the state.

4.4 Research Methodology

This study employs a qualitative method to investigate the research questions. An interpretivist paradigm was used in order to fully understand the various perspectives of those involved in family business development in Bangladesh. According to Greene (1994), the main goal of the interpretivist is to understand the meaning of social situations from the point of view of those who are living it. The researcher therefore met with members of the selected seven family firms to investigate the reasons behind their business survival and growth, as well as to collect in-depth information regarding how the state nurtured their businesses' development. Government officials, media, and bank personnel were also interviewed for further information regarding state-business nexuses. Additionally, the historical events that explained the context in which these businesses developed, grew, and sustained were examined.

4.4.1 Research Design

This study applies a business history approach, using case studies to trace the development of selected family businesses in Bangladesh.⁷⁴ History is very important to analyse the survival and longevity of family firms. Path dependencies are probably stronger and more difficult to challenge, given the 'thickness' of a corporate culture that is often closely attached to past generations (Colli, 2011). Business history is an essential tool for understanding the economic structure of a country from a dynamic and

comparative point of view (Chandler, 1984). The reason for using business history is to understand the state's capacity. The critical need to reconnect the state to the history of its own making is an indispensable means to reveal its contemporary form and meaning (Boyd & Ngo, 2005). The field of family business seems to be a promising field in which a fruitful contribution can be derived from business history (Colli, 2011).

The business history approach was introduced by Harvard Business School in 1920 and focuses on the foundation, origin, and development of businesses around the globe. Using this approach, scholars have worked to develop theoretical explanations of the growth of business enterprises - the study of strategy and structure by Alfred Chandler⁷⁵ being a prime example. Business history analysis also draws on a historical methodology to understand company entrepreneurship and dynamics. The approach also gives importance to the relationships between businesses and the government.

⁷⁴Business history is a discipline that combines pure historical methodology (the use of archival—or primary—sources, together with other secondary data, to reconstruct the history of business) with theory building (Jones & Zeitlin, 2008).

⁷⁵ Chandler's masterwork was *The Visible Hand: The Managerial Revolution in American Business* (1977).

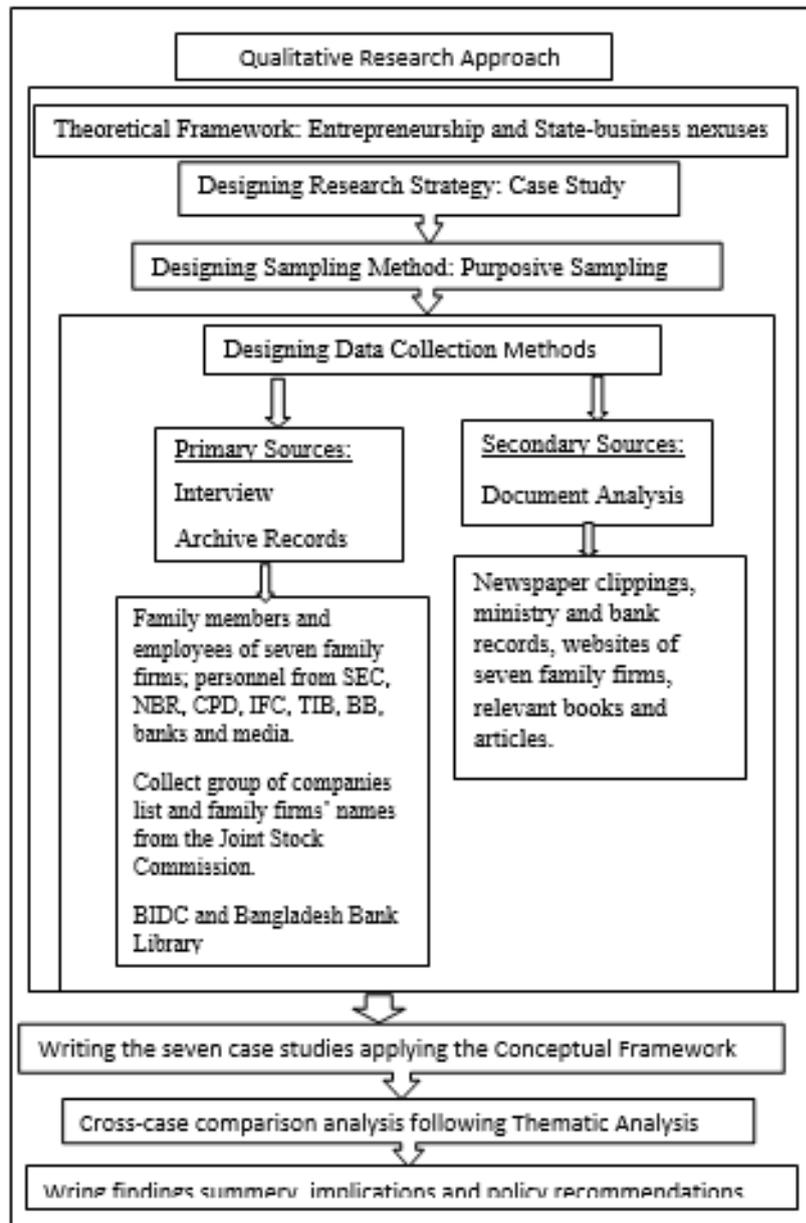


Figure 4.2: Research Design

Source: Researcher

Figure 4.2 illustrates the research design used in this study. The study is empirical in nature and collects data based on cases selected from among the large and well-diversified family firms in Bangladesh. Case selection was conducted according to certain criteria listed in Section 4.4.2, based on the research focus. The researcher met with interviewees more than three times over the course of this research to conduct interviews and collect data.

After the case studies were documented, a cross-case comparison report was prepared which helped the researcher analyse the results and develop conclusions regarding the development of family firms under a weak state.

4.4.1.1 Case Study Methodology

In considering the definition of ‘case study’, Gillham (2000) argues that we should first focus on defining the word ‘case’. According to him, a case can be: ‘(1) a unit of human activity embedded in the real world; (2) which can only be understood in context; (3) which exists in the here and now; and (4) that merges in with its context so that precise boundaries are difficult to draw’ (Gillham, 2000).

Based on this initial definition, Gillham (2000) then goes on to define the ‘case study’ as a method that investigates the above to answer specific research questions and to obtain a range of various types of evidence. Such evidence exists in the case setting and has to be abstracted and collected to acquire the best possible answers to the research questions.

According to Yin (1994), a ‘qualitative case study’ in particular helps the researcher to respond to the ‘how’ and ‘why’ questions. It offers the opportunity to ‘explain why certain outcomes may happen – more than just find out what those outcomes are’. Bearing this in mind, this study adopts a qualitative case study approach to identify how and why selected Bangladeshi family firms survived and grew through entrepreneurship and state-nexuses. The case study method is necessary for this study as it allows for individual evaluation of each family firm’s entrepreneurial patterns and state nexuses, which enables better understanding of the interactions of these family firms with state incapacity.

4.4.1.2 Multiple Case Study Approach

Case study research can involve single or multiple case studies (Stake, 2013; Yin, 1994). Yin (1994) advocates using multiple case studies because ‘...the evidence from

multiple cases is often considered more compelling and the overall study is therefore regarded as being more robust'. A multiple case study approach is useful for understanding the differences between various cases and in replicating certain findings across cases. This study therefore adopts a multiple case study design, using several independent instrumental case studies to gain insight into the studied area.

Furthermore, within-case and cross-case analyses extend the work and help the researcher to look 'beyond initial impressions' and view the issue through 'multiple lenses' (Eisenhardt, 1989). This is why this study does a comparative analysis of the seven case studies, in order to better understand the role of the two main variables, entrepreneurship and state ties, in their business development.

4.4.2 Sampling Process

All the cases in this study are family firms. The firms were selected using a strategy of purposive sampling to create a higher degree of variance (Palys, 2008). The question of the ideal number of cases that should be used in a study remains unresolved in the literature. Eisenhardt (1989) advocates adding cases until theoretical saturation is reached and suggests four to ten firms for a case-based study. Actually, the appropriate number of cases should be determined by how much each adds incrementally to understanding the puzzle under review (Eisenhardt, 1991).

Due to this study's extensive in-depth qualitative nature, seven family firms were selected for detailed investigation. Miles and Huberman (1994) point out that setting boundaries to define the cases is important; the boundaries (geographical and operational) must also connect to the research question. The operational boundaries for the cases in this study have been determined according to the justifications and criteria listed below. Note that despite their significant contribution to Bangladesh's economy, research is lacking on the country's large family firms. Selecting the firms was therefore highly challenging, as this dissertation is the first ever attempt to critically examine

large family firms in Bangladesh.

The seven family firms for this study were selected based on the following criteria:

- The firms should be family-owned (family has the majority stake in the shares of the company) and family-controlled (family members are actively involved in the business, both in day-to-day operations as well as at the controlling/monitoring level).
- The firms should be large (at least 30 years old or above and listed on the Joint Stock Commission of Bangladesh), have a high turnover (of US\$200 million or above annually), well-diversified (with at least eight businesses in various sectors), and with employees totalling 5000 or above.
- The firms should have survived at least two generations or more with no case of family feuds.⁷⁶
- The firms should voluntarily allow data collection for this thesis.
- The aim of the research is to explore the key factors that contributed to the development and continuity of large family firms in Bangladesh. This is why this study focuses on examining family firms that survived under a weak state, while leaving aside those who failed to do so.
- The firms are chosen from multiple sectors in order to provide a broader view of the analysis.

Table 4.1 describes the key features of the seven family firms to illustrate how they fit the selection criteria.

⁷⁶ According to Ward (1987), a family business is one that will be passed on to the family's next generation to own and control.

Table 4.1: Seven Case Studies

Group Name	Establishment year	Flagship business	Sector	Other business industries	Generations in business	Annual turnover 2015	Number of employees	Number of business units	Awards
Anwar	1834	Textile	Consumer	Jute, Cement, Automobile, IT, Real Estate, Financial Institution, Furniture, Cable	5	US\$30 0 million	15000	28	Business personality award (2011, 2012)
A.K. Khan & Company Ltd.	1945	Unidentified	N/A	Textile, Jute, Deep Sea Fishing and Fish Processing, Clearing and Forwarding, ISP / ASP, Information Technology, Distribution, Plantation, Water, Agriculture, Securities and stock	3	US\$50 0	7000	22	Highest tax payer award (2009-10, 2010-11, 2011-2012)
Square	1959	Pharmaceutical	Pharmaceuticals	Toiletries, Household items, Food Products, Textile products, Consumer Products, Square Spinning, Knit Fabrics, Fashions, Information Technology and Hospital	4	US\$1 Billion	33000	28	National Export Trophy(1997), SAFTA's best accounts award (2006), Industrial Excellence Gold award (2007), Best Published Accounts and Reports (2006) Owner Samson received: Entrepreneur of the Year (2000-01), Mercantile Bank Award (2003) Business Executive of the Year (1998), Highest Tax-Payer award (2005, 2007-2008)

Table 4.1: (Continued)

Group Name	Establishment	Flagship business	Sector	Other business industries	Generations in business	Annual turnover	Number of employees	Number of business	Awards
Akij	1950	Tobacco (Handmade cigarette te or BIRI)	Agro	Handmade cigarettes, printing & packaging, textiles, hand board, pharmaceutical, leather processing and real-estate business, food & beverage	2	US\$250 million	32000	30	National Export Trophy (2011, 2012, 2013)
BEXIMCO	1956	Pharmaceuticals	Pharmaceuticals	Textiles, trading, marine food, real estate development, hospitality, construction, information and communication technologies, media, ceramics, aviation, pharmaceuticals, financial services and energy	3	US\$2 billion (2014)	48000	35	International Quality Crown award (2007), The Financial Mirror-Robintex Business award (2006-07), SAARC country Gold award from the Sri Lanka Premier Chamber (2005). BEXIMCO Pharma CEO Nazmul Hassan got: The Financial Mirror Lifetime Achievement award (2004), Marketer of the year award (2002), Arthakatha Business award (2001), Apnar Shastho Shommanona award (2002)

Table 4.1: (Continued)

Group Name	Establishment year	Flagship Business	Sector	Other business industries	Generations	Annual turnover in 2015	Number of employees	Number of business units	Awards
Rahimafrooz	1954	Renewable Energy	Energy	Automotive aftermarket, power and energy, and retail chain. It sells tires, batteries, lubricants, emergency power products, diesel as well as gas generators, lighting products, electrical accessories, solar systems, energy solutions using compressed natural gas, and power rectifiers	3	US\$275 million	8000	20	National Export trophy award (2001-02, 2010-11), Asia's best brand CMO Award (2010), Asia's best employer award (2010), SC & FE CSR award (2008), Brand leadership award (2008), Ashden award (2006), Bangladesh enterprise of the year (2001), The HSBC-The Daily Star Climate Awards (2010)
PRAN-RFL	1981	Food & Beverage	Agro	Property development, textile, gas station, hanger, building materials and construction, plastic	2	US\$750 million	60000	42	Founder Amjad received: Business Person of the Year (2010)

4.4.3 Data Collection

Both primary and secondary data sources were used in this study to answer the research questions. With regard to primary sources, the source of data collection was open-ended interviews with 50 people (Mears, 2012), conducted through direct contact, email, and phone conversations. In selecting the interviewees, purposive sampling was used, which required the informants to be well-educated, experienced in their profession, and knowledgeable of the issues under investigation (Tongco, 2007). Table 4.2 depicts the demographic information of the participants. It was easy for the researcher to establish contacts in Bangladesh with large firms, media, banks and government officials, as she herself was part of the media (as a news presenter in a private television channel) for 12 years. This assisted in ensuring the reliability of the data.

The 50 informants were divided into several categories:

- a) Family members (top management), and employees (old employees and managers) of the seven selected large family firms.
- b) Bank officials (senior officials from both public and private banks of Bangladesh).
- c) Media people (senior television reporters from private television channels: Ntv, ATN Bangla, Channel-I, bdnews24.com).
- d) Government officials, for example, the former and present Commerce Ministers, the Central Bank (Bangladesh Bank) Governor, the former National Board of Revenue (NBR) Chairman, and the Secretary of Joint Stock Commission (JSC).
- e) Non-government officials who could provide related information, for example, the Chairman of Transparency International Bangladesh (TIB) and the Senior Research Fellow of the Centre for Policy Dialogue (CPD).

Table 4.2: Demographic Information about the Participants

Demographic variable	Frequency	Percentage (%)
Gender		
Male	41	82
Female	9	18
Education		
Post-Graduates	44	88
Graduates	6	12
Age		
30 - 40 years	6	12
40 -50 years	15	30
Above 50	29	58
Occupation		
Government employees (Minister, NBR, DSE & JSC personnel)	12	24
Private service holder (family firms' employees, TIB and CPD personnel)	7	14
Businessmen Economists Bank Officials	12	24
Media personnel	5	10
Working experience		
5-10 years	7	14
10-20 years	12	24
More than 20 years	31	62

Table 4.2 shows that among the total 50 respondents, 82 percent were male and 18 percent were female; 88 percent were post-graduates while 12 percent were graduates; 58 percent were above 50 years old, 30 percent were between 40 to 50 years old, and 12 percent were between 30 to 40 years old. The table also confirms that 24 percent of the respondents were businessmen who are family members of the seven large family firms, 24 percent were government employees, 14 percent were bank officials, and media personnel respectively, and 5 percent were economists. Besides this, 62 percent of the respondents had more than 20 years of working experience, 24 percent had 10 to 20 years experience, and 14 percent had 5 to 10 years experience. These demographic characteristics indicate that the majority of respondents were well educated and experienced. The structure of this research necessitated two different

versions of interview questionnaires for two categories of interviewees. One set of interview questionnaires was aimed at the family business groups, and included questions related to their business establishment, growth, and development in order to interpret their entrepreneurial capacities. Another set of interview questions was aimed at government/non-government personnel, as well as media and bank personnel, and included questions relating to the role of the state in nurturing big business groups in Bangladesh, particularly the state-business nexuses. These questions were developed in accordance with the study's theoretical framework. Besides interview, another primary source was used as archive records (Joint Stock Commission records, Bangladesh Bank records, newspaper libraries, Bangladesh Institute of Developmental Studies library) for data collection.

The interviews for this study were conducted in Dhaka and Chittagong and initially ran from 29th June 2013 to 20th July 2013. Subsequently, follow up interviews with the same respondents were conducted from 12th December 2013 to 20th December 2013, and again from 3rd December 2014 to 23rd December 2014, in order to explore any additional points or changes in their comments.

In-depth interviews are an interactive method of retrieving detailed information from respondents, which a formal questionnaire cannot reveal (Legard, Keegan & Ward, 2003). The open-ended questions posed during these interviews allow participants to supply answers in their own words (Creswell, 2013). Among the 50 respondents of this study, 35 were interviewed face-to-face, while seven interviews were conducted through email, and eight were conducted over the telephone. Among the 35 face-to-face interviews, only 12 subjects permitted recording, while none of the telephone conversations were recorded due to privacy issues. In order to maintain secrecy, some of the interviewees' names were not disclosed.

In addition to these interviews, secondary sources were also reviewed, such as the

internet (family owned firms' websites, the Commerce Ministry and Dhaka Stock Exchange website), and published documents (historical articles on Bangladesh, World Bank and Asian Development Bank reports, business articles on Bangladesh), to support the primary source results.

These secondary source documents were of great value in examining the study from different angles and enriching the researcher's knowledge of state intervention in the business and economic development of the country. The secondary sources enabled the researcher to highlight and pursue any contradictions in the emerging evidence as a result of inconsistencies between data presented in the documents and interviews with respondents.

4.4.4 Validity and Reliability

Triangulating data collection methods and sources within research strengthen both the reliability⁷⁷ and validity⁷⁸ of the research (Denzin, 1978; Yin, 1994; Denzin & Lincoln, 2011). Triangulation means using three data collection methods for data collection while applying the same research design (Mathison, 1988; Johnson, Onwuegbuzie & Turner, 2007). Triangulation is used to strengthen the confidence of the research findings (Arksey and Knight, 1999).

Yin (2015) identified six sources of evidence for case studies: documents, archival records, interviews, direct observations, participant observations and physical artefacts. In this study, the instruments of data collection come from three sources: in-depth semi-structured interviews, archive records, and document analysis (historical documents, newspaper clippings). This increases the trustworthiness of the research, as data can be cross-checked from at least three sources.

⁷⁷ Reliability is tested to check to what extent the research findings can be replicated, if another study is undertaken using the same research methods (Ritchie and Lewis, 2003). For this study, both recording and note taking while interviews were adopted.

⁷⁸ Validity means whether the instruments used for measurement are accurate and can actually measuring what they want to measure (Winter, 2000; Hammersley, 1987).

Denzin (1970) has identified multiple triangulations that can be used in the same investigation. These include: 1) methodological triangulation, where multiple methods are used to collect data (Décrop, 1999); 2) data triangulation, where a variety of data sources are used in terms of person, time, and space (Easterby-Smith et al., 1991) investigator triangulation, whereby multiple researchers are employed to investigate the problem; and 4) theoretical triangulation, which enables varied perspectives and hypotheses.

For this study, data and methodological triangulations have been employed, collecting data from different sources and using multiple methods of data collection, including semi-structured interviews, archive records and document analysis. The use of multiple methods assisted in data triangulation and at the same time was an effective way to overcome most of the weaknesses of each method used (Golafshani, 2003). In purposive sampling, informant reliability is very important as participants may provide biased information (Tongco, 2007), or inappropriate/unreliable information because they are eager to please or want to hide information (Alexiades & Sheldon, 1996; Godambe, 1982). To increase informant reliability, five categories of informants were chosen for interviews.

Although validity can be internal and external, this research emphasises external validation, as multiple case studies are more appropriate for external validity (Yin, 1994). Internal validity is usually the main concern of experimental and explanatory researches, however, although this research is exploratory in nature, it is not tested by internal validity.

4.4.5 Data Analysis

The data analysis in this study follows a content/thematic analysis under two broad themes, entrepreneurship and role of the state, in order to explain the survival and growth of large family firms in Bangladesh. Gray (2004) has identified two main

approaches for analysing qualitative data: content analysis and grounded theory. The first method attempts to identify specific categories and criteria of selection before the analysis process starts, while in the second method, no criteria was prepared in advance; all the measures and themes only emerge during the process of data collection and analysis. Hence, it can be seen that grounded theory is an inductive approach while content analysis is more deductive.

The analysis process started with categorizing the collected data into different sets and then comparing them, similar to what Glaser (1978) suggested. In the case of face-to-face interviews where recording was not permitted, note-taking was used to collect information. The information gathered was analysed under the themes of entrepreneurship and the role of the state. The secondary data was also analysed to note similarities and differences with information gathered from the interviews, in order to avoid any biases in primary source information. Critical analysis was then conducted by writing separate case studies on each of the seven family business groups, and then performing a comparative analysis in order to fully understand their development under a weak state.

After the cross-case comparisons, the findings were analysed using the study's theoretical framework. At this stage, the researcher compared the data with existing conflicting or supporting literature and responded to the study's key research questions. Finally, recommendations for future policies and further research were provided.

4.4.6 Limitations

Difficulties and limitations are mainly related to data collection. As Bangladesh is a young country, liberated just 42 years back, the historical data is limited. Since this study adopted a business history approach, the researcher has to depend on access to archive data. Unfortunately, in case of Bangladesh, the archive didn't have the material for which the researcher had to rely mainly on information gathered from

the interviews. Because, during the two partitions most of the archives and during the war most of the materials were lost and destroyed. This shows why the early history data is scant. Even after the independence, the data storage system started only after 1990s. This is why none of the websites and archives have sufficient information.

Further, most of the business groups own the print and electronic media, which gave them the opportunity to control the news in their favour. Thus, this study had to rely mainly on the interviews, annual reports and some newspaper articles as primary data sources besides digging out the secondary sources.

Additionally, the absence of research conducted on Bangladeshi family firms, and the culture of maintaining secrecy with regard to sharing company facts and figures caused difficulty in obtaining data, leading to the use of approximate figures for some case studies, especially for figures before 1971. As the state does not impose any strict rules on the firms to store data properly, the company websites only covers limited information and the company annual reports store maximum 10-12 years financial data.

This study assesses seven family firms of which six are among the oldest enterprises that emerged in the colonial period. Due to the poor quality of the archives, information about their company performance during their early years could not pinpoint in detail. Another issue of concern is that due to sensitive interview questions addressing state-business relations and corruption, recording interviews were not allowed. Therefore, note-taking was used for data collection during interviews.

Moreover, this is the very first study of Bangladesh's large family firms. As no legal regulation is provided by the Joint Stock Commission Bangladesh or Stock Exchange to identify the family firms, the definition of such companies was determined based on previous studies. Therefore, this study has chosen firms where at least 20 percent or

more of their equity stocks are in the hands of family members on the board of directors.

A broader sample of family firms could have been chosen for this study. However, it was not possible as there was not enough information available on the other business groups. Moreover, family members of some business groups were not interested in being interviewed and sharing information. Importantly too, the list of criteria that was set for this study did not match other family firms. Further, this study did not cover those family firms that failed to survive under a weak state as this study deals with those that have survived since the 1971.

CHAPTER 5: CASE STUDIES

5.1 Introduction

This chapter provides seven case studies of selected large family businesses in Bangladesh. The case studies were written based on data collected from primary sources (in-depth interviews) as well as secondary sources (published company documents, company websites, annual reports, newspapers, government/non-government media archives, and Bangladesh Bank archives). The selected business groups were drawn from five different industrial sectors: pharmaceutical, textile, agro, energy, and tobacco.

The case studies aim to trace the developmental history of these businesses while focusing on two major themes: entrepreneurship and the role of the state (as discussed in the literature review in Chapter 3). With regard to entrepreneurial capacity, the case studies examine the ability of the selected firms to identify opportunities, take risks, innovate, adapt, and groom the successors. In considering the role of the state, the case studies investigate the kind of state support (i.e., policy benefits, state-generated rents, etc.) the family firms received through their state nexuses (through political involvement, personal and marriage ties, lobby group involvement) that nurtured the growth of their businesses.

Until the 18th century, East Bengal, today known as Bangladesh, was a prosperous region of South Asia due to its mild, almost tropical climate, fertile soil, ample water, and abundance of fish, wildlife, and fruit. However, when the British colonised Bengal in the late 18th century, they focused on developing Calcutta (the capital city of West Bengal) as their commercial and administrative centre in South Asia. The development of East Bengal thereafter became limited to agriculture, after partition from India. Hardly any industries were established there; rather, the economy was dominated by agricultural activities, chiefly the production of rice, tea, teak, cotton, cane, and jute.

During the East Pakistan regime, operating a business was quite challenging for

Bengalis due to limited opportunities in the economy for developing an enterprise. This restrictive business atmosphere was mainly caused by the state's bias towards non-Bengali Muslim entrepreneurs living in West Pakistan, who were big industrialists. However, a few Bengali-owned businesses of East Pakistan, such as BEXIMCO and A.K. Khan, that had financial resources and/or ties with state leaders managed to survive. Some family firms survived through strong entrepreneurship, despite many obstacles, such as the Akij, Square, Rahimafrooz, and Anwar groups. Eventually, during the pro-liberation period, the state attempted trial and error developmental models and started nurturing all businesses through trade liberalization. Unfortunately, bureaucratic and political incapacity did not allow for effective policy reforms and adequate infrastructure development. Family firms had to keep their state ties in order to enjoy government rents to smoothen their business growth. In this context, entrepreneurship and state support mutually contributed to the survival and expansion of family businesses.

The seven companies examined in this chapter are A.K. Khan, BEXIMCO, Anwar, Square, Akij, Rahimafrooz, and the PRAN-RFL Group. The first six companies emerged in the pre-liberation period whereas the PRAN-RFL Group emerged in the post-liberation period. The first six firms as emerged when there was hardly any state support through policies and infrastructures, they struggled hard to survive, except for the very few wealthy and politically connected family firms like A.K.Khan and BEXIMCO.

However, these old firms could grab first mover advantage as there were very few Bengali owned firms in East Pakistan. On the other hand, family firms like PRAN-RFL that emerged after trade liberalization took place in the country received better state support in the form of policies and infrastructure; however they faced a more

competitive business environment. The case studies are presented from the oldest to the most recently incorporated groups (according to year of inception).

Each case study is divided into five main sections. The first section outlines the origins of the family business under study. The second section discusses the business's family tree, specifically about family members involved in the business. The third section examines its ownership and control patterns, while the fourth section investigates its growth and performance over the years. The final section concludes by summarising the development history of these companies while analysing the respective effects of entrepreneurship and state nexuses on their survival and growth.

5.2 Case Study 1: Anwar Group

5.2.1 Origins

Anwar Group is one of the oldest family businesses in Bangladesh. Although its founder, Lutt Mia, started off with only a small comb and button factory in 1834, the business catapulted to success under the leadership of third generation member Anwar Hossain. By employing first-mover advantage, creating a brand product, and wide diversification, Anwar turned the small family business into a major conglomerate.

This company is an example where successor took major initiatives to expand the business, adopted first mover advantage as well as niche market strategy, established brand products. However, the company eventually lost focus when it failed to beat the competition and had to regain market share by concentrating on wide diversification. Anwar and his successors' direct and indirect state-nexuses helped the group in accessing economic rents.

Lutt Mia, the founder of Anwar Group started his business with a comb and button factory. He was inspired to enter business by his father, Idu Munshi, who was a memoriser of the Quran and called a 'Munshi' (religious person). Although Idu was not a businessperson, he wished for his son Lutt to become one like the English. He

therefore provided financial support of Rupee 100000 (US\$21008) for the opening of Lutt's comb and button business.

Lutt leased a shop in Chokbazar, a prominent location for business at the time. He initially hired 150 workers. The business made combs and buttons from buffalo horns, a common craft business sector among Bengali Muslims of the time.

In fact hardly any Bengali businessmen in the 1930s had big businesses because those types of businesses were dominated by Indians who were of non-Bengali Muslim origin. Muslim Bengali families mostly ran cottage industries. They were manufacturing combs and buttons from animal bones, producing fine cotton fabric known as muslin, and selling salt, sugar, etc.⁷⁹ Nevertheless, Lutt's business prospered due to his father's financial backing. Within five years, he managed to buy a house in Lalbagh, Dhaka, which most Bengali Muslim families could not afford. Lutt became famous for his high quality comb and button designs. As his business's popularity grew, people started calling him 'Mahajan' (in Bengali), which means industrialist.

After Lutt had passed away, his son Rahim Baksh helmed the business. From an early age, Rahim had observed his father doing business, so he managed to run the business efficiently. Rahim's workers used to go to Madras by Goena boat (a type of big boat that has 7-11 sails and 50-100 sailors) to buy long and strong buffalo horns. It took them one to two months to bring the horns back to Dhaka via Calcutta. Rahim's combs and buttons became so famous that retailers from other towns used to take them to sell in their shops. British soldiers even used his buttons for their uniforms. In 1940, Rahim was awarded the highest exporter's trophy from Calcutta for exporting combs and buttons.⁸⁰

⁷⁹ The cottage industry refers to the traditional artisanship of the rural people of Bangladesh, who produce various household items with locally available raw materials and artistic skills inherited through the ages. The agriculture Census Report of 1983-84 defined the cottage industry as a household level manufacturing unit that produces goods manually.

⁸⁰ As commented by Anwar's son Manwar during an interview in Dhaka on 29 June 2013.

As mentioned, traditional Bangladeshi artisans working in cottage industries used to produce textile products in addition to combs and buttons (White, 2015). Drawing on this culture, Rahim was inspired to open a cloth store at Chokbazar alongside managing his comb and button business. Unfortunately, he suddenly became sick and died at the age of 85 due to a heart attack. This was in 1945, during the Second World War. Rahim's three sons were too young to understand business. They did not notice when Rahim's managers cheated the company and stole most of its products and money. Anwar's third son Hossain Khaled commented,

After my grand father's sudden death, our family lost business and capital when my father (Anwar Hossain) and my two uncles (Nazir and Hossain) worked in others' shops for years. In fact they worked in tea stalls. As business was always in our blood, they never gave up and always targeted to come back to business for which they used to save even from their tiny earnings.

After Rahim passed away, his eldest son Nazir took over the cloth store. Nazir was only 16, and his two younger brothers Mohammad Hosen and Anwar Hossain were 13 and 7 respectively. Although Nazir stepped up to this responsibility, he was never keen on business; his heart was in social work. He was constantly helping the poor who were deprived of clothes, money, and food. In 1967, Nazir received the Tomgha-I-Khidmat award from the Pakistan government. He also received several other national awards in 1985, 1988, 1993, and 1994 for his social services.⁸¹

Eventually, Nazir asked his brothers to take over the cloth business because he wanted to concentrate on welfare work. His second brother, Mohammad Hosen, wanted to start a new business. After marrying a rich businessperson's daughter in 1956, Hosen used capital from his father-in-law to start a plastic business.

⁸¹ A prestigious award given by the Pakistan government for performing social responsibilities.

On the other hand, Nazir's youngest brother Anwar demonstrated interest in joining the family business from a very early age. Nazir therefore sent Anwar to his friend's shop to work and learn basic salesmanship. Anwar used to attend school until afternoon and then work in Nazir's friend's shop until night. He received PKR 5 (US\$1.05) per month and 2 cents every day for breakfast. This was how he learnt the ropes of trading. He also managed to save PKR 90 (US\$18.9) after working for six months, which is equivalent to PKR 35000 (US\$451.16) today.

After this six month training stint, Anwar started working in the family cloth-store along with Nazir. However, since Anwar had by then acquired adequate business knowledge, he decided to run the business by himself.

In 1953, with savings of PKR 90 (US\$18.9) and 200 silver coins from his mother, Anwar extended the cloth business in his father's shop and named it Anwar Cloth Store. He sold Lungi, Bengali men's wear, and sarees, Bengali women's wear. He bought these clothes from Norshindi, Shekher Chor, and Ruhitpur.

Anwar soon wanted to invest more in his business in order to expand it. One day, he met the owner of a big cloth shop, Hossain Brothers, and noticed that the shop had many unsold Japanese cloth due to its location in a suburban area. Anwar asked the owner to give him the cloth as he was confident that he could sell it quickly. However, the owner wanted an advance of PKR 200 (US\$42). Anwar went to his eldest sister Khaerunnesa's rich and kind mother-in-law to borrow some money. She gave Anwar PKR 200 (US\$42), with which he took some cloth from that shop and sold it within a day. This surprised the owner and he agreed to give the rest of the cloth to Anwar without an advance. Anwar sold all the cloth within three days and earned PKR 28000 (US\$5880) with a 25 percent profit. This huge success was a turning point in Anwar's life.

Eventually, Anwar managed to buy the shop he had leased. He then bought six more shops. He also travelled to Calcutta and Madras to buy more cloth, where he opened two more shops. Consequently, his sales margin boomed and his fame spread all over East Pakistan, as well as in Calcutta and Madras. Anwar actually had a dream of establishing a textile mill in order to expand his cloth business gradually. For this he needed some capital. Therefore he opened some other side businesses. He acquired a dealership from the renowned oil company, Burma Shell, to sell oil to houses. When he saw that this dealership was profitable, he opened an oil depot in his own house and delivered oil to nearby houses.⁸² In 1954, he established a small cable industry, Sunshine Cable & Rubber Works, which was the first cable manufacturing plant in East Pakistan.

Anwar learned many new business techniques by traveling to various countries. By observing Indian business methods, he learned that a country should not import something unless it is urgently needed.⁸³ Anwar also observed that there was no local printing or dyeing factories in Bangladesh at that time. Businessmen therefore had to import cloth materials from Japan and England. Anwar established Famous Printing Mills in 1956 to reduce import dependency on high quality foreign cloth. By that time, he had enough capital to expand his textile business. He bought local clothing materials and designed, dyed, printed as well as finished them in his mills. As such, he was a pioneer in the printing mill industry among Bengali Muslims of East Pakistan. His products were in huge demand as they were reasonably priced and of good quality. He catered to the saree needs of middle class women who could not buy expensive imported sarees.

⁸² However, later on he had to shut down this business, due to lack of time.

⁸³ Indian businesspersons only import items that their own country does not have and cannot produce. They rarely import luxurious items. This is because the Indian government imposes very high taxes on imported luxurious items.

Many other cloth traders then started making sarees locally, following Anwar's style.

This increased competition in the local textile business scene, as many businesses

In an interview Anwar Hossain said, reduced cloth imports and concentrated on improving local saree quality.

In an interview Anwar Hossain said,

I never sacrificed on quality for which my product (saree) had a high demand.

In order to obtain new business techniques, Anwar travelled to Karachi in Pakistan and observed the cloth mills there. On his return, he decided to import items directly rather selling another business's imported materials. In 1958, he started importing poplin, georgette, markin, longcloth, and chiffon materials from Karachi.

In 1968, since Anwar's cloth business was prospering as one of the top enterprises in East Pakistan, he decided to expand his company. He went to the East Pakistan Small Industries Corporation (EPSIC, now known as BISIC) for assistance. The chairman of EPSIC, Latif Ullah, suggested that he buy a silk loom, which someone else had ordered but did not pick up. Anwar bought 20 silk looms, and thus became the first Bengali businessman of East Pakistan to establish a silk mill. Anwar named the company Anwar Silk Mills Ltd. He started off with only 30 workers, manufacturing moonlight fabrics.

In 1970, Anwar again went to EPSIC and bought a cutlery mill with 12 looms of Russian machines for PKR 900000 (US\$114375). This became the first Bengali-owned cutlery company, Manwar Industry. Its main products were stainless steel forks and enamel cutleries.

Anwar boldly faced the state incapacities by applying his entrepreneurial skills. During the liberation war in 1971, Anwar lost many of his factories and products. However, after the war, he started the business again with whatever he could recover. At that time food imports had increased sharply due to the tremendous post-war food crisis, Anwar opened purchase offices in Hong Kong and Singapore to import essential items

to Bangladesh. In this way, he and the other industrialists of that time helped the poor people of the country to survive famine.

After the 1971 war, Anwar restarted his silk mills and changed the name of his sarees from 'Famous' to 'Mala saree'. His niche market strategy focused on producing local bridal sarees for middle class women, who could not afford expensive imported silk sarees. Due to its unique design and reasonable price, the Mala saree soon became much sought after by women. There was hardly a store in the country that did not sell Mala sarees. Hossain Khaled said,

My father's business was small but vision was big. He targeted the Bengali women with his bridal mala saree as he knew every household will need atleast one bridal saree. And Mala saree was the very first locally manufactured bridal saree with affordable price which was an instant hit in the market.

5.2.2 Family Tree

In 1961, Anwar married Amena, the only daughter of a well-known rich businessperson, Helal Uddin. Anwar's three sons, his son-in-law, and one daughter among four are actively involved in his business. Amena is the Group's co-chairman, and his other daughters are shareholders (see Figure 5.1). Until the third generation, institutional education was not considered important; rather, all family members were taught to be pious. Besides, due to business responsibilities brought on by Rahim's sudden death, Anwar and his brothers could not focus on studying. Nevertheless, while working on expanding the business, Anwar realised the value of education in navigating the business world. Thus, he ensured that his heirs received good education, with mainly overseas degrees.

Anwar and his sons still stay in the same house and have every meal together. To them, family bonding is an essential tool to keep the family and family business intact.

Hossen Mehmud stated,

We learned business techniques from father and basic principles of life from mother who kept us together. We learnt to respect each others' opinion. Our joint family culture kept us close and united generation after generation. The family bonding led us believe that it's our duty to keep the family and business intact.

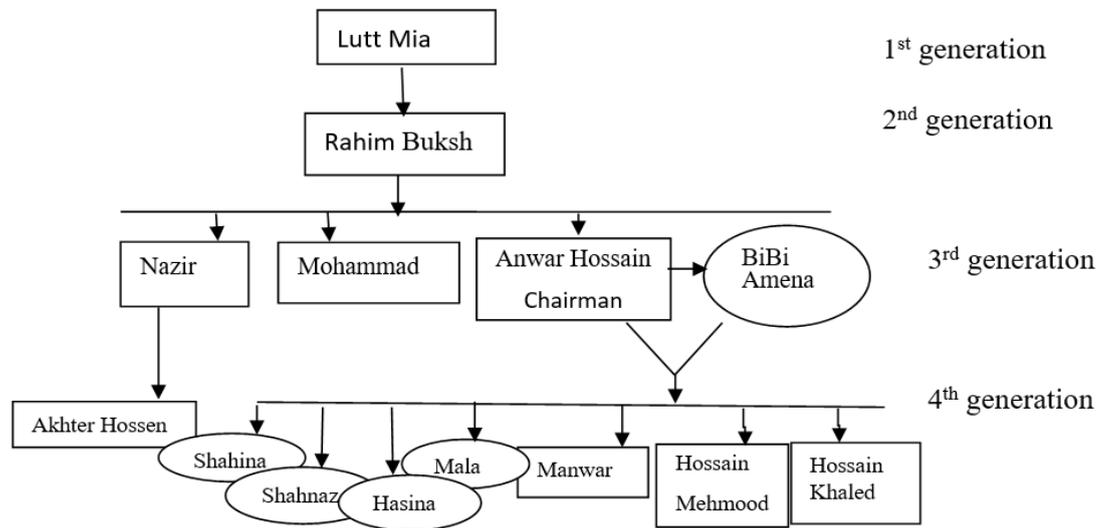


Figure 5.1: Family Genogram –Anwar Group

Source: Interview

Anwar's eldest daughter, Shahin Begum, married her cousin, Akhter Hossain, Anwar's elder brother Nazir's son. Shahin became a homemaker after marriage, while Akhter joined Anwar's business after graduation as the Executive Director of the Group. Akhter also became the director of Bangladesh Finance and Investment Co. Ltd. (BFIC) and the Chairman of City Insurance.

Anwar's second daughter, Selina Begum Mala, was interested in business from an early age, and from time to time helped Anwar with documentation work. Mala did a bachelor's in marketing and then married Tarek Akber Ali, former MP Hayder Ali's son. Mala's grandfather-in-law was a Pakistani ambassador in Burma. Mala currently looks after her husband's garment business in the United States.

Anwar's third daughter, Hasina Begum Ruma, married Amanullah, son of the renowned industrialist, Golam Mohammad. Meanwhile, Anwar's fourth daughter,

Shahnaz Begum Munni, married Harun-Ar-Rashid, son of the great industrialist Alhaj Shahjahan Ali.

Anwar's eldest son is Manwar Hossain. After completing an MBA from the University of New Hampshire, in America, he joined the business in 1993 as a director. He supervises several businesses in the Group: Anwar Steel Mills, Anwar Galvanizing, Manwar Industries, and Sunshine Cables. Manwar also holds directorships in the Bangladesh Commerce Bank, City Insurance, and BFIC. Manwar married Hasina Parween, daughter of the former Mayor of Chittagong and famous industrialist, Sikander Hosen Lalu. Hasina finished her bachelor's in the United States before marriage.

During an interview, Manwar shared his feelings about his business grooming⁸⁴,

Father never forced us to join the family business; rather, he identified our potential and interest in certain areas and then assigned us accordingly. He was not only a guide for us, but also a strict evaluator of our performance. Father's passion towards the business inspired us to safeguard his principles and policy. Moreover, we do not bring family issues into office; we avoid doing anything for personal business, and work to enhance family business.

Anwar's second son, Hosen Mehmood, studied textile engineering abroad and then joined the family business. He was keenly interested in textiles and established Hossen Dying & Printing as well as Mehmood Industries. He also supervised other textile firms in the family business such as Anwar Silk Mills. Mehmud is also a director of City Insurance and BFIC, the Chairman of City Bank, and the Director of the National Institute of Textile Engineering and Research. He married Tanuza Hayder, daughter to the former Secretary Kazi Ajhar Ali's younger brother.

⁸⁴ This interview was conducted in Dhaka on 29 June 2013.

Currently, he oversees Anwar Jute Mills and BFIC. Khaled was also the president of

the Dhaka Chamber of Commerce & Industry and the co-chairman of the Bangladesh Better Business Forum.⁸⁵ He married Anika Farhin, daughter of the famous industrialist Abdur Rouf.

Regarding his business grooming, Khaled stated:⁸⁶

Father included me in his business when I was in Class 6. I used to perform small responsibilities in the office with father. I used to look after the office cars' maintenance issues. After I finished my MBA and had worked for two years, father took me in his business to look after his automobile division.

5.2.3 Ownership and Control

Anwar Group has reached the fourth generation into the business. They have publicly-listed two of the Group's prominent businesses. Additionally, the board of the Group only has 35 percent family ownership (see Table 5.1); however, outsiders are not included on the board. Notwithstanding this, the family has appointed salaried managers for each division. These managers run the business and report to family members in top positions. The managers help the business operate in a professional manner and have a certain amount of decision-making authority. This although shows that minority interest was not protected, however, this is the usual Bangladeshi family business culture which was accepted by the outsiders. However, family members handle all major decisions. Currently, Anwar is the chairman of the Group, while his three sons, one daughter, and one son-in-law are managing directors of the divisions. His other three daughters are not actively involved in the family business, although they are shareholders. Anwar's wife Amena is a director of City Insurance.

⁸⁵ Khaled served as the DCCI president in 2007-08, senior vice president in 2006 and vice president in 2002-03. He was again elected as the president of DCCI in 2014 for the year 2015. For details, see *New Age* 11 December 2014. Hossain Khaled was elected DCCI president.

See more at: <http://newagebd.net/75327/hossain-khaled-elected-dcci-president/#sthash.8N7wVoib.dpuf>

⁸⁶ This interview was conducted in Dhaka on 29 June 2013.

Anwar can be credited for not only developing his business through first-mover advantage while establishing his cable industry and printing/silk mills, but also for

introducing new technology and concepts to Bangladesh, such as Belgium rolling technology.⁸⁷

In an interview, Manwar commented:⁸⁸

Working with father gives us comfort and a secure feeling. This business is his baby as it is his creation, so we feel confident when he is around. We are committed not to break up but to grow steadily and surely as one with our best effort.

Table 5.1: Board of Anwar Group

Number of shares (in %)	Management of Anwar group (All family members)		
Anwar Hossain	3rd generation	Chairman	2500000 (2%)
Manwar Hossain (son of Anwar)	4th generation	Group Managing Director	7500000 (5.68%)
Hossain Mehmood (son of Anwar)	4 th generation	Managing Director, Textile Division	7500000 (5.68%)
Hossain Khaled(Son of Anwar)	4 th generation	Managing Director, Jute and Automobiles	7500000 (5.68%)
Hossain Akhter (Son- in-Law and brother Nazir's son)	4 th generation	Group, Executive Director	7500000 (5.68%)
Bibi Amena	Mrs Anwar Hossain	Director	650000 (4.96%)
Shahina Begum	4 th generation	Director	172500 (1.31%)
Hasina Begum	4 th generation	Director	175000 (1.33%)
Shahnaz Begum	4 th generation	Director	175000 (1.33%)
Selina Begum Mala	4 th generation	Director	175000 (1.33%)
Total family ownership			34.94%

Source: Interview

⁸⁷ The Anwar Group opted to introduce Europe's pioneering rolling technology from Belgium for its Ispat firm.

⁸⁸ This interview was conducted in Dhaka on 29 June 2013.

In order to improve management and workforce capability, Anwar Group adopted extensive training programs for its employees and family members. It regularly organises overseas training for line managers, heads of the departments, and project heads; it also provides on-the-job training for workers.

5.2.4 Growth and Performance

Since 1975 onwards, the Bangladesh government has undertaken a number of measures to restructure the economy, such as trade liberalisation, privatisation, opening up sectors for both domestic and foreign private investment, and regulatory reforms. These measures and incentives gradually increased the number of players and firms operating in the market. In 1976, in order to stay competitive, Anwar and his sons expanded Anwar Silk Mills by purchasing 200 Pakistani jacquard looms, thus diversifying their products. They were now able to produce different types of polyester fabrics for the local market. Between 1980 and 1982, they also purchased 100 Indian looms and 120 Sulzer projectile looms, in order to fulfil growing market demand for polyester fabrics.

Anwar can be seen as a good example of taking full control of a business, as he generated all his products in-house weaving the sarees in his own mills, printing, dyeing and finishing them in his own factory, and selling them from his own sales centres. This enabled him to keep his prices lower than manufacturers who had retailers. Although Anwar's original cloth business was his flagship business, he continued diversifying his business as it was getting tougher to compete in textile sector which is the most prominent sector of the country. Therefore, he started focusing on business expansion. Figure 5.2 clearly shows Anwar Groups's vertical and horizontal diversification into many sectors, whereas Figure 5.3 shows the corporate structure of Anwar Group, which indicates their main focus on establishing local ventures. They have only one foreign affiliation in their automobile unit and one joint-venture with

Irish company William Ross & Company Limited by establishing a linen yarn spinning unit namely Anwar Ross Linen Spinning Mill at Tongi in Gazipur in 2004 (*The Daily Star: June 1st, 2004*).

Anwar Ispat⁸⁹ was incorporated as a steel re-rolling mill in 1977 (*The New Nation, 30 January 2016*). In 1982, Anwar established Hossain Dyeing and Printing Mills Ltd.

The success of Anwar's silk mill gave rise to the establishment of other silk mills by various competitors, such as Janless and General Silk Mills, Olimpia Textile Mills, Eastern Silk Mills, Kamal Textile, Shahjahan Weaving, and Kashem Textile. In fact, in 1986, Anwar's mills were forced to stop their production of the Mala Saree as competitors had started to make the same type of product at cheaper prices and higher quality.

Besides, in 1987, the polyester market started losing its local market demand due to the rapid increase of Readymade Garments (RMGs) in the country that dominated the export basket. In fact, since 1975, the jute-centric export structure of Bangladesh had been gradually shifting to an RMG-centric one, thanks to aggressive privatisation (Yunus & Yamagata, 2012).

⁸⁹At the moment, the mill's per day production is 600 metric tons.

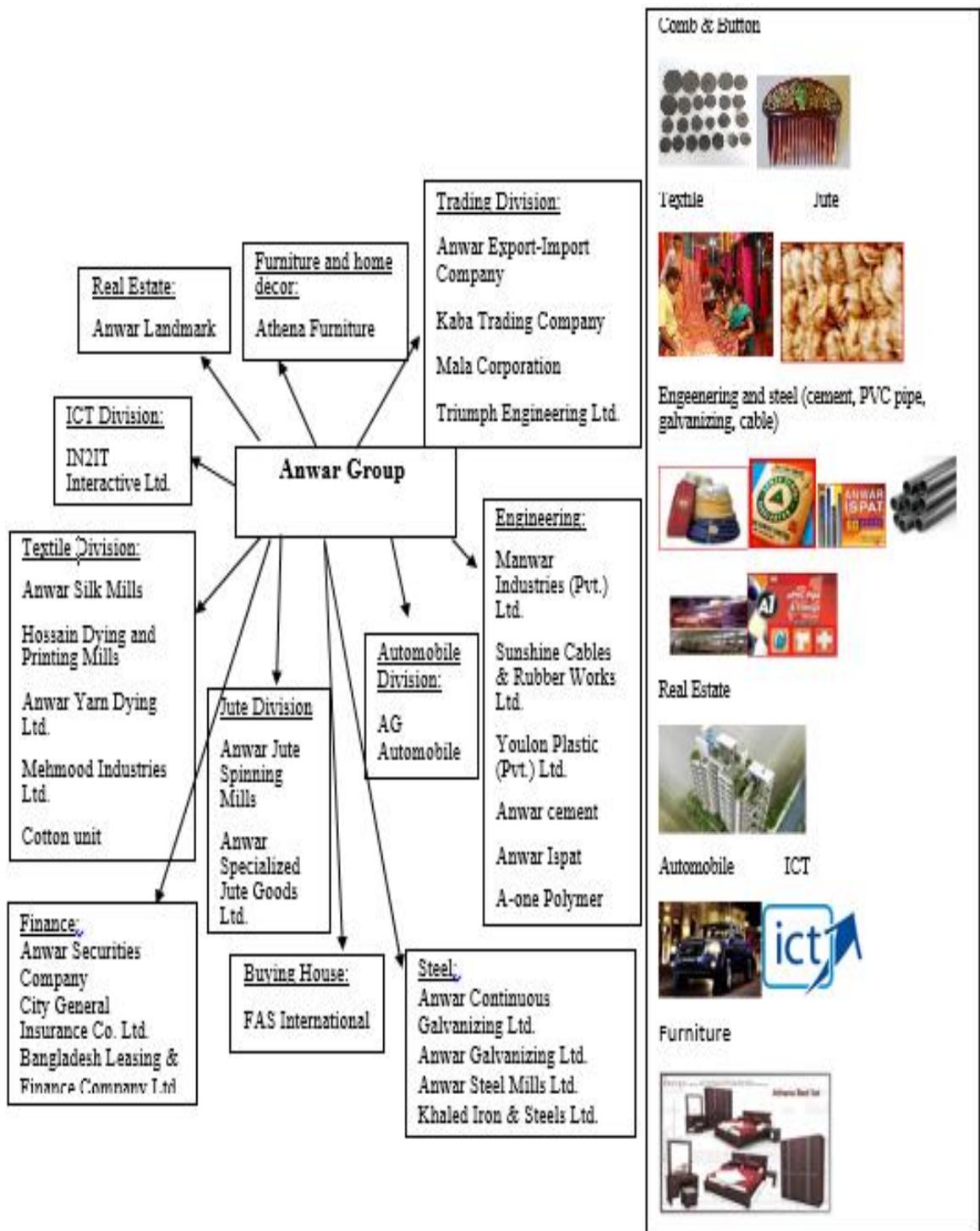


Figure 5.2: Anwar Group of Companies (As at 2014)

Source: Interview

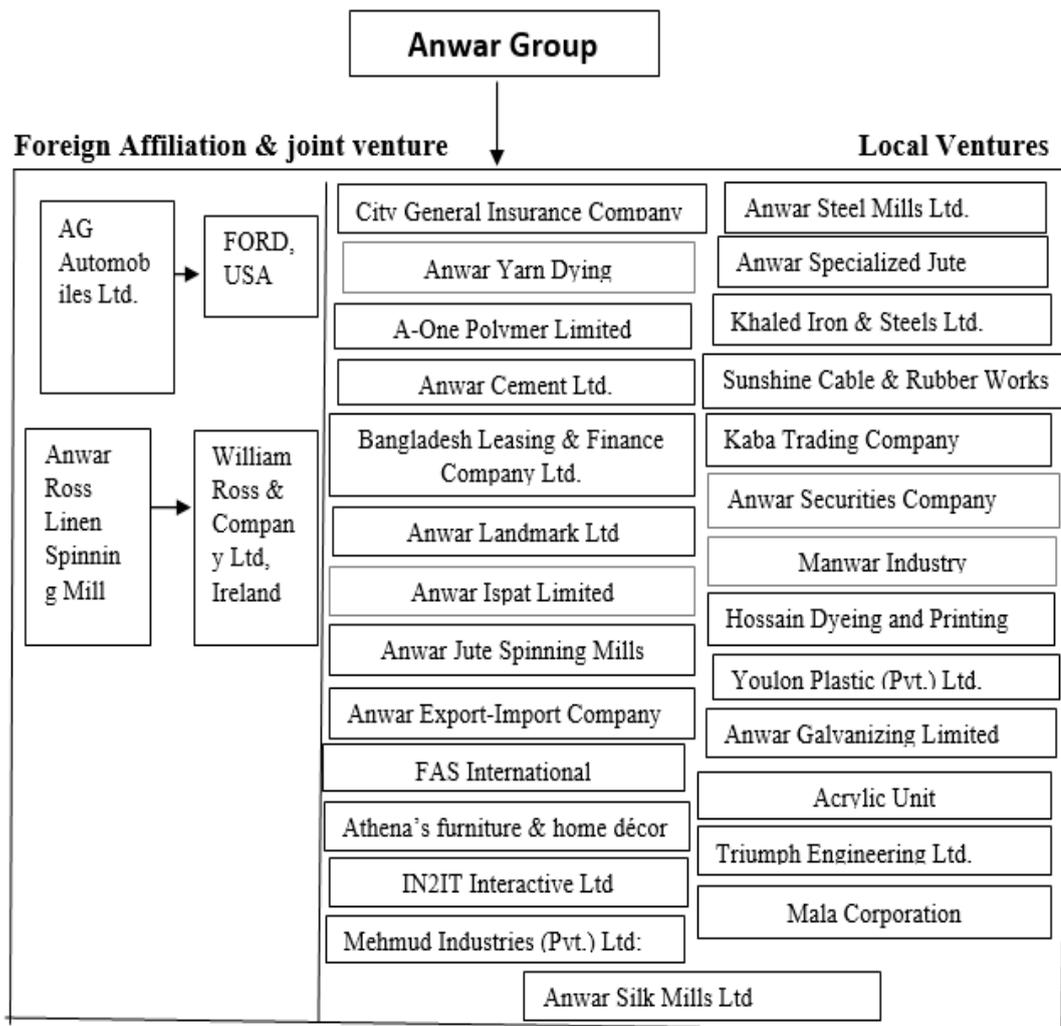


Figure 5.3: Corporate Structure of Anwar Group (As at 2014)

Source: Interview

While diversifying, Anwar and his sons required economic rents for which state-nexus was beneficial. Anwar got involved in social and political work and for his social efforts during the 1980s, when the Jatio Party was in power. Anwar was elected as Member of Parliament (1988-1991). An anonymous interviewee confirmed that Anwar had a friendly relationship with President General Ershad, and used to contribute funds to the Jatio Party.⁹⁰ Besides, Anwar was also the founder of DCCI and BCCI. In 1994, the Group set up 40,000 spindle cotton and blended yarn spinning business, then in 1996, he added a cotton yarn spinning mill, Mehmud Industries (Pvt.) Ltd.

⁹⁰This interview was conducted in Dhaka on 29 June 2013.

In 1997 the Group established a jute yarn business. In 2004, it further established an acrylic textile company, to develop the country's sweater industry.

By then, the real estate business was booming, thanks to Bangladesh's increasing population. Anwar therefore decided to diversify his textile business into building materials manufacturing. Anwar Galvanizing Ltd. was established in 1995, Anwar Cement Ltd. was established in 1999, which produced Ordinary Portland Cement (OPC) using the latest 'O Sepa' separator and close circuit technology. Then in 2001, Anwar Landmark Ltd, a real estate development wing was established. This company has been awarded the internationally renowned ISO 9001:2000 certificate. In 2004, a re-rolling mill, Anwar Ispat Ltd was established. This interview was conducted in Dhaka on 1 July 2013.

Due to continuous political crises, the Bangladeshi people's need to feel safe was increasing. As a result, leasing and insurance companies were in high demand. In 1996, the Anwar Group established the City General Insurance Company Ltd. (CGIC), followed by a personal lease finance company in 2001.

In the same year, the Group entered the ICT sector by establishing IN2IT Interactive Ltd. This enterprise offers web-based solutions for conducting business in a more effective and profitable way. Anwar and his sons also observed that the country's transport sector was declining. Subsequently, in 2004, they established a transportation company, AG Automobiles Ltd. Long-term soft loan financing was extended to vehicle owners to help them switch from diesel to environmentally-friendly compressed natural gas (CNG). Eventually, AG Auto received distributorship rights to the global automobile icon, the Ford Motor Company.

The most recent company to be established was that by Manwar's wife, Hasina, who incorporated a furniture and home décor enterprise, Athena, in 2004. It produces authentic teak wood based furniture.

This raises a question: since the Anwar Group was doing well in the textile business, why did it diversify so widely? The Group's Managing Director, Manwar, explains:⁹¹

Operating within a vulnerable business environment with political unrest, limited economic scope, and poor infrastructure, diversification is a tool for survival that can reduce the chance of failure.

While expanding its business, the Anwar Group did not only add new products, but also expanded its export basket. It started exporting kitchen towels in 1987 and household, institutional, and retail items in 1989. It mainly exports to 24 European and US-based markets (Solaiman, 2008). The Group's wide diversification not only helped it grow, but also spurred innovation in new technologies, products, and services. The Group spends US\$2 million on R&D per year.

Anwar's third son, Khaled, stated:

The Anwar Group did not lose the focus of its flagship textile division; rather we changed our focus from serving the local market to a 100% export-oriented strategy. Presently, we export apparels and jute to about 24 countries in the world. We had to look for other sectors as eventually competition increased in the textile division and we needed other sectors for smooth survival.

In 2015, its annual turnover was US\$300 million with 28 business units in various sectors. Although most of Anwar Group's businesses were well performing, some showed losses and had to be closed down. Among these were Sunshine Cable & Rubber Works, Ruma Steel Mills Ltd., Mehmood Industries (rayon thread), the Bangladesh Industrial Corporation (shirting and suiting), Famous Printing Mills (saree), and Manwar Industries (cutleries).

Besides getting access to government rents for having state-ties, Anwar was fortunate to enjoy policy benefits. In the 1960s, when the Ayub Khan government liberalised trade policies in the textile and jute sector, Anwar's textile business started

receiving state-created incentives. Besides enjoying these benefits, the Anwar Group seems to have profited from multiple state ties. When Anwar was a Jatio Party parliament member, he convinced the ruling government to establish the very first private bank in the country. He also gained directorship of City Bank until 2002; his sons now have shareholdings in this bank. In 1998, he established the Bangladesh Commerce Bank and became its director. However, there is no documented proof of whether Anwar and his sons received special access to loans from these banks.

Anwar Group also has influential directors; an independent director of the Board is a retired Army person while another director of Anwar Galvanizing is a retired government bureaucrat. These connections may have helped Anwar Group to gain access to bank loans or project approvals. However, again there is no documented proof of this. The Group is also well connected through marriage relations. Anwar, his brother Hosen as well as Anwar's three sons and four daughters married into political and/or industrialist families, which gave the Group opportunities to obtain government rents. When asked why businesspersons become involved in politics, Manwar stated:⁹²

The state is unable to handle the political turmoil. The bureaucrats and politicians can exploit the country's resources and foreign aid to benefit themselves. This is why politicians get involved in business or businesspersons get into politics, to facilitate dealing with resource scarcity.

Manwar's response indicates the necessity of ties with the state for survival of businesses in politically turbulent Bangladesh. His brother Hossain Khaled too expressed his frustration regarding the political instability and shortage of electricity & gas supply in the country that are hindering the foreign investments and regular business operations (*The Daily Star: 11 March, 2015*).

⁹² This interview was conducted in Dhaka on 29 June 2013.

5.2.5 Conclusion

Anwar Group has shown much resilience while dealing with a weak state. Thanks to its strong entrepreneurial character, it flourished despite Bangladesh's state incapacity. Starting out as a comb and button factory, it evolved into a well-diversified conglomerate. For this group successors took major initiatives to develop the business as the business was shaped by a 3rd generation member, Anwar, and the Group is named after him. Anwar eventually captured first-mover advantage in the textile, cutlery, and cable sectors. He created a brand product, Mala saree, and diversified into other growth potential sectors. However, due to huge competition in textile sector, he had to focus on other sectors.

Both Anwar and his sons have some state nexuses Anwar's past political involvement and his and his sons' bank directorship and lobby group involvement did help them in accessing rents. Despite wide diversification, Anwar Group's turnover is (US\$300 as of 2015) not very high compared to the other six family firms under this study, suggesting that they lost focus while over-diversifying and could not come up with any more brand products.

5.3 Case Study 2: A.K. Khan & Company Ltd.

5.3.1 Origins

A.K. Khan & Company Ltd. was founded in 1947 in the port city of Chittagong by a rich politician named Abul Kasem Khan (popularly known as A.K. Khan). Beginning with only a match factory, A.K. Khan gradually diversified into various sectors, especially through joint-ventures; eventually turning his business into a powerful conglomerate.

In expanding the business, A.K. Khan and his sons relied mostly on state ties and financial strength, rather than entrepreneurial attributes. As A.K. Khan was among the very few rich businessman of East Pakistan, he could easily grab first-mover's

advantage by establishing match, plywood and insurance companies. Additionally, state incapacity was a blessing for A.K.Khan as he was part of the state (minister), he knew well the gaps in the market and policies which he altered in a way through which he could secure government rents and influence policy-making.

A.K. Khan belonged to a rich aristocrat Muslim family of East Pakistan. Although his father, Abdul Latif Khan, was only a sub-registrar in Fatehabad, his great great grandfather, Shamsheer Khan, was a rich politician (a minister of Gaor) in the sixteenth century. This is why his family was well known to politicians and bureaucrats.

Unlike a majority of families, A.K. Khan's family was educated. A.K. Khan pursued a bachelor's degree in English literature and later obtained a Master of Law from Calcutta University. In 1934, he entered the legal profession as an advocate in the Calcutta High Court. The following year, he became a judge (Munsef) and served in this position until 1944.

A.K. Khan married Shamsun Nahar Begam in 1935, daughter of Abdul Bari Chowdhury, a wealthy businessman in Chittagong. Before settling in Chittagong, Abdul Bari had operated businesses in Rengun, Burma, where he owned some rice mills and a steam navigation company. During the Second World War, when the Japanese attacked the British in Burma, Bari left his businesses and migrated to Chittagong. Bari was the first businessman who dared to establish an enterprise in competition with the British India Steam Navigation Company of Lord Inskep, by incorporating the Bengal Burma Steam Navigation Company. Besides being a businessperson, Chowdhury also served as a director of the Pakistan Industrial Credit and Investment Corporation and as a municipal and port commissioner (Ahmed, 1959). Although he never joined politics, he was known for his financial contributions to political parties during election campaigns.

While serving as a judge, A.K. Khan ruled in favour of a Bengali client who had been brutally beaten by a British police superintendent and wanted to claim demurrage.

For this daring act, the British authorities transferred him to a rural place called Netrokona. This upset him and he left the judicial service in 1945. As politics was already in the blood, A.K. Khan joined the Muslim League in 1945 right after leaving his judicial job. He very soon was elected as the District Muslim League president and appointed a member of the Provincial Muslim League Council. He also served as a member of the Constituent Assembly of India and the Constituent Assembly of Pakistan. In 1946, he was elected as a member of the Constituent Assembly of India, but abstained from joining it following the direction of Quaid-e-Azam.⁹³ In 1947, he became a member of the Pakistan Constituent Assembly and was appointed as a member of President Ayub Khan's cabinet.

When A.K. Khan left the judicial service in 1945, his father-in-law Chowdhury invited him to take care of his new construction business in Chittagong besides serving as a politician.⁹⁴ Although A.K. Khan was a politician at heart, due to Chowdhury's insistence, he joined his father-in-law's construction company and started his business career in 1947.

The partition of British India and the emergence of India and Pakistan in 1947 severely disrupted the former colonial economic system that had preserved East Bengal as a producer of agricultural goods for the rest of British India. East Pakistan had to build a new industrial base and modernise agriculture in the midst of a population explosion. In an effort to address this situation, Ayub Khan's government embraced the businesses of East Pakistan, with a particular focus on developing East Bengal's infrastructure.

⁹³ Muhammad Ali Jinnah was popularly and officially known in Pakistan as Quaid-e-Azam ("Great Leader") and Baba-e-Qaum ("Father of the Nation").

⁹⁴ The British Steam Navigation Company had a monopoly shipping business until Chowdhury's Steam Navigation Company emerged as a competitor. When the competition reached an extreme point, the British Navigation Company reduced the fare of its ships to a minimum amount and started offering its passengers free food and gifts. As a result, Chowdhury had to reduce his ships' fare as well. But since his capital and reserve funds were much lower than that of the British Navigation Company, Chowdhury started incurring huge losses. Chowdhury eventually sold his Burma Steam Navigation Company to Sindhia Steam Navigation Company of Bombay.

The construction sector consequently became extremely lucrative and profitable compared to other sectors. Ample construction work was available and contractors received numerous requests to build roads, houses, and airports in Potenga, Pheni, and Chittagong. Understandably, however, construction contracts were distributed mainly to wealthy and state-connected business people (Kochanek, 1993). This is why Chowdhury himself received a major construction contract, to build Arakan Road.⁹⁵ Both A.K. Khan and Chowdhury were responsible for completing this construction project.

After working for some time in his father-in-law's construction company, A.K. Khan realised that his political power, financial base, and experience would enable him to do well in business. Subsequently, in 1950, he incorporated his own firm, A.K. Khan & Company Ltd., with a capital of around PKR 0.45 million (US\$0.09 million), obtained from his wealthy father-in law. He then established the very first Bengali-owned match factory in East Pakistan.

In 1952, A.K. Khan expanded his company by establishing the very first plywood company in East Pakistan, A.K. Khan Plywood Company Ltd., with a capital of PKR 250 million (US\$52.5 million). In 1954, he went on to acquire Chittagong Textile Mills Ltd. from the Dawood Group, with an investment of PKR 50 million (US\$10.5 million).⁹⁶ While establishing these businesses, A.K. Khan continued his involvement in politics. In fact, he used his political power to secure contracts, licences, and bank loans to expand his business.

⁹⁵ Arakan Road is a major street located in the heart of Chittagong.

⁹⁶ The Dawood Group is a well-known conglomerate based in Pakistan.

In 1958, A.K. Khan was appointed Minister of Industries, Works, Irrigation, Power, and Mineral Resources, and remained in this position until 1962. From 1962 to 1968, he served as an opposition member in the Pakistan National Assembly. During his tenure as minister, he established a number of companies in different growth potential sectors. In 1959, he established Eastern Insurance Ltd., A.K. Khan Docking & Engineering Ltd., and A.K. Khan Leather & Synthetics Ltd. In 1960, he founded a joint-venture, Khan Eline Corporation Ltd., and in 1966 incorporated A.K. Khan Jute Mills Ltd. By then, his eldest son Zahir Khan had joined his business as the Managing Director.⁹⁷

During A.K. Khan's tenure as the Industry Minister (1958-62), the second Five Year Plan was announced, through which he strongly emphasised developing industries in the East wing of Pakistan.⁹⁸ He also implemented initiatives to improve the efficiency of the Pakistan Industrial Development Corporation. The government budget for East Pakistan's development was also increased to approximately Tk700 million (US\$147 million), while the already developed West only received Tk3540 million (US\$743.4 million).

Before A.K. Khan's tenure, there were strict restrictions on establishing large industries in some areas of East Pakistan. A.K. Khan made these restrictions more flexible and focused on industrialising the East. He established various agencies in East Pakistan, such as the Forest Industrial Development Corporation (1959) and the Industrial Development Bank (1961). This bank played a vital role in the industrialisation of the East, as it granted loans to East Pakistan's industries amounting to Tk16572000 (US\$3480123), throughout A.K. Khan's tenure as minister.

⁹⁷ Accessed from: <http://www.akkhan.com/more-about-a-m-zahiruddin-khan>

⁹⁸ Before the launching of this plan, although East Pakistan's foreign currency earning was 59 percent, most of its earnings were spent on the West, while only 30 percent was spent on the East. Also, power production in the East was only 17 percent, whereas in the West it was 83 percent.

During the 1960s, Europe used to give loans through the Pakistan Industrial Development Corporation (PIDC) to import raw materials and machineries for jute mills. However, PIDC had a rigid loan policy system where loans were only given to those who could provide collateral of Tk7.5 Million (US\$1.58 million). Most East Pakistani industrialists could not afford this amount; only West Pakistani industrialists were able to take advantage of these loans to import machineries for their jute mills. Acting in his capacity as the Industry Minister, A.K. Khan reduced the required collateral to a low amount, resulting in 45 jute mills being established in the East, where before only one jute mill existed.

A.K. Khan brought similar changes to the textile industry. Before his tenure, West Pakistani industrialists owned most textile industries. Under A.K. Khan, 30 new textile mills were established in East Pakistan. This indicates that A.K. Khan's influence within the state not only assisted him in gaining power, but also wealth, as his various policies for national business development in turn allowed his own businesses to grow. After ending his tenure as minister, A.K. Khan served as the Chairman of the Eastern Mercantile Bank (now Pubali Bank) from 1962 to 1968.

5.3.2 Family Tree

The A.K. Khan Group is currently a third generation family business (see Figure 5.4). A.K. Khan had five sons and four daughters; however, only his sons are involved in his business. This highlights the paternalistic culture of Bangladesh, where many of the family firms are still run by fathers and sons. However, in A.K.Khan Group, although no female members are actively involved in business from the 1st and 2nd generations (except for Zebun Nahar who is the current group Chairman and Yasmin who is a group director), the tradition was broken by the family's third generation member Sherfehnaz, who is actively involved in the business as the Chief Marketing Officer of A.K. Khan Plywood Co.

A.K. Khan's eldest son, Zahir Khan, graduated in 1958 from Lahore at the age of 22 and joined the family business soon after. Zahir was the only son to join A.K. Khan's business before he passed away. Just like his father, Zahir was actively involved in lobby groups and politics. He served as the Chairman (Eastern Zone) of the All Pakistan Textile Mills Association from 1969 until 1971. He was then elected President of the Chittagong Chamber of Commerce and Industry (CCCI), a post he held from 1975 to 1978. In 1977, he was elected President of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).

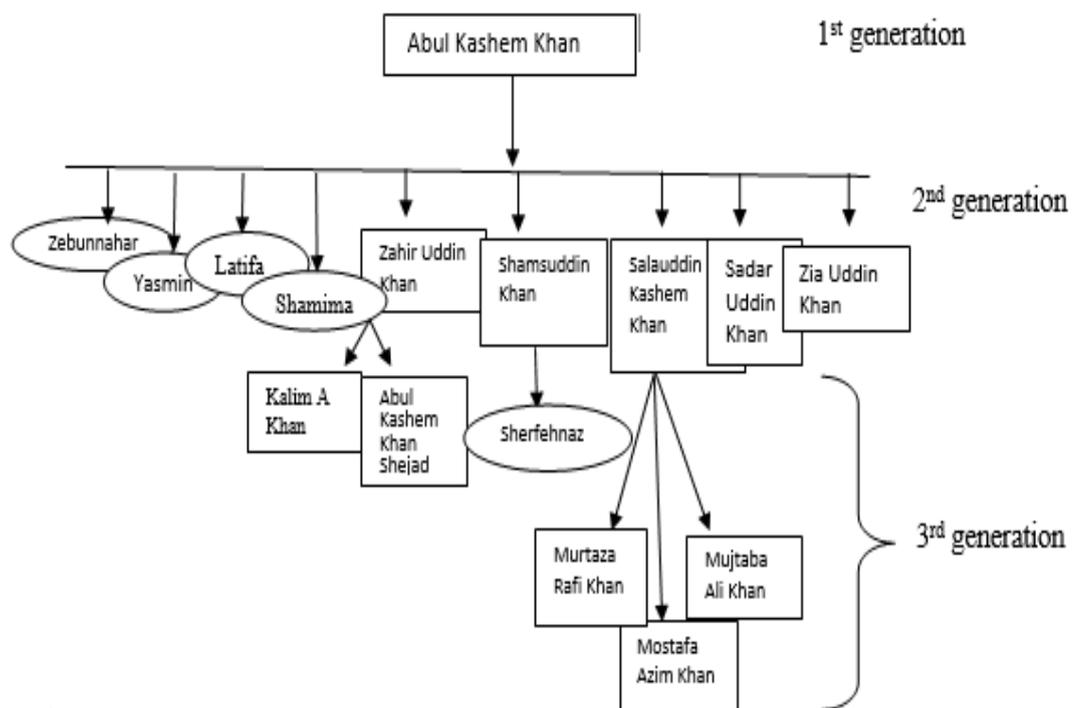


Figure 5.4: Family Genogram – A.K. Khan Group

Source: Interview

Zahir also served as the Founding Director of IFIC Bank⁹⁹, the Chairman of Sonali Bank, and the Director of an insurance company, Shadharan Bima Corporation. In 1978, like his father, Zahir joined politics and was elected a Member of Parliament in 1979 through the BNP.

⁹⁹ The International Finance Investment and Commerce Bank Limited.

He became the Minister of Planning in Begum Khaleda Zia's cabinet, a post he held from 1991 to 1993. He went on to serve as the Minister of Industries from 1993 to 1995.

While Zahir was serving as minister, the government began distributing telecom licences to the private sector. Zahir obtained a telecom licence in 1995, and the following year established a joint-venture named Aktel, with Malaysia's TM International Bangladesh Ltd. Although A.K. Khan Group had a 30 percent stake in Aktel, interestingly, Zahir did not invest any money in the venture. In return for this 30 percent equity, Zahir, as the Industrial Minister, allowed the foreign company to run Aktel in Bangladesh.¹⁰⁰

Although the Bangladeshi government began distributing telecom licences to private companies in 1995, the government continued to dominate the telecommunications sector until 1997. According to the Bangladesh Enterprise Institute (BEI) Report 2005, four private telecom companies have been established in Bangladesh since then: Aktel (having 24 percent market share) with foreign partner TM International in 1996, Grameen Phone (62 percent) with foreign partner Telenor in 1997, Citycell (11 percent) with foreign partner Singtel in 1989, and Banglalink (1 percent) with foreign partner Orascom in 2004.

When A.K. Khan passed away in 1991, Zahir became the Group's Chairman.¹⁰¹ Under Zahir's leadership, the Group flourished and expanded quickly. He established two companies: Akeceycom Ltd. and Infocom Ltd. Zahir's two sons, Shejad and Kalim A.L. Khan (deceased), both obtained MBA degrees from US-based universities and entered the family business in 1996 and 2000 respectively.

¹⁰⁰ Commented by an anonymous senior television reporter in an interview conducted in Dhaka on 7 July 2013.

¹⁰¹ A.K. Khan's wife had also passed away that same year, just two months after his death.

A.K. Khan's second son Shamsuddin joined the family business in 1995 as a director, after graduating from a university in the United States with a degree in Information Technology. Like his father and older brother, he was actively involved in various lobby groups. He served as the President of the Bangladesh Marine Fisheries Association (1999-2009), the President of the Bangladesh Plywood Manufacturers Association (1979-1987), and as an executive committee member of the Metropolitan Chamber of Commerce and Industry (MCCI) and CCCI (1979-1987). He is also the immediate past President of the Bangladesh-Malaysia Chamber of Commerce and Industry (BMCCI), which enabled him to arrange a couple of joint-ventures with Malaysian-based companies. The current Group managing director Salauddin said,

Business was in our blood. Business motivation came from my grand father to my father and since then we started our journey. Father used to take each of us (me and my brothers by turn) to visit his industries every morning before going to office.

His daughter, Sherfenaz Khan, is the Chief Marketing Officer and Coordinator of A.K. Khan Plywood Co. She has an MBA from Boston University. Shamsuddin's other sons and daughters are not involved in the family business.

The current Managing Director and A.K. Khan's third son, Salauddin, is the president of BMCCI, the former chairman of the Bangladesh Textile Mills Association, and a member of the Task Force Committee on Industrial Planning under the Ministry of Planning. He pursued tertiary education in England and then joined the family business.

All three of Salauddin's sons are involved in the family business. His eldest son, Mostafa Azim Khan, and second son, Murtaza Rafi Khan, are responsible for overseeing A.K. Khan Water Health (BD) Ltd., which is a safe-drinking water plant. Both of them have an MBA from England. Salauddin's third son, Mujtaba Ali Khan, is the Chief Procurement Officer of the Group. His MBA is from Vancouver, Canada.

A.K. Khan's fourth son, Sadar Uddin Khan, obtained a BSc in Engineering from

England and is currently a director of the Group. He is not involved in any political activities, government organisations, or lobby groups. His children are not directly part of the family business.

A.K. Khan's fifth son, Zia Uddin Khan, is the Deputy Managing Director of the A.K. Khan Group. He has a Master in Management degree from Chittagong University. Besides his involvement in the family business, he owns a few separate businesses - Mermaid Café, Mermaid Eco-Resort, and Cox's Bazaar - in which his children are involved. He is also not engaged in any political activities, government organisations, or lobby groups.

Among A.K. Khan's four daughters, his eldest daughter, Zebun Nahar Islam, is the current Chairman of the Group but is not active in the business. She lives in the United States. His second daughter, Yasmin Khan Kabir, is one of the company's directors, but she too lives in America and is not actively involved in the business. His other two daughters, Latifa Khanam and Shamima Khanam, are shareholders of the family's companies and trustees of the A.K. Khan Foundation, but they do not hold any directorships.

Interestingly, A.K. Khan's family's state nexus is not limited to political and lobby group involvement, as many family members have marriage ties with political families.

A.K. Khan's two nieces, Durrani and Zinat, married BNP leader and former Finance Minister M. Saifur Rahman and former Industrial Secretary Mosharraf Hussain¹⁰² respectively. Moreover, AK Khan's eldest son-in-law is Mustafizur Rahman Siddiqi (Latifa's husband), who was a pioneer industrialist in East Pakistan and the former Central Minister of the Government of Pakistan.¹⁰³

¹⁰² Mosharraf Hossain had served as the State Minister for Mineral Resources.

¹⁰³ M.R Siddiqi joined the Awami League Party in 1964 and was elected as its Treasurer. He was also the President of the Chittagong District Awami League from 1964-1972. He was elected member of the National Assembly of Pakistan in 1970 and member of the Bangladesh Parliament in 1973. After the liberation of Bangladesh, he was appointed Minister for Commerce and Foreign Trade in the First Bangabandhu Cabinet. In July 1975, he was appointed ambassador to the United States and Mexico. In 1958, he joined the A.K. Khan Group as its Finance Director (1958-1964).

5.3.3 Ownership and control

A.K.Khan & Company Ltd. was initially 100 percent family-owned and controlled (see Table 5.2). Despite having 23 business units in various sectors, none of their companies are publicly listed. Notwithstanding this, the second and third generation have professionalised the management of the firm by appointing experts to run the company. These non-family managers make major decisions in consultation with top family management during regular weekly meetings.¹⁰⁴ The managers are well paid and not only help the family members in expanding the business, but also train the business's successors. The Group also holds regular in-house training sessions for its employees and operates a technical training school for its workers. The second and third generation members have also emphasised the establishment of joint-ventures, which enabled them to import the latest technologies into Bangladesh, such as water purification technology.

Among A.K. Khan's four daughters, only two are involved in the family business. Zebun Nahar Islam is the company's current Chairman and Yasmin Khan Kabir is a member of the board of directors; however, they are not active in the business. A.K. Khan's fourth and fifth sons are not exclusively involved in the family business, as they also operate their own businesses. The family history outlined in the previous section shows that the second generation joined the business immediately after graduating; none of them had any outside work experience prior to joining the business.

Among the family's third generation, Zahir Khan's eldest son Shejad joined the business first, followed by Zahir's younger son, Kalim A.L. Khan. Shejad is the Group's Director and Managing Director of A.K. Khan Telecom Ltd. Kalim started an IT business called Info Com Ltd., where he was the company's CEO.

¹⁰⁴ According to a family member who commented during an interview on 13 December 2013 in Dhaka.

He died in August 2009, at the age of 32, in an accident; he lit a cigarette in a confined air-conditioned room and it blew up like a bomb.¹⁰⁵ His wife and a rickshaw puller, who were outside their house, were also injured in this incident. After three days in the Apollo Hospital in Dhaka, he was transferred to the Singapore General Hospital for better treatment, but he passed away. After his death, his business closed down, but was later re-started by the Group.

Table 5.2: Board of A.K. Khan Group (all family members)

Name	Position	Percentage of Shares
A.K. Shamsuddin Khan, A.K. Khan's 2 nd son (2 nd generation)	Director	1143 (17.02%)
Zebun Nahar Islam, A.K. Khan's daughter (2 nd generation)	Chairman	1143 (17.02%)
Salahuddin Kasem Khan, A.K. Khan's 3 rd son (2 nd generation)	Managing Director	1143 (17.02%)
A.M. Ziauddin Khan (4 th son; 2 nd generation)	Deputy Managing Director	1143 (17.02%)
Sadarruddin Khan (3 rd son; 2 nd generation)	Director	1143 (17.02%)
Yasmin Khan Kabir (2 nd generation)	Director	571 (8.5%)
Abul Kasem Khan Shejad (Zahiruddin's son; 3 rd generation)	Director	428 (6.3%)
Family Ownership 100%		

Source: Interview

Interestingly, all generations in the A.K. Khan family appear to be risk averse, despite their financial strength and good education. They have focused mainly on easy ways of developing an enterprise, such as creating state nexuses to secure government rents. They did not succeed in creating any major brand products; furthermore, not one of their businesses has emerged as a market leader.

¹⁰⁵ 'Kalim Khan dies after Gulshan gas blast', *Bdnews24.com*, 28 August 2009. 'Kalim Khan succumbs to injuries', *The Daily Star*, 29 August 2009.

Their nonchalant attitude towards staying competitive may be due to their political connections, which give them a sense of security.

5.3.4 Growth and Performance

As mentioned, during British rule, East Bengal was deeply deprived of development in commerce and industries. Industries then only functioned around Calcutta. After the creation of Pakistan, non-Bengali entrepreneurs initially monopolised the industrial sector. A.K. Khan was the first Bangladeshi Muslim to emerge as a major corporate figure, starting with his incorporation of the country's very first match factory, followed by a plywood company and an insurance company; eventually expanding into multiple industries and commercial enterprises in East Pakistan (Humayun, 1991).

In order for any business to survive and grow, strong entrepreneurship is needed for identification of new business opportunities and application of meaningful knowledge learnt from previous business experiences (Shane, 2003; Gartner, 1988). A.K. Khan identified opportunities where he could start a business and used his ties with the state to enter these sectors. He and his successors took opportunity of the state's poor capacity for monitoring rent distribution, to secure many government contracts and licences for projects involving local and foreign joint-ventures, as well as bank loans. By 1960, A.K. Khan & Company Ltd. was the owner of a business group with eight companies.

By the 1970s, the Group owned 12 companies with total assets worth PKR 75 million (US\$9.53 million). The company was listed as one of the top 30 business groups of Pakistan during the 1970s (see Table 2.4).

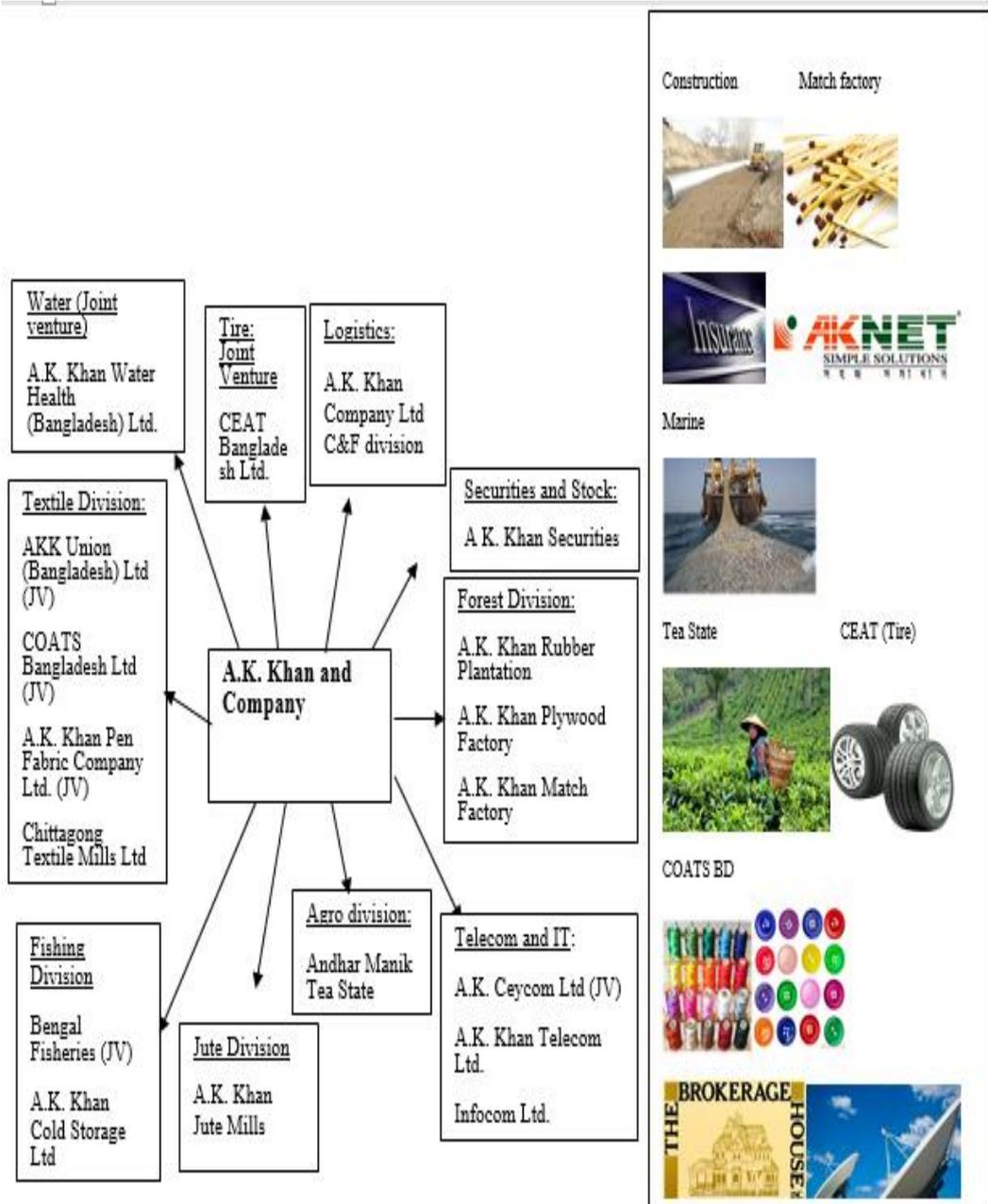


Figure 5.5: A.K.Khan Group of Companies (As at 2014)

Source: Interview

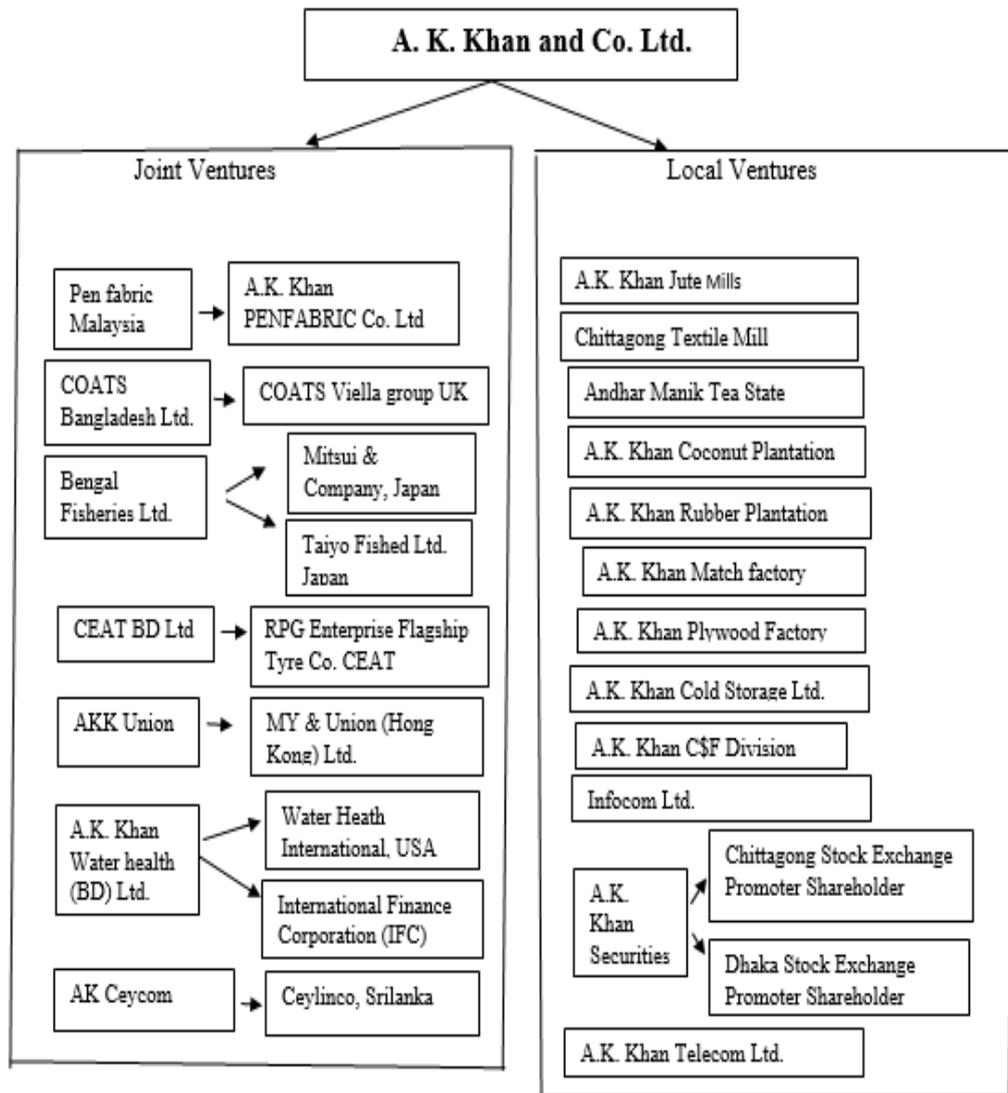


Figure 5.6: Corporate Structure of A.K.Khan Group (As at 2014)

Source: Interview

The Group's wide diversification (as shown in Figure 5.5) reflects why a nexus with the state was crucial. It was highly focused on expanding its business quickly through joint-ventures, instead of inventing its own technology or acquiring expertise in any particular industry. State connections were crucial for facilitating joint-ventures, through which new technologies and foreign expertise could be accessed. In fact, Figure 5.6 clearly shows the group's focus on joint-ventures through which they brought

foreign technology and expertise, rather qualifying themselves for it. Additionally, among their local ventures, some of them shut down due to low financial performance.

The Group's Chairman, Shamsuddin, commented:¹⁰⁶

Joint-ventures is an institutional marriage between a local and a foreign company where the foreign company has a particular legal structure and continuity. To attract joint ventures, we need to consider the genuine interest of our foreign partner.

In 1959, A.K. Khan established A.K. Khan Leather and Synthetics Ltd., A.K. Docking and Engineering Ltd., and the Eastern Insurance Company Ltd. Following this, in 1960, he established the Group's first joint-venture unit, Khan Elin Corporation Ltd., an alliance with Elin Union AG, Austria, (a subsidiary of Siemens AG of Germany). This company was involved in manufacturing electric motors, water pumps, electric fans, exhaust fans, transformers, switchboards, and switchgears. In the same year, A.K. Khan established Andhermanik Tea Company Ltd. He then went on to establish A.K. Khan Jute Mills in 1965.

The 1971 liberation war did not have much effect on the A.K. Khan Group as by then it had become big enough to survive. However, the Group suffered massive liabilities when most of their companies including two of its biggest companies, Eastern Insurance and Eastern Bank, were nationalised after the liberation war except one joint venture. This is when the family members decided to focus on joint ventures for business expansion. Even when de-nationalisation was adopted in 1982, the government did not return ownership of these two companies to the Group. As its Managing Director, Salauddin, commented:¹⁰⁷

¹⁰⁶ This interview was conducted in Dhaka on 14 December 2013.

¹⁰⁷ This interview was conducted in Dhaka on 13 December 2013.

Through joint ventures, we could get core expertise in various sectors and thus we could enter fishing, telecom, tire manufacturing, spinning, and swing thread sectors. Joint ventures gave us easy access to technical expertise from abroad, exposure to the global market, R&D, latest technology and management style which locally we could not possibly get.

In 1977, the A.K. Khan Group launched its next venture, Specialized Textile Mills Ltd. Following this, in 1979, it established Bengal Fisheries Ltd., the Group's second joint-venture, this time with a Japanese fishing company, Maruha Nichiro Corporation. Observing the profitability of the fishing business, it then established A.K. Khan Fish Processing & Cold Storage, to fulfil local market demands and for export purposes. In 1985, A.K. Knitwear was established, followed by A.K. Garments in 1986. In 1989, the Group established its third joint-venture, Coats Bangladesh Ltd., with a British-based sewing thread and coats manufacturer, the Viyella Group. This venture was 100 percent export oriented. Salauddin added on their focus on joint venture strategy:

We brought huge investment into Bangladesh through joint ventures. It's about USD 400 million .

In 1999, Zahir established the first ever application service provider in Bangladesh, A.K. Ceycom Ltd., through a joint-venture with Ceylinco Consolidated of Sri Lanka. From 1999-2009, no new companies were added to the Group. When Zahir Khan passed away in 2005, Shamsuddin and Salauddin shouldered the responsibility of the business.

Interestingly, in 2008, the A.K. Khan family sold their 30 percent stake in Aktel to NTT DoCoMo, for US\$350 million. This was in fact the largest M&A transaction in Bangladesh's history. When asked the reason for this sale, one of the family members replied: *It is purely a business. Every decision the Group takes is for its betterment and for further expansion.*

When asked why they had to sell the share of Aktel, Salauddin replied, *Telecom business needs huge capital which we could not manage at one point of time. It was a burden on us to invest more when we decided to sell the shares.*

However, in an interview¹⁰⁸, an ex-employee of the Group drew attention to the fact that the original joint-venture agreement with TM International was made without any investment by Zahir. Therefore, the US\$350 share-selling price would have been pure profit for the Group.

As a consequence of Aktel's share sale, many employees lost their jobs in the company due to the reorganisation of personnel under the new management. The total number of employees in the A.K. Khan Group dropped from 15000 to 7000 (*The Daily Star: June 17, 2008*).

After a ten-year hiatus, the Group started expanding again. In 2009, another joint-venture, the A.K. Khan-Penfabric Company Ltd., was established together with a textile yarn producer, Penfabric Malaysia. The following year, the Group launched another joint-venture, AK-Panbo Agro Ltd., with Panbo Systems BV from the Netherlands. This venture was a 100 percent export-oriented mushroom project. In the same year, yet another joint-venture, A.K. Khan Water Health Bangladesh Ltd., was established with Water Health Inc., USA and International Financial Corporation (IFC), in order to supply affordable, safe, and pure water to urban and rural areas. Finally, in 2013, another joint-venture, a modern button-making unit called CEAT Bangladesh Ltd., was established together with M Y & Union, a Hong Kong-based Sri Lankan company. The Group currently exports seafood, sewing thread, buttons, mushrooms, dry fish, etc., to approximately 23 countries. It started investing in R&D in 1965, and currently spends about US\$60000 annually on this. However, it has failed to establish a single brand and focused mainly on vigorous expansion to capture the market.

¹⁰⁸ Interview conducted on 9 July 2013 in Dhaka.

Although the A.K. Khan Group succeeded in expanding rapidly, it had to close some of its low performing firms, such as A.K. Khan Leather and Synthetics Ltd., A.K. Docking and Engineering Ltd., Eastern Insurance Company Ltd., Khan Elin Corporation Ltd., Bangatari Shipping Company Ltd., and Specialized Textile Mills Ltd. All these failed businesses were local ventures. This suggests that the Group had poor management heading their local enterprises. As a renowned economist of Bangladesh later commented:¹⁰⁹

Perhaps their over diversification without proper market and technological knowledge was a reason for which they later had to close some units.

The shutdown of A.K. Khan's ventures is an example of how politically motivated opportunities for obtaining wealth have resulted in non-productive and wasteful economic activity.

The Group's large size is because of its acquisition of a number of enterprises and the establishment of joint-ventures with a number of foreign companies. It now markets over 200 products, which is a substantial increase compared to its original five. Its latest annual turnover was approximately US\$500 million in 2015. However, its development has been mainly due to state nexuses, rather than entrepreneurial skills of the owners.

5.3.5 Conclusion

The developmental strategy of A.K. Khan Group was mainly to expand business by relying mainly on state nexuses through wide diversification, overlooking the importance of establishing a core business or brands. In fact, the group simply kept on building manufacturing plants wherever moneymaking potential appeared. Its business development pattern indicates

¹⁰⁹ This interview was conducted in Dhaka on 4 June 2013 with a renowned economist whose name cannot be mentioned.

the use of political influence to secure access to government rents. Since A.K. Khan held a ministerial position along with a strong financial base, he was able to direct government spending to areas benefiting his business interests and propose legislative action and tax reliefs that worked in his favour. Such state-business inspired interventions and the urge to gain greater corporate power can jeopardise long-term economic growth, as they disrupt normal business operations and divert attention away from genuine entrepreneurial concerns and objectives. This clearly indicates the presence of 'money politics' where the use of money and material benefits in the pursuit of political influence takes place. This enhanced the tendency towards patron-client relations to garner political support.

Nevertheless, A.K. Khan and his successors did demonstrate some entrepreneurial qualities by identifying business opportunities and grabbing first-mover advantage in plywood and insurance business. A.K. Khan was the first Bengali businessman in East Pakistan to enter a major industry. A.K.Khan Group did not establish any brands or list any of his businesses on the stock market, rather relied mainly on joint ventures to expand business. Moreover, A.K. Khan Group was able to survive well and gradually became a conglomerate in the country as the founder as well as successors has had direct and indirect state-nexuses besides being wealthy. This is why it was quite easy for A.K.Khan Group to deal with state incapacity. State connections assisted them to get economic rents and to influence policy making.

5.4 Case Study 3: Square Group

5.4.1 Origins

Square Group, another leading conglomerate, is mainly known for its flagship company, Square Pharmaceutical Ltd. Although this Group began in 1958 as a small medicine shop established by village missionary doctor Eakub Chowdhury, it soon transformed into a flourishing pharmaceutical company under the leadership of Eakub's

son, Samson. Samson not only established the very first local pharmaceutical company in East Pakistan, but also created a variety of brand products while diversifying the business into sectors such as toiletries and consumer products. Since his high quality products were in high demand by locals, he managed to protect his business from the effects of living under state-incapacity.

Eakub belonged to a middle class Christian family of Pabna village of East Pakistan and was devoted to his profession. He provided free treatment to poor village people through the local missionary charitable dispensary. When the dispensary shut down in 1938, Eakub opened his own medicine shop, Hossain Pharmacy. Eakub's only son Samson, in 1947, after his graduation, joined the postal department in Pabna. In 1952, Samson quit his job on his father's advice and joined his father's medicine shop. Samson observed the great need of life-saving drugs in villages as people could not afford expensive imported medicine for deadly diseases like malaria and diarrhoea. Since raw ingredients for malaria medication were available near Samson's village, he started manufacturing malaria syrup with his father's help. He sold this syrup to the village people who previously had to travel far to buy medicine for malaria. News of Samson's malaria syrup quickly spread. Samson then began thinking about establishing a medicine factory in the village as this would help the poor secure access to medicine, while also generating more business revenue.

In 1956, Samson approached his father and borrowed PKR 5000 (US\$1050) to open a medicine factory. He named the company, Esons, which stood for Eakub Hossain and Sons. He started off with manufacturing Easton's syrups for malaria at home, where his only assistant was his wife Anita.¹¹⁰

¹¹⁰ Easton Syrup is an antique proprietary medicine from the era of empirical remedies and non-specific stimulants. It contains strychnine, renowned as a stimulant, iron phosphate, listed as a brain food, and quinine, an appetite and general stimulant. It is used as a tonic for malaria.

This factory was in their house courtyard. His syrup soon became famous. Samson then thought of expanding his medicine business by establishing a pharmaceutical company. He convinced three friends, Dr. Kazi Harunur Rashid, Dr. P.K Saha, and Radha Binod Roy, of his idea's business potential. In 1958, with a total capital of PKR 30,000 (US\$6300), the four friends started a tiny dispensary aimed at manufacturing life-saving drugs (The Daily Star: 6 January 2012). They named the company Square because it was started by four friends and because a square signifies accuracy and perfection, thus representing quality (Barua, 2012).

At that time, not a single local pharmaceutical company existed in East Pakistan. West Pakistanis owned most of the pharmaceutical industries in the country and the sector was dominated by multinational pharmaceuticals like Glaxo SmithKline, Novartis, etc. Square was the first Bengali-owned pharmaceutical company in East Pakistan.

In its initial years, Square only had 12 employees, and during its first three years, it did not register a profit. Consequently, the four partners had to invest more money, and by the third year (1961), their total investment had increased to PKR 80,000 (US\$16800). Nevertheless, in the fourth year of operation, the company managed to generate some profit, and since then, it never looked back. The friends soon had to shift their factory from the village to the town for faster expansion.

In 1964, Square's capital was increased by converting the partnership into a private limited liability company with an authorised capital of PKR 500,000 (US\$105000), and a paid-up capital of PKR 400,000 (US\$84000). This move was necessary as two of the four friends had left the country, leaving only Dr. Harunur Rashid as the company director and Samson as the chairman. Eventually, though, Samson's sons joined him and the business became family-run.

Even after several years of liberation, the Bangladesh government had yet to increase

budgetary allocations for the improvement of the health sector (Habib & Alam, 2011). At that time, most Bangladeshis had little access to essential life-saving drugs (Habib & Alam, 2011). Multinational companies (MNCs) dominated three-fourths of the pharmaceutical industry, which mostly produced simple and non-essential drugs like vitamin mixtures or cough syrups. They imported raw materials from abroad at high prices. To address this situation, the Bangladesh government introduced a drug policy that discouraged MNCs from producing unessential drugs and importing raw materials at high prices.

The year 1974 was a turning point for Square as it became a licensee of Belgium's Janssen Pharmaceutical, a subsidiary of Johnson & Johnson International of the United States. Through a technical agreement with Janssen Pharmaceutical in 1975, Square started manufacturing anti-worm medicine (Virmox and Imodium). The agreement with Janssen Pharmaceutical also motivated Square to modernise its manufacturing plant and adopt international standards in manufacturing medicine.

In 1979, Square started producing its own brand of drugs. In 1982, a new drug policy was formulated by the Ershad government that turned out to be a blessing for all local pharmaceutical companies including Square. The policy banned certain types of drugs from the market, limited the marketing rights of foreign companies, and established price control for finished drugs and their raw materials (Habib & Alam, 2011). This resulted in the withdrawal of many foreign companies from the market, in which they had a share of around 70 percent in 1970, and strong growth in local production. As of 2010, MNCs possessed only 9.05 percent of the market share, compared to 67.6 percent held by the local top ten firms (Shawon, 2011). Currently, about 255 pharmaceutical companies are producing 20,080 brands of medicines worth Tk7000 crore annually in Bangladesh, which meets about 97 percent of the total domestic demand.

In 1982, Square signed a licensing agreement with the Swiss company F. Hoffmann-

La Roche Ltd. Consequently, its turnover reached Tk2240 million (US\$88.88 million) while the number of its employees increased to nearly 400. From 1985, Square Pharma held the position of market leader, with a market share of 19.19 percent and an annual revenue of US\$100 million, followed by BEXIMCO, Acme, Opsonin, Eskayef, ACI, and Incepta (Shawon, 2011). By 1987, the company had become Bangladesh's first export-oriented local pharmaceutical company. Square was converted into a public limited company in 1991. In 2010, its sales were more than Tk11460 million (US\$161.84 million) and its year-on-year growth was 17 percent.

Despite growth in local pharmaceutical production, the majority of Bangladeshi pharmaceutical companies still import ingredients for their products, including Active Pharmaceutical Ingredients (APIs).¹¹¹ The local pharmaceutical sector's principal activities are formulating drugs from imported ingredients, packaging them, and marketing them to retail pharmacies within the country. Most of their products are branded generic products.¹¹²

Currently, the global market for pharmaceuticals is dominated by developed countries, particularly European countries belonging to the Organisation for Economic Co-operation and Development (OECD).¹¹³

In 2009, non-OECD countries, including Bangladesh, accounted for just 5 percent of global exports. Bangladesh itself has a tiny share of the global market – accounting for a mere 0.01 percent in 2009.

¹¹¹ Bangladesh's Board of Investment indicates that the country imports about 80 percent of its APIs, implying that it produces about 20 percent locally (see Gregg & Uexkull, 2011).

¹¹² Generics are pharmaceuticals that are similar to a reference branded product, in terms of form, strength, means of administration, intended use, and performance, and may be supplied by multiple manufacturers. Branded generics are generics that are branded by the business that produces them.

¹¹³ The OECD is an international economic organisation of 34 countries, founded in 1961 to stimulate economic progress and world trade.

Presently, Bangladesh is exporting 182 brands of medicines to 73 countries, including America, Guatemala, Nepal, Philippines, Afghanistan, Kenya, Vietnam, Panama, Brazil, Sri Lanka, and Myanmar (Gregg & Uexkull, 2011). It exports more to middle income and low-income countries than higher income countries.¹¹⁴ This export pattern reflects the low price positioning of Bangladesh's pharmaceutical exporters, as cheap prices are more important to prescribers and consumers in low and middle-income countries than in high-income countries.

5.4.2 Family tree

Square Group has reached the fourth generation of the business (see Figure 5.7). Square Group did not follow the paternalistic trend of Bangladeshi family business. It has been less conservative and open regarding including female members in the Group. This is why female members from all generations are involved in the business. Samson's wife, Anita, is a graduate and has been a director in the Group since 1990. Samson's eldest son, Samuel, has a bachelor's degree from Rajshahi University, Bangladesh, and an MBA from the US-based Trinity University. He joined the business in 1974. Samson's second son, Tapan, graduated from Dhaka University in 1990 and then joined the family business. From 2007 to 2008, Tapan was also an advisor to the caretaker government, under Chief Adviser Fakhruddin Ahmed (*The Daily Star: 6 January 2012*). Besides this, Tapan was the President of the MCCI and a member of the executive committee of the Bangladesh Employers Association and the Bangladesh Textile Mills Association.

He also serves as a director of Pioneer Insurance Ltd. and Continental Hospital Ltd. Samson's third son, Anjan Chowdhury, studied management in the United States and joined the family business in 1991. Anjan is a director of Mutual

¹¹⁴ Only 24 percent of Bangladesh's pharmaceutical exports went to high-income countries, whereas 31 percent went to low-income countries, and 45 percent to middle-income countries.

Trust Bank Ltd. He is also responsible for adding a media division to the Group. Samson's only daughter, Ratna Patra, graduated in English from Dhaka University, and then joined the family business in 1994.

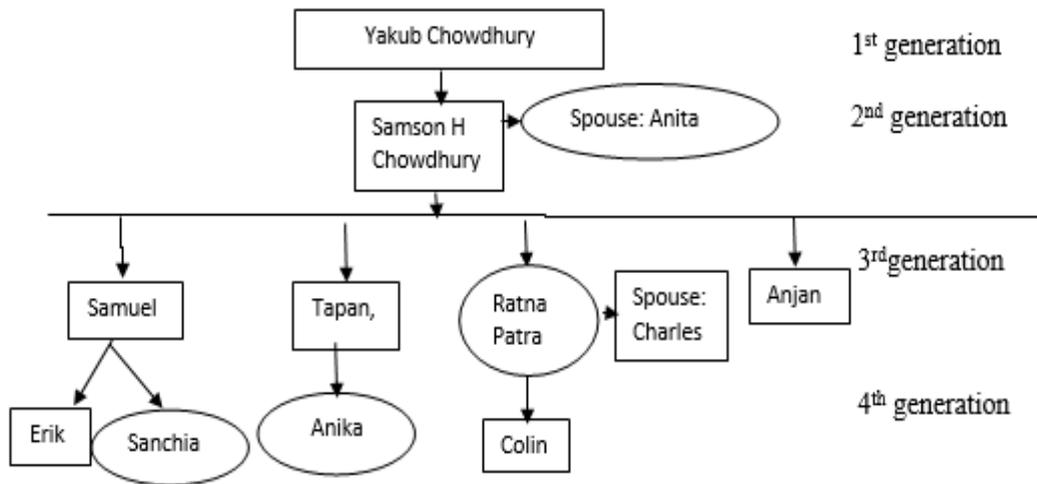


Figure 5.7: Family Genogram (Square Group)

Source: Interview

The fourth generation members joined the business after finishing their education and acquiring some work experience. Samuel's daughter, Sanchita, and his son, Eric, joined the business after graduating from Australia. Tapan's daughter, Anika, joined the business in 2012 after graduating from Singapore, followed by Ratna's son, Colin. Anjan's children are still too young to join the business.

5.4.3 Ownership and Control

Samson employed the apprenticeship method while recruiting his successors into the business. His sons joined the business at entry level and worked their way up the corporate ladder. For example, Samson's eldest son, Samuel, joined the business in 1974 as a part-timer or trainee. At that time, Square had a pharmaceutical trading house, Fair Trading. The task of Fair Trading was to handle packaging for Square Pharma and other pharmaceutical companies, besides supplying machinery to various pharmaceutical companies. Samuel was in charge of supervising these activities. When

interviewed, he commented, ¹¹⁵

My father did not appoint any of his children to a high position; rather he wanted us to start from the bottom in order to understand the ins and outs of the whole business. In my initial days in the office, I had to study piles of files. There was a man named William Thomas who used to help me understand the files. Thus, I learnt how to make an indent and open an LC. I had no designation for six months. After four years, I was awarded the designation of the Executive Director of the group.

Anjan, also joined the business at entry level, as a sales representative, and worked for five years in that position. On joining the business, Anjan was tasked with marketing a new product, Meril, produced by Square Toiletries. He had to go to almost every market in the country to sell this product. He became a director of the Group after six years.

Table 5.3: Board of Square (includes family and non-family members)

Name	Position	% of Share
Samuel S. Chowdhury	Chairman (3 rd generation)	7.06%
Tapan Chowdhury	Managing Director (3 rd generation)	7.22%
Dr. Kazi Harunar Rashid	Director (Samson's friend)	3.07%
Ms. Ratna Patra	Vice Chairman (3 rd generation)	6.77%
M. Sekandar Ali	Independent Director	No shareholding
Anjan Chowdhury	Director (3 rd generation)	7.31%
Kazi Iqbal Harun	Director (non-family)	3.02%
K.M. Saiful Islam	Director (non-family)	.01%
Family ownership 28.36%		

Source: Interview

¹¹⁵ Interview conducted in Dhaka on 7 July 2013.

Interestingly, Samson allowed the family's fourth generation members to immediately join the business as managers (Hassan, 2013). This was because they were better educated and had two to three years working experience. The entry of the fourth generation helped the Group to grow further.

Samson was the Chairman of Square Group during his lifetime, while his sons Samuel, Anjan, and Tapan were respectively the Vice Chairman, the Managing Director of Square Toiletries Ltd., and the Managing Director of Square Pharma Ltd. Samson's wife, Anita, his daughter Ratna, his old partner friend Harunur Rashid, and an employee of Square, Kazi Iqbal Harun, were board directors.

When Samson passed away in 2012 at the age of 86, the board structure changed slightly. The Group is now chaired by his eldest son, Samuel (*The Daily Star: Mar 9, 2012*). Samson's other three children (two sons and one daughter) are also on the board of directors. Samson's only daughter, Ratna Patra, is now the Vice Chairman of the Group. Ratna's spouse Charles also joined the business in 1996. Currently, the business is run by the third and fourth generation. Unlike many family businesses in Bangladesh, the women in Samson's family, his daughter and granddaughters, are actively involved in the business.

Samson always believed in modernisation and professionalisation. This is why, unlike a majority of family-owned and controlled businesses in Bangladesh, the Square Group follows modern management techniques such as appointing outsiders as board members. In fact, the family members only make major decisions after discussion with non-family experts. Additionally, Samson decided to go public at a time when rarely any company wanted to be publicly-listed. The Group has only 28.38 percent family ownership over the business (Table 5.3). It has four publicly-listed firms: Square Pharmaceuticals Ltd., Square Yarns Ltd., Square Texcom Ltd., and Square Textiles Ltd. The public holds over 39 percent of Square Pharma since its listing in 1991 (*The Daily*

Star 6 January 2012).

The third generation started joining the business in 1974 and the fourth generation from 2007. The third and fourth generations helped to expand the business and continued Samson's vision of professionalism by increasing the public-listings of their subsidiaries and by appointing experts for each division. The fourth generation also developed the first plant tissue culture laboratory in Bangladesh.

5.4.4 Growth and Performance

When Square Pharma became the leading pharmaceutical company in the country, Samson was inspired to expand his business further. He started diversifying into consumer goods, textile, media, aviation; ICT, security service, etc. (see Figures 5.8 and 5.9). In an interview, the present Group Chairman, Samuel, commented,¹¹⁶ *My father thought of diversification in order to expand the business as well as to safeguard our business that has been struggling with economic and political weaknesses.*

In 1988, observing the great need for good quality and affordable local toiletries and cosmetics in the country, Samson established Square Toiletries. This in fact revolutionised the local toiletries market, as before Square Toiletries, there were hardly any local toiletries brands with international quality and affordable prices. The company's first product was Jui Coconut oil, which quickly became famous in the market for its reasonable price and good quality. Samson then came up with his own 'Meril' brand, comprising shampoo, lotion, soap, and pest powder. Today, Square Toiletries has over 60 products.

Locally produced toiletries in Bangladesh now play a significant role in a sector that was traditionally dominated by imports. Most of the products in this sector are common consumer goods that have a large demand in the domestic market.

¹¹⁶ This interview was conducted in Dhaka on 7 July 2013.

Imports of cosmetics and toiletries are targeted mostly at middle and high-end segments of the market, as most local customers are satisfied with domestically produced items as long as product performance is satisfactory and the price is reasonable. While a majority of local manufacturers have focused primarily on meeting the demands of the local market, some firms have started exporting cosmetics and toiletries products, where Square is in the leading position. Unfortunately, these firms face challenges due to state incapacity in ensuring a strong regulatory framework. For instance, smuggled goods from neighbouring countries are adding to the difficulties of domestic producers. Moreover, some firms think that trade liberalisation has made them vulnerable to increasing competition by foreign firms. Competition from domestic firms has also increased substantially. According to a 2002 survey by BBS, the five firms possessing the highest percentage of market share for toiletries products are Unilever (48 percent), Kohinoor Chemical (8 percent), Square (8 percent), ACI (5 percent), and Keya Cosmetics (5 percent) (Shawon, 2011).

Samson also diversified his business into the booming textile sector. In 1994, he founded Square Textiles. This firm has three spinning mills, established in 1997, 1998, and 2000. The mills manufacture export-oriented cotton ring spun yarn for hosiery. In 2000, Samson horizontally diversified his textile business by establishing Square Yarns and Square Knit Fabrics. This was followed by the establishment of Square Fashions Ltd. in 2001. Square Fashions produces world-renowned brands such as Puma, G-Star, Esprit, S. Oliver, H&M, Mexx, Promod, Strauss, MNS, Kitaro-SFL, and Street One.

While promoting Square products, Samson's youngest son, Anjan, faced difficulties finding a reliable and effective advertising agency. He therefore decided to establish Square's own advertising agency. Media com was created in 1997, with a range of services including brand consultancy, marketing communication, social communication,

media planning, placement and monitoring, event management, press, as well as print and editorial activities. Since Anjan supervises this division, he is able to influence the media news when needed.¹¹⁷

In 1998, the Square Group established another pharmaceutical company under the name AgriBiotech. This firm operates a plant tissue culture laboratory to provide disease free and stress free high yielding seeds and seedlings of fruits, vegetables, and flowers. The 4000 square feet laboratory produces up to 10,00000 seedlings per year. Its products are manufactured locally. The company imports feed additives as well as nutritional and aqua products sourced from renowned international companies like Hameco Agro B.V. (Holland), the DOW Chemical Company (USA), XVET GmbH (Germany), Ajinomoto (Thailand), and Evonik (Germany).

To address the public's demand for professional security, the Square Group also established two security firms, Square Securities Management Ltd. (1998, public listed), and Aegis Services Ltd. (1999). In 2001, Square Consumer Products Ltd. was established to manufacture powdered spices and ethnic snacks. The idea of establishing a consumer product unit was suggested by Anjan, who observed the great need for pure unadulterated spices in the country.¹¹⁸ It was easy for the Square Group to collect pure ingredients for food items since their factories were based in rural areas. 'Radhuni' and 'Ruchi' are two brand names of Square's spices known for their good quality and affordable price.

In the same year, the Group established Square Informatix Ltd. to cater to growing demand for ICT in the country. To provide data communication within and outside the country, it pioneered a VSAT control centre at Gazipur, the first of its kind, with the capacity to control 16000 VSATs.

¹¹⁷ Stated by a news reporter from a private television channel during an interview.

¹¹⁸ All town markets were selling adulterated spices.

Another subsidiary of the Group's ICT division, Microserve Ltd., was later established when Microsoft Corporation chose Square as its sole marketing division partner for Bangladesh.

2003 and 2004 were important years for Square Pharma. In 2003, it was awarded ISO 9001:2000 certification, and in 2004 it was enlisted as UNICEF's global supplier. In 2004, Square Group established another segment in its pharmaceutical division, Cephalosporins Ltd. This company was under the supervision of TELSTAR S.A. of Spain, as per the US FDA/UK MHRA requirements. Its cephalosporin plant became TGA certified in 2012.

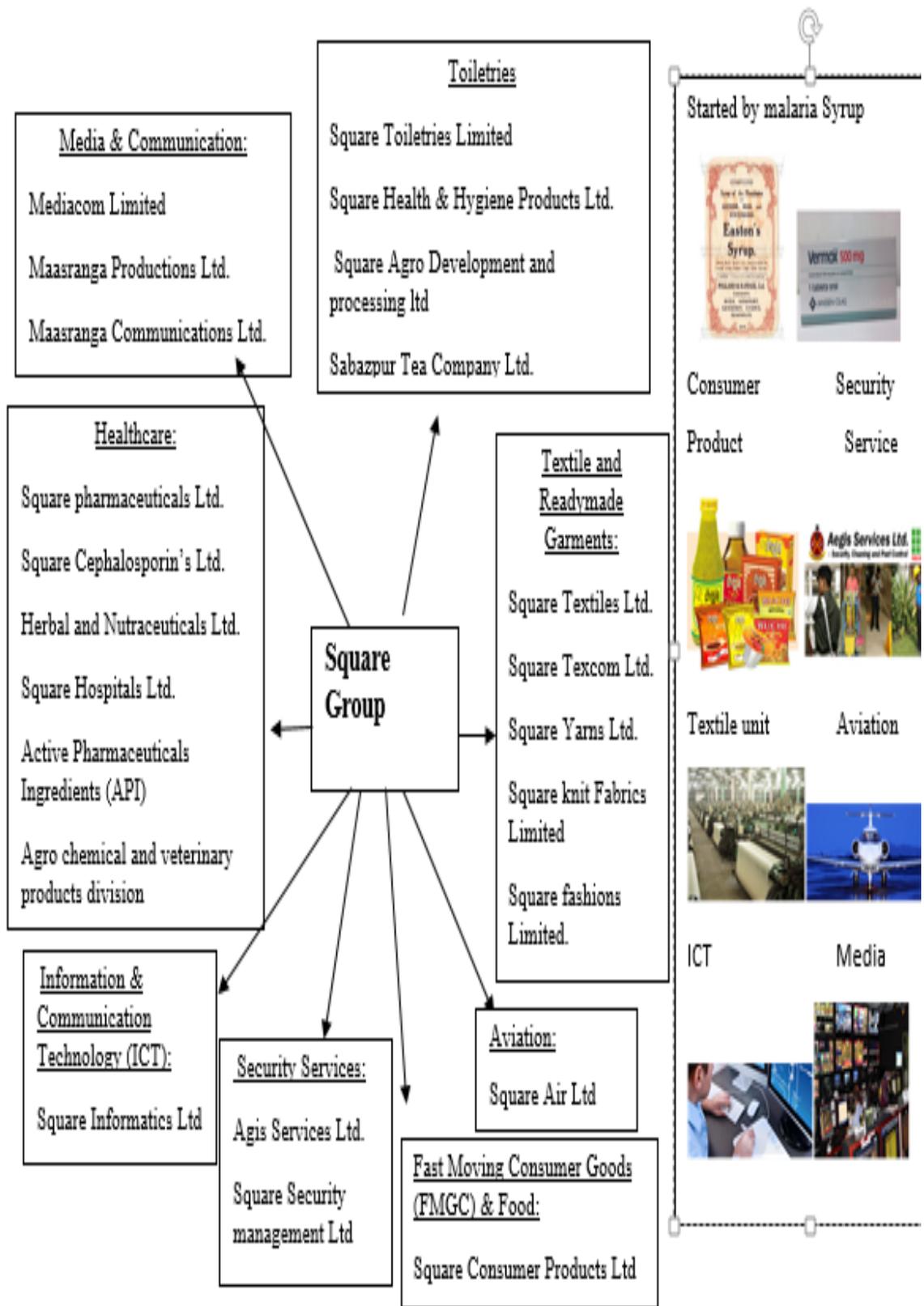


Figure 5.8: Square Group of Companies (As at 2014)

Source: Interview

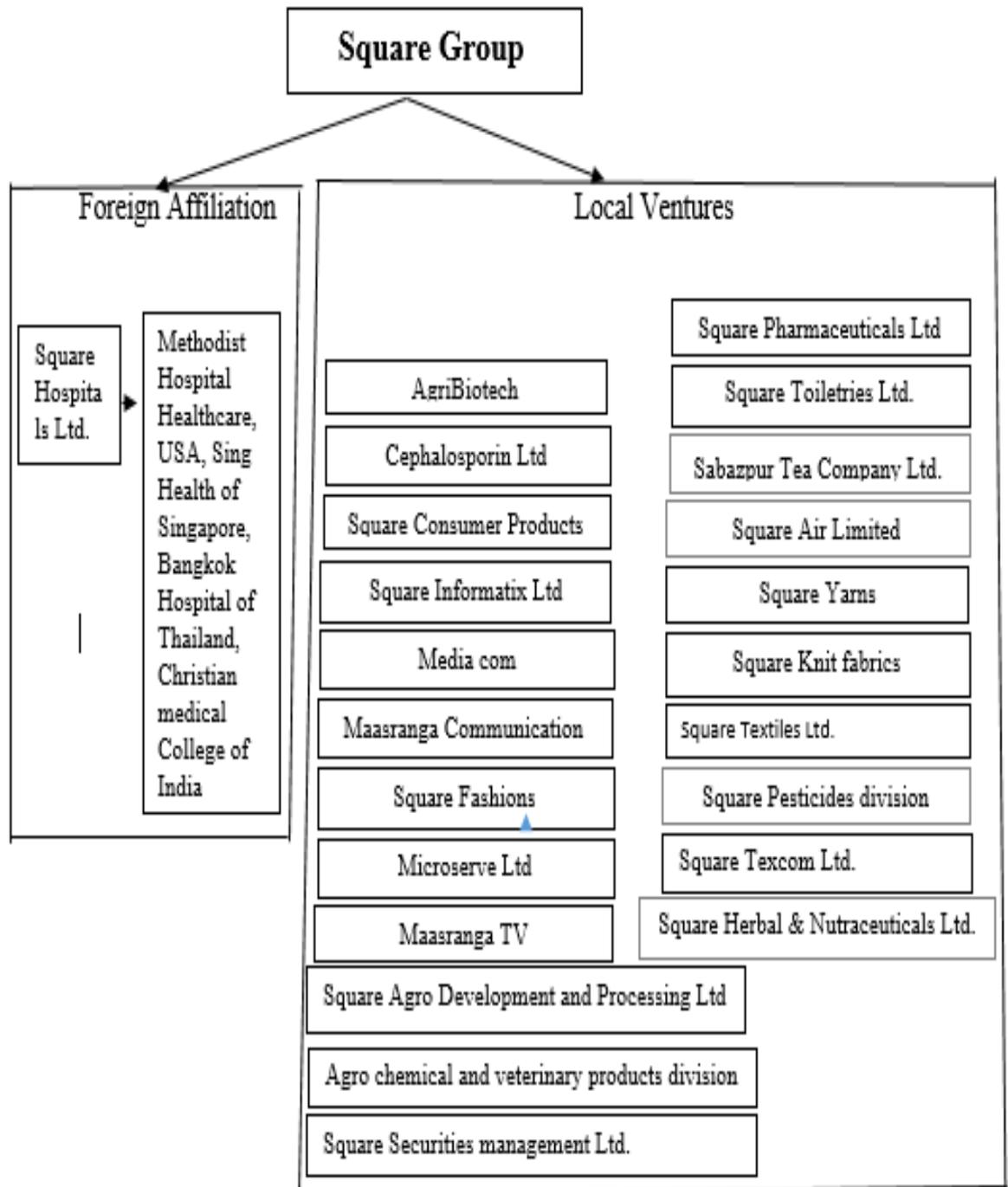


Figure 5.9: Corporate Structure of Square Group (As at 2014)

Source: Annual report, interview

In 2005, Square Group further expanded its consumer product division with the creation of Square Herbal & Nutraceuticals Ltd. Its manufacturing products were herbal and Ayurvedic medicines. In the same year, the Group started operating Sabazpur Tea Company Ltd. This is an organic garden of about 1200 hectares where tea, agro, rubber,

and fruits are planted. The garden has organic certification by a German based organisation, LACON. The garden workers are provided with housing facilities, medical services, and education for their children.

In 2005, Square Hospitals Ltd. started operations.¹¹⁹ Square Hospitals is an affiliate partner of the US-based Methodist Healthcare, SingHealth of Singapore, the Bangkok Hospital Medical Centre of Thailand, and the Christian Medical College of India. In 2008, the hospital started providing an air ambulance/EMS service through the Square Group's new helicopter¹²⁰ company, Square Air Ltd. In 2010, Square Hospitals was honoured with the 'Best Brand Award' by the Bangladesh Brand Forum and Neilson, for being the number one hospital in Bangladesh.

The Group then went on to establish Maasranga Communication,¹²¹ a pioneering production house in Bangladesh. As the head of the media division, Anjan decided to expand into television since the government had started issuing licences for private television channels. Subsequently, Square Group acquired shares in Ekushe TV and Ntv.¹²² In 2011, after obtaining a television licence, it established its own channel, Maasranga TV, the first HD television channel in Bangladesh.

Despite wide diversification, the Square Group did not lose focus on its core pharmaceutical business. Rather, it expanded its pharmaceutical business further through modernisation. For example, Active Pharmaceutical Ingredients or APIs are the core element of pharmaceutical products, and the primary cost component for production. Local pharmaceutical companies produce only 20 percent of APIs, while the rest is imported. However, Square and 20 other companies in Bangladesh manufacture APIs such as Penicillin, Cephalexin, NSAID, and Anti-Pyretic.

¹¹⁹ It is in-patient facilities consist of 320 beds and sophisticated treatment systems. It also has 60 fully-equipped medical consultation and examination rooms, as well as over 200 foreign-trained medical and nursing workers ensuring 24 hours service. This hospital pioneered the emergency Air Ambulance service, fitted with state-of-the-art equipment.

¹²⁰ For this, the Square Group purchased a brand new world-renowned Bell 407 Helicopter.

¹²¹ Maasranga Communication is equipped with the latest HD cameras, a HD editing setup, and an Apple Macintosh G5 based editing panel with Final-cut Pro software, 02 HDV VTR, etc.

¹²² Anjan Chowdhury has shareholdings in Ntv Channel, which is chaired by the BNP Political Advisor Mosaddek Ali Falu.

Furthermore, in 2009, Square Pharma started manufacturing insulin following US FDA and UK MHRA standards, providing a 22 percent lower price than imported insulin. In fact, Square Group was the first company in Bangladesh to introduce a modular aseptic system to produce recombinant human insulin. It has also ventured into the anticancer field (Shawon, 2011). Square Pharma received an award for being the country's highest exporter in the years 1996-1997, 2004-2005, 2009-2010, and 2011. In 2011, another segment of Square Pharma was established, Square Pesticides, which produces crop protection and crop nutrition products.

In 2013, Square Pharmaceuticals was the top pharmaceutical in the country, with local sales figures reaching Tk19720 million (US\$251.57 million). In second position was Incepta Pharmaceuticals, with total sales of Tk10000 million (US\$127.57 million), followed by BEXIMCO Pharma, Opsonin, and Renata Pharma Ltd. in third, fourth, and fifth position respectively.

Square Group currently exports toiletries, medicines, and textiles to 36 countries in Asia, Africa, Europe, and America. Since the Bangladesh pharmaceutical industry is mostly retail oriented, mass distribution is conducted by the pharma companies themselves through their own warehouses, retailers, and wholesalers (Shawon, 2011).

Since the demand for drugs in Bangladesh is driven by doctors' prescriptions and product availability rather than end customer demand, pharma firms emphasise product promotion strategies such as establishing relationships with doctors, hospitals, and pharmacies, aggressive pricing, and credit policies. Square has an advantage in this regard, since it owns a hospital. Square, BEXIMCO, Incepta, Acme, SK-F, Drug International, AristoPharma, and ACI are the main competitors in the country's medicine market (Shawon, 2011).

When Samson began business, there were hardly any technological facilities available in East Pakistan. Samson therefore started off by manually manufacturing

drugs. After the business began profitable, he imported second-hand machines from China and South Korea. Eventually, he imported brand new machines from Japan and the United States. In order to ensure quality, Samson also hired the best research students from a local research institute, Bangladesh University of Engineering and Technology (BUET), and sourced machine operators from abroad to train his employees in operating machines. The Group spends about US\$3.5 million annually on R&D. It exports medicines, consumer products, and apparels to more than 40 countries, including the United States, Europe, Asia, and Africa.¹²³

Samson and his sons also provide extensive training to their management and employees, both through overseas training and on-the-job training. The employees interviewed expressed great job satisfaction as they are treated well, paid high wages, and received many benefits such as free food, transport, day-care and school for their children, insurance, and medical allowances. Unsurprisingly, the Group's employee retention rate is very high.¹²⁴

Although the government has launched policies to develop the local health sector, local pharmaceuticals often complain about the challenges they face due to state incapacity. For instance, the country's unstable political situation has resulted in pharma companies being unable to achieve export expectations, while the unchecked irresponsibility of customs officers has caused medicine prices to rocket. Moreover, local pharmaceutical products tend to be lower in quality compared to foreign competitors due to the latter having more equipment, technology, and plant facilities.

¹²³ The Square Group exports medicines to Britain, Afghanistan, Bhutan, Cambodia, Hong Kong, Iraq, Macau, Malaysia, Myanmar, Nepal, Papua New Guinea, Sri Lanka, Tajikistan, the Philippines, Vietnam, Yemen, Maldives, Eritrea, Ghana, Kenya, Libya, Malawi, Mauritania, Mauritius, Mozambique, Somalia, Sudan, Tanzania, Belize, Costa Rica, and Suriname. The group also exports consumer products to South Korea, America, Canada, Britain, Italy, Germany, Sweden, Cyprus, Spain, Greece, Japan, Singapore, Malaysia, South Korea, Australia, Saudi Arabia, UAE, Kuwait, Qatar, Bahrain, India, and Bhutan. Besides this, its toiletries and hygiene products are exported to Singapore, Australia, Saudi Arabia, Malaysia, India, Bahrain, Myanmar, Bhutan, Germany, America, Japan, Jordan, South Africa, and Nepal.

¹²⁴ Interview with the HR manager of Square Group, conducted in Dhaka on 6 July 2013.

Besides managing his own business, Samson was a top figure in many influential institutions. He was the President of MCCI from 1996 to 1997, the Chairman of Micro Industries Development Assistance and Services (MIDAS), the Vice President of the International Chamber of Commerce, the Chairman of Central Depository Bangladesh Ltd. (CDBL), and President as well as an Advisory Committee member of the Bangladesh Association of Pharmaceutical Industries. He served as a Director of FBCCI, was the Founding President of the Bangladesh Association of Publicly-Listed Companies, the President of the Bangladesh Herbal Products Manufacturing Association, an Executive Member of the French-Bangladesh Chamber of Commerce and Industry, and the Director of the Credit Rating Agency of Bangladesh. The Group also owns a big stake in Pioneer Insurance (a non-life insurer), Sheltech, and a leading private bank, Mutual Trust Bank, where Samson was on the board of directors. He has now transferred his shares to his son Samuel.

The Square Group became politically-connected through Samson's second son, Tapan Chowdhury, who was an advisor to the caretaker government. The Group also has influential financial links, as its Independent Director, Sekander Ali, is the former Managing Director of Bangladesh Shilpa Bank and Senior Advisor to the Securities and Exchange Commission (SEC). Samson himself was on the board of directors of the Mutual Trust Bank. However, there is no documented proof of Samson and the Square Group receiving financing from the banks with which they had connections. When asked why they were awarded contracts, Samuel replied:¹²⁵ *We have won the tender by bidding; just how a group gets it with best bidding price. However, our brand name has been helpful in convincing the government of our quality products and services.*

¹²⁵ This interview was conducted in Dhaka on 7 July 2013.

Although Samson and his three sons are widely involved in lobby groups and banks, they have relied little on state nexuses to expand their business. Rather, they focused on brand establishment. It is known that the entrepreneurial capability of a firm can mitigate negative effects brought about by regime changes. Thanks to its entrepreneurial character, Square Group has remained unaffected by Bangladesh's numerous regime changes. Nevertheless, since Samson is recognised as one of the leading businesspersons in Bangladesh, he automatically enjoys many privileges such as easy access to bank loans, licensing facilities, and government contracts.

As commented by the present Commerce Minister in an interview¹²⁶,

We feel very relaxed and confident while giving business contracts and sanctioning loans to businessmen like Samson H. Chowdhury as he is known for his successful and disciplined business. Business groups like Square not only contribute to the economic development of the country, but also help the state with modern technology, new product development and employing people.

Through a strong entrepreneurial spirit passed down from generation to generation, Samson's small medicine factory has now become one of the biggest conglomerates of Bangladesh, with 28 businesses and an annual turnover of US\$1 billion in 2015. The Group is one of the country's largest medicine-makers, accounting for nearly 20 percent of the drug market. Its flagship firm, Square Pharmaceuticals, makes up approximately 25 percent of the Group's turnover. Currently, it employs more than 36,000 people (*The Daily Star*: 6 January 2012).

¹²⁶ This interview was conducted in Dhaka on 10 July 2013

5.4.5 Conclusion

Although Square Group owes its origins to Eakub Chowdhury's small dispensary, the actual founder of the group was his son Samson. As a pioneer of local pharmaceuticals, Samson had first-mover's advantage in the medicine market. He employed a niche market strategy, targeting poor village people who could not afford expensive and rare life-saving drugs like malaria and diarrhoeal syrups. Through wide diversification, Square Group expanded into 28 businesses with 5000+ product categories, whereas it started with only seven products. Square established multiple brand products. Today, Square is a brand name in various sectors, such as pharmaceutical, consumer products, toiletries, and hospitals. Despite diversifying widely and wisely, it did not lose its core focus from the flagship pharmaceuticals business.

Although the first generation did not have any state nexuses, Samson and his sons eventually became involved in lobby groups. Samson's son Tapan also held a prominent government position. These state nexuses, along with the Group's continuous business growth through entrepreneurship, worked in tandem to give the enterprise access to government rents like bank loans, licences, and project approvals. Nevertheless, Square Group has never been criticised for any misuse of its state nexuses. Rather, it is well known in the country for quality, yet affordable brand products and services.

5.5 Case Study 4: Akij Group

5.5.1 Origins

The Akij Group is an example of making something from nothing, as its founder, Akij, was an extremely poor boy who rose to success by employing a niche market strategy in selling leaf cigarettes known as 'biri' to poor people who could not afford proper cigarettes.¹²⁷

¹²⁷Biri is a type of cheap cigarette in South Asia made of unprocessed tobacco wrapped in leaves.

Through strong entrepreneurship and hard work, Akij and his successors gradually turned this micro business into a conglomerate by relying very little state nexuses

Akij was the only son of Sheikh Mafijuddin and Panmoti Begum. His father was a poor labourer in Khulna who also traded paddy, rice, and coconuts on a very small scale.¹²⁸ Akij struggled throughout his childhood with extreme poverty and could not attend school due to lack of money. This extreme childhood hardship pushed Akij to find a better way of earning money to support his family.

In 1940, at the age of 12, Akij decided to leave home to search for a job. He went to Calcutta and performed small jobs like selling tea in trains, ringing the Calcutta railway station bell, and washing plates in a railway station hotel. However, the money he earned was only enough for his daily meals and he saved very little. Nevertheless, with his tiny savings, he started trading oranges through which he earned a little more, enabling his savings to reach PKR 2200 (US\$462). While in Calcutta, he met a Pathan businessperson from Peshawar who advised him to do his fruits trading there, due to better business potential. Akij moved to Peshawar and learnt the Peshawar language to help him trade fruits. Within two years, his money had doubled, so he decided to return to Calcutta. This time he became involved in vegetable trading. He bought vegetables wholesale from village traders and sold them in the market for a small profit.

With the outbreak of the Second World War, Bangladesh's economic and political situation started deteriorating. People began to leave the city and businesses folded. Akij had no choice but to return home in 1944. His parents were delighted to have him back. Unfortunately, they passed away soon after his return. Akij then decided to stay in his village and do business locally.

¹²⁸ Khulna is a division of Bangladesh.

Bangladesh has high demand for tobacco, with almost 38.7 million smokers in the country (Barkat et al., 2012). Smoking is seen as a method of relieving the stress of turbulent economic conditions. Men aged 35-49 years have the highest smoking prevalence at 70.3 percent, and smoking rates are highest among the poorest. After the 1947 partition, cigarettes were initially imported into Pakistan from Calcutta, but the introduction of customs barriers in 1948 between India and Pakistan interrupted this smooth influx. To address this issue, the Pakistan Tobacco Company (PTC) was established in Karachi in 1949. From this time onwards, East Pakistan's requirements for cigarettes were met from products manufactured in Karachi. In 1954, PTC established its first cigarette factory. Following this, it established a Dhaka factory, which started producing cigarettes in 1965. However, most people in East Pakistan were poor peasants and lower middle class workers who could not afford these cigarettes, and instead relied on biris (Barkat et al., 2012).

Akij had a friend, Nitai, whose father, Bidhu Bhushon, owned a small biri shop. His biris were popular in Jessore and known as 'Bidhu Biri'.¹²⁹ Akij used to follow along when Nitai went to the Khulna markets to purchase tobacco. Thus within a few months, Akij had learnt the ropes of tobacco buying and selling. Akij also sometimes sat in Nitai's father's biri shop and observed his biri-making techniques. Akij realised the potential in the biri business and decided to establish his own biri company. Note that tobacco sellers and producers require very low start-up capital requirement, PKR 2000 (US\$420) on average.

In 1948, Akij married Sakina Khatun, daughter of a solvent farmer Mobarok Hossen. Two years later, Akij opened a small shop with a capital of PKR 5000 (US\$1050), put together from his own savings and with the help of his father-in-law.

¹²⁹ Jessore is a district under the Khulna division in Bangladesh.

He started off with selling Patar Biris, which he used to buy from the village market.¹³⁰

In 1952, he hired a few workers and started making biris himself. At that time, he was importing biri leaves from India and buying tobacco supplies from the open market. However, he soon found that this was too costly.

In addition, it was quite difficult to convince the retailers to sell his biris when other brands (e.g. Bidhu Biri, Wahab Biri, Surma Biri) were available and already well known

Therefore, Akij had to differentiate his biris in terms of quality, fragrance, and price. In order to cut costs, he started buying biri leaves from small retailers in the village. He also smartly bought different kinds of tobacco from the market and mixed them in his biris to obtain a unique fragrance. He sold his biris at a very low price. This attracted the small retailers who started buying his biris.

People started smoking Akij's biris due to its unique fragrance. His biris eventually became popular in the village and gained the name 'Akij Biri'. With the profits from his biri-making business, Akij was able to employ more workers. Due to its nice fragrance and low price, his biris became famous not only in his village but also in other villages and then in the towns. Moreover, in order to differentiate his biris from other biris, Akij started tying a red thread to the lower end of his biris. Although this cost him a little extra, the red thread differentiated his product and attracted customers. In addition to selling biris, Akij also sold rice, lentils, salt, oil, and biscuits.

In 1954, Akij decided to obtain a tobacco licence.¹³¹ He went through the investigation process and received the licence within three months.

¹³⁰ Patar biri means biri made of tree leaves. At that time, people used to smoke biris made of Tendhu tree leaves. The tobacco was wrapped inside the leaf and bound with a small thread. Paper biris had not been introduced yet. Tendu leaves were not produced locally because of unfavorable weather. Biri makers had to import the leaves from India

¹³¹ The Commerce Ministry in Karachi provided the licences. Registration forms were submitted to the Commerce Ministry first, and then sent to the Small and Cottage Industry office for verification. The Small and Cottage Industry officers would investigate the applicant's eligibility very strictly and then return the form to the Karachi Commerce Ministry. Only then would the ministry approve the registration and provide the licence.

From 1955, Akij started using the label ‘Akij Biri’ on his biri packet. He had to travel to Dhaka from Khulna every time he needed the labels as they were printed only in Dhaka.

That year, Akij started buying rice from wholesalers and selling it in the market. However, although both his biri and rice businesses were flourishing, he was not fully satisfied and wanted to do something extra to earn more money.

Khulna was then a prominent place for jute production, with 13 jute mills operating out of it. Many small businesspersons delivered raw jute to these jute mills as this was a very profitable business that required minimal capital. Akij too started delivering raw jute to the jute mills. Although he did not have the capital required for buying the raw jute, he bought it on credit from the wholesalers who trusted him for his honesty. Soon, Akij was making good profit from his jute business as well.

By 1956, Akij had 150 workers in his factory. In order to buy tobacco and jute, Akij travelled to Bagerhaat several times. He became acquainted with a jute businessman there and married his third daughter, Monowara Begum, as a second wife, in 1958.

By 1960, Akij’s biri demand had risen to 40 lacs per day. He needed bigger facilities and more workers to meet this increasing demand. Until then, his factory was located in a rented building. Akij bought a piece of land where he built a factory for his biris and a storehouse to keep raw jute. By end of 1960, his biri demand had risen to 5 million per day.

Akij was now solvent enough to afford a licence to import biri leaves from India. He obtained this licence at the end of 1960. In 1964, he established a sales centre for his raw jute. In addition, he bought a big piece of land to expand his biri factory, as the demand for his cigarettes was skyrocketing. He also purchased five baby taxis to deliver his biris.¹³²

¹³² Babytaxi is a small vehicle to deliver products.

In 1965, when General Ayub Khan's government imposed restrictions on all imports from India, Akij again faced a challenge as his biri factory depended on imported tobacco leaves. Akij had to look for alternative means to make money. In 1970, he decided to start making paper biris. Among the other famous biri brands at that time were Aziz Biri, Karigor Biri, and Jamil Biri. Akij loaned Tk500000 (US\$105000) without any collateral from Sonali Bank to provide capital for his new venture. This was possible because he had a good relationship with the bank manager, Din Mohammad, who offered to be his loan guarantor.

Unfortunately, the following year, the liberation war broke out, causing severe economic and political crises. Akij had to shut down his jute business and biri factory. Many traders and businessmen, especially Hindu businessmen, left the country to save their lives. These businessmen had no choice but to leave all their products behind. Akij seized this opportunity and bought all their products at minimum price. He knew that after the war there would be huge demand for these products. He was right. After the war ended, he managed to sell the products at quadruple their original price, making a profit of around Tk150000 (US\$19480).¹³³ This massive profit helped Akij further expand his business. It was a turning point in Akij's life, as he learnt that he could survive while dealing with state incapacity; this gave him impetus for further business ventures.

5.5.2 Family Tree

The Akij Group is now run by the second generation (Figure 5.10). Akij had 10 sons and five daughters from three wives.

¹³³ In 1971, Akij bought: Molasses, 400 kg (Tk42 or US\$8.8 per kg), Lintel, 1500 kg (Tk16 or US\$3.4 per kg), Vetch, 1500 kg (16Tk or US\$3.4 per kg), Mustard oil, 600 liters (Tk115 or US\$24.15 per liter), Rice, 1000 kg (Tk30 or US\$6.3 per kg); and he sold Molasses for Tk160 or US\$20.33 per kg, Lintel for Tk65 or US\$8.26 per kg, Vetch for Tk62 or US\$8.26 per kg, Mustard oil for Tk300 or US\$38.13 per liter, and rice for Tk200 or US\$25.42 per kg.

He had three sons and two daughters from his first marriage, with Sakina Khatun, two sons and one daughter from his second marriage, with Feroza Begum, and five sons and two daughters from his third marriage, with Monowara Begum. Nine out of ten sons of Akij are actively involved in the family business, whereas none of his five daughters are actively involved in the business although they are directors in the group. Interestingly, these stepbrothers collaborate in managing the business; nevertheless, their responsibilities are divided: the sons from Akij's first two wives supervise the Khulna businesses, whereas the sons of his third wife run the Dhaka businesses. Akij's daughters and one son who is a doctor only have shareholdings in the business and are not involved in running it.

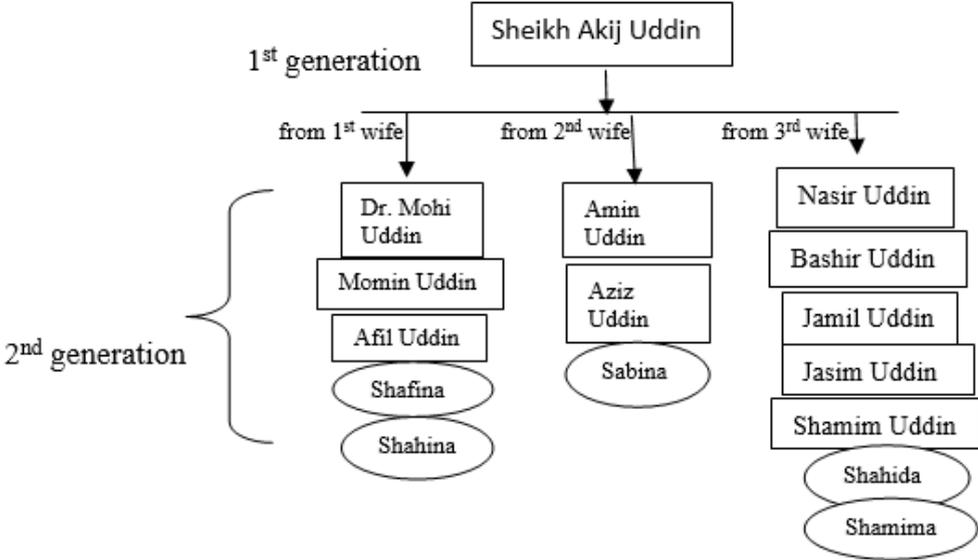


Figure 5.10: Family Genogram of Akij Group

Soure: Innterview

Although Akij had no formal education, he groomed each of his sons and daughters with good education so that they would be able to handle business issues well. Akij's eldest son, Mohiuddin, is a doctor. He obtained his MBBS degree from the Barisal

Medical College in Barisal division. Akij's second son, Momin Uddin, completed his bachelor's degree in Leather Technology at Northampton University in England and joined his father's business. Akij's other sons also hold degrees from reputable universities: Afil has a bachelor's degree from Rajshahi University, Amin and Nasir each have an MBA from Dhaka University, Aziz, Bashir, and Jamil respectively hold a bachelor's degree from Dhaka University, Jashim has a Bachelors in Electrical Engineering from the United Kingdom, while Akij's youngest son Shamim has a bachelor's degree from Oxford University.

Among Akij's five daughters, Safina has a bachelor's degree from Dhaka University, Shahina and Sabina both have a bachelor's as well as a master's degree from Dhaka University, while Shahidia and Shamima each have a bachelor's degree from Dhaka University. The first two daughters currently work as teachers while the other three are housewives. Although Akij's daughters are not actively involved in the family business, nine of his sons joined the business after finishing their degrees. Their education helped Akij fill the knowledge gap in his business. Although Akij had no institutional education, his struggle for survival in life since childhood pushed him to act pragmatically. Moreover, he constantly educated himself on mills, factories, and modern machinery operations by travelling to various countries.

5.5.3 Ownership and Control

The Akij Group has 100 percent family ownership (see Table 5.4). Although family members have appointed outside experts who help run the business, nevertheless, like most family firms in Bangladesh, the Akij Group has neither listed any of its subsidiaries (45 businesses) in the stock market, nor kept any outsiders on board. Akij passed away on 10 October 2006 at the age of 77. Before his death, he formulated a will following Islamic Sharia and divided his business among his children. Each of his sons received 7.5 percent of the equity, while his daughters received 5 percent, although they

are not involved in running the business.

Table 5.4: Board of Akij Group (only family members)

Name	Position	Shareholding
Nasir Uddin	Chairman	7.5%
Bashir Uddin	Managing Director	7.5%
Shamim Uddin	Director	7.5%
Jamil Uddin	Director	7.5%
Jasim Uddin	Director	7.5%
Amin	Director	7.5%
Aziz	Director	7.5%
Afil	Director	7.5%
Momin Uddin	Director	7.5%
Shafina	Director	5%
Shahina	Director	5%
Sabina	Director	5%
Shahida	Director	5%
Shamima	Director	5%
Dr. Mohiuddin	Director	7.5%

Source: interview

Although Akij's sons joined the business as directors, he followed the apprenticeship method while grooming them for business. He did job rotations with his sons so that they could absorb the skills needed for the business's various departments. Akij also sent each of his sons to various countries to observe foreign methods of operation, technology, and management styles, and allowed them to apply these new ideas in the business.

5.5.4 Growth and Performance

Although Akij successfully created a brand product, Akij Biri, and had a flourishing

biri business, reduced demand for biris and fierce competition with local and foreign tobacco companies forced him to diversify his business to ensure survival. Nevertheless, Akij diversified carefully: first horizontally and only then vertically (as shows in Figure 5.11). Besides, Figure 5.12 shows that their corporate structure contains mostly local ventures; they have only one joint venture.

When Akij re-started his biri-making business in 1973, the country was still recovering from war damage and he encountered problems in sourcing skilled labourers. He had to train people for months to make the biris his way. Bangladesh then had no laboratory for measuring tobacco blending in biris. Akij did not need artificial measurements, as he was an expert biri maker. He could smell the biri and tell how much tobacco it contained. However, his workers were not as skilful.

Nevertheless, Akij gradually restructured his business with the money he made during the war. He increased his delivery vans and trucks in order to market his biris more effectively. In 1976, he started promoting his biris through advertising. In fact, Akij was one of the very first tobacco businesspersons to use radio advertising for tobacco products.

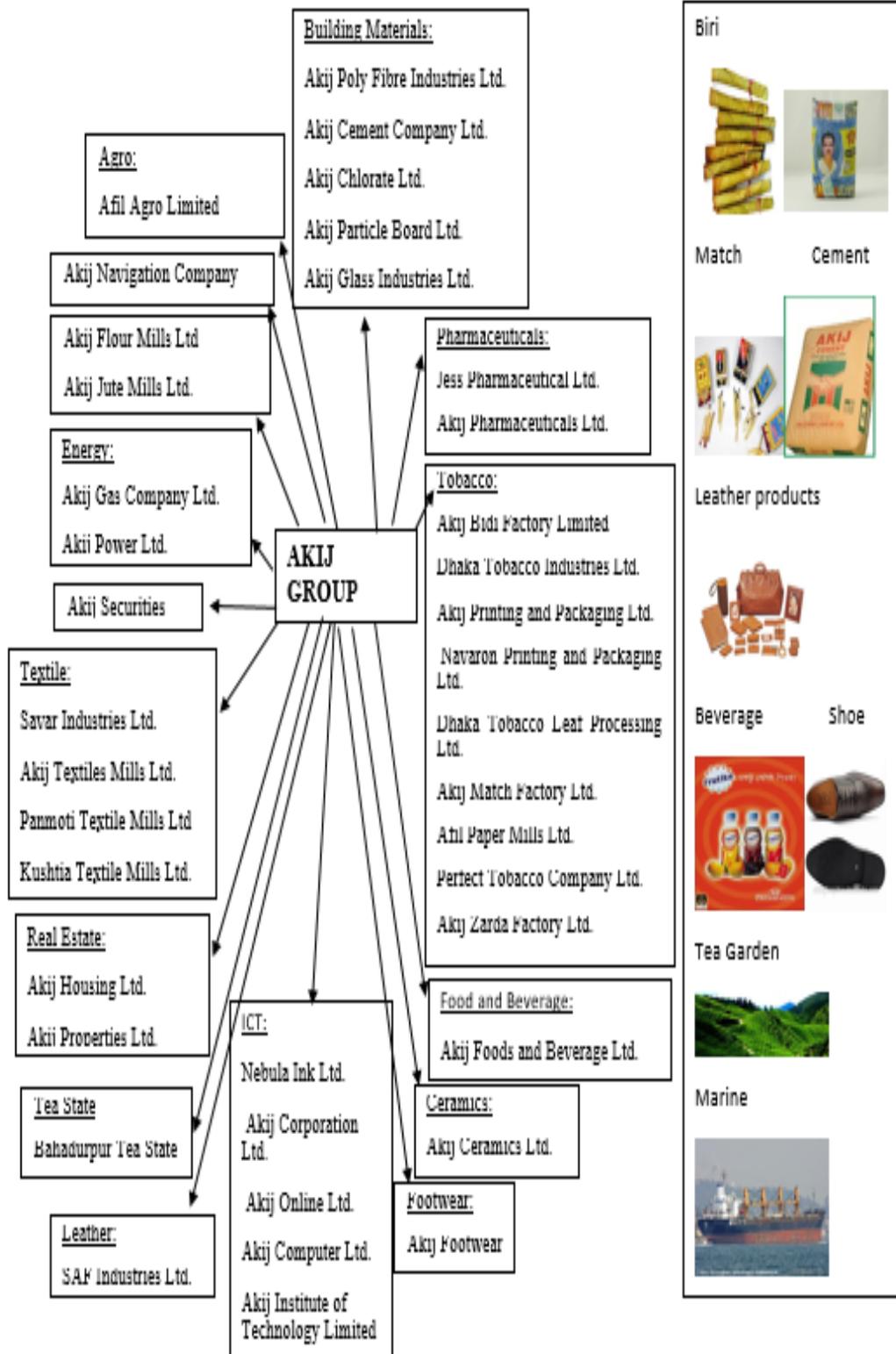


Figure 5.11: Akij Group of Companies (As at 2014)

Source: Interview

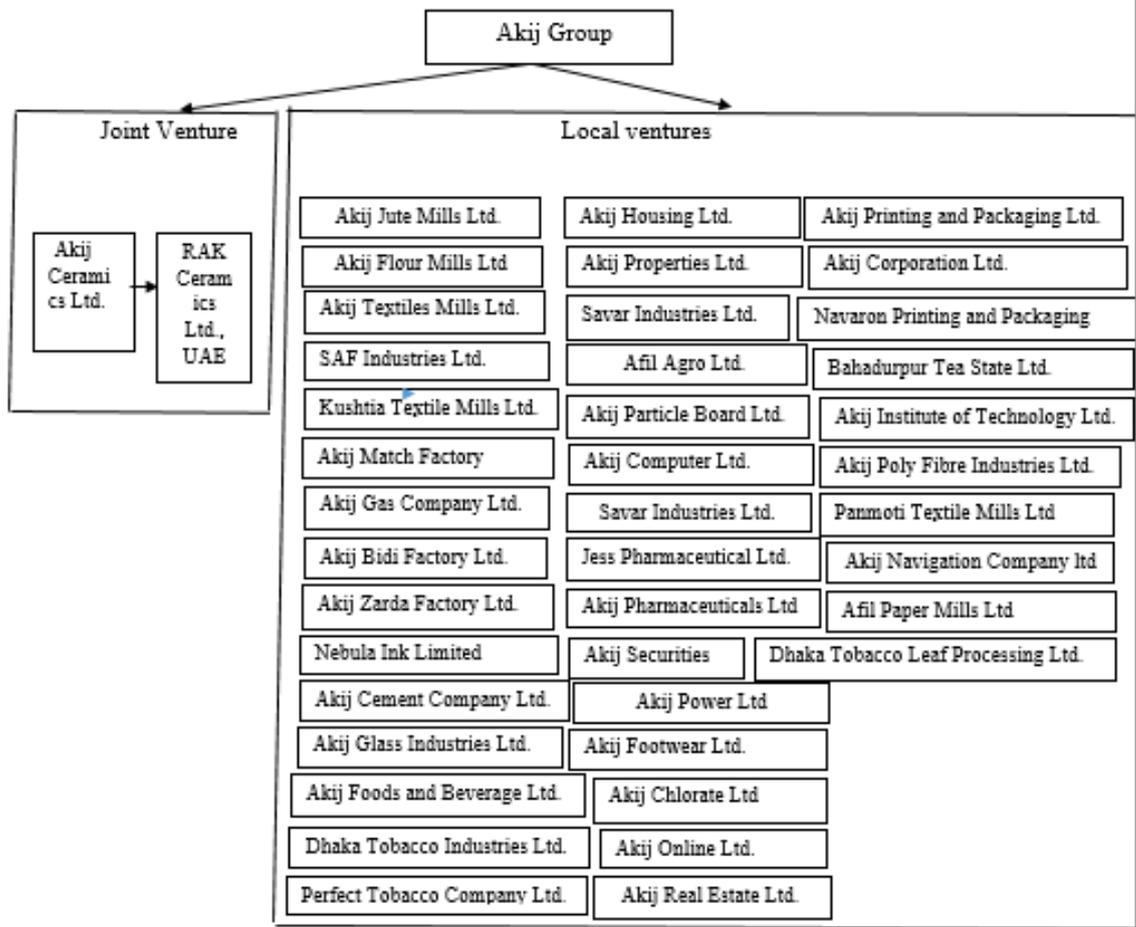


Figure 5.12: Corporate Structure of Akij Group (As at 2014)

Source: Interview, company website

After nurturing his biri business into good shape, Akij began exploring other business sectors with growth potential. In 1974, he established a printing and packaging mill to complement his tobacco business. In the same year, he started manufacturing raw jute. Until 1982, the jute market prospered; however, after that it started declining due to lack of government attention to jute policies. Nevertheless, by 1992, Akij had received a trophy for being the second highest raw jute manufacturer of the country. By then, the Akij Group had nine biri-making factories and 23,796 employees, exporting about 155 millions of biris annually. However, as Bangladesh's living

standard improved, biri demand started to fall; instead, people began purchasing cigarettes. Many new firms had entered the industry offering reasonably priced cigarettes.

As Akij was worried about the falling demand for biris, he decided to establish a cigarette factory. He became interested in acquiring a cigarette company, Dhaka Tobacco Industries. Dhaka Tobacco was the first tobacco company in East Pakistan, established by the Adamji family in 1966. When the Adamji family left the country in 1969, they sold the company to a West Pakistani businessperson, Abdus Salam. After 1971, like many other Pakistani mills and factories, Dhaka Tobacco came under government ownership. However, in 1977, since it was losing money, the government decided to sell it on auction. Since Akij was on friendly terms with the general manager of the National Bank of Pakistan, Ajijul Haque, he was granted a loan to buy Dhaka Tobacco. His first product manufactured using the new factory was the K-2 cigarette, which was received well in the market.

At that time, British American Tobacco Bangladesh (BATB) was leading the tobacco industry in Bangladesh. However, among the local firms, Dhaka Tobacco owned by Akij Group and Alpha Tobacco were in the second and third position respectively (BEI Report, 2005). Other well-known cigarette companies were Sonali Tobacco, Nasir Gold Tobacco, and Imperial Tobacco (Rahman & Uddin, 2010).

The cigarette companies operating in Bangladesh targeted three market segments, premium, medium, and low, for effective marketing and increased customer satisfaction. BATB's products included all three segments: Benson & Hedges for premium, John Player Gold Leaf and Pall Mall for medium, while Star, Capstan, Scissors, Pilot, Gold, and Flake were targeted at lower segments. However, Sonali

Tobacco, Abul Khaier Tobacco and Alpha Tobacco operated only in the lower segments (Rahman & Uddin, 2010).

In order to meet the increasing demand of his new tobacco factory for raw materials, in 1981, Akij established the Dhaka Tobacco Leaf Processing Company. This plant was the very first tobacco leaf processing company in the country. To equip his plant, Akij bought a machine from America with 2000KV power and a processing capacity of 16 tons of leaves per hour.

By the 1980s, the demand for filter cigarettes had increased.¹³⁴ Correspondingly, in 1985, Akij bought a Max-3 filter cigarette machine from London. Akij's filter cigarette brands were 'Five Star' and 'Nevi'. He exported these two cigarette brands to Malaysia and Middle East countries. In 2009, Dhaka Tobacco Industry received a licence to produce two famous branded cigarettes, Marlboro Gold and Marlboro Full Flavour.

To meet changing demands in tobacco processing, Dhaka Tobacco installed Protos-90, Pucker F-5, and a most advanced machine called Dry Ice Expanded Tobacco Process (DIET) in their factory.¹³⁵ Currently, Dhaka Tobacco Industry has a production capacity of 350000 million cigarettes per year. Dhaka Tobacco now has Marlboro for premium, Castle for medium and Navy, Gold Mine, Sheikh, and K2 for lower income customers. Although the Akij Group manufactures and markets products for all three market segments, they mainly dominate the low-price segment, principally competing with hand-rolled cigarette manufacturers (Chowdhury, 2010).

Akij also diversified into leather processing. The leather industry in East Pakistan began as a handicraft business after the Second World War. In 1958, a Scottish family established the first leather factory in East Pakistan, Scott & Family (SAF). When this Scottish family left the country, they sold the factory to a British businessperson,

¹³⁴ 'Wills' by British American Tobacco and 'Purbani' by Alfar Tobacco Company were two filter cigarette brands in the 1980s.

¹³⁵ These are tobacco-processing machines using modern technology.

Cooper. However, due to Cooper's negligence and poor management, the mill was operating at a loss. In 1979, the manager of Sonali Bank asked Akij to invest some money in it. Akij agreed. Later that year, SAF went bankrupt and Akij was able to buy it on auction from the bank.

By then, Akij's second son Momin had finished his graduation in leather technology from London. He joined Akij's new leather business. Akij's clear vision, along with Momin's knowledge in leather, made the Group's new division extremely profitable. SAF eventually received the Gold Award for being the country's highest exporter in 2009, 2010, 2011, and 2012.

Momin expressed his view regarding the development of the family's leather business in this way¹³⁶,

After my graduation from the UK in Leather Engineering, I visited many leather-processing zones to get practical knowledge. Then I joined our business. With my continuous effort and related qualifications, I was awarded a gold trophy by the Bangladesh Prime Minister for being the highest finished leather exporter.

After successfully diversifying into leather, Akij decided to diversify into pharmaceuticals. By the 1980s, the pharmaceutical industry had become a booming sector in Bangladesh due to Ershad's 1982 drug policy. In 1986, Akij established Jess Pharmaceuticals Ltd. In 1992, when Akij found he needed more vehicles for delivering his steadily increasing products, he established a transporting agency.

Although Akij diversified vertically, he and his sons maintained focus on diversifying horizontally to complement their core tobacco business. In 1992, Akij established Bangladesh's first automatic match-making factory. However, the factory only started production in 1997 as Akij was busy conducting detailed research on relevant modern technology. For instance, Akij's fourth son, Amin, visited many

¹³⁶ Interviews with Momin were conducted on 11 July 2013 and 6 December 2014 in Dhaka.

countries before he joined the match factory. From his travels, he found out that new match-making machines were very expensive; so he suggested that the company buy a second-hand machine from Korea. The very first match produced by Akij Match Factory was called ‘Dolfin’. When Dolfin became popular in the market, another safety match called ‘Firebox’ was produced. Currently, the Akij Match Factory can produce up to 30,000 matches per day.

Although Akij was involved in raw jute trading in his initial business years, his true dream was to establish a jute mill. In 1982, the government decided to privatise some of the jute-mills that had been nationalised after the 1971 liberation war. Accordingly, Akij Jute Mill was established in 1994 with a few second-hand machines. The mill then had two units of 28 spindle spinning frames. Akij wanted to expand its production capacity, so he sent his son Nasir to Calcutta to observe other jute mills. After returning, Nasir advised his father to appoint skilled labour from other mills. Akij followed his son’s advice. Nasir also travelled to 40 countries in Europe where he sold his jute in small amounts to each buyer to gain their confidence. Eventually, the family’s jute became well known among buyers. They started exporting from 1997 onwards (see Figure 5.13). In 2002, Akij Jute Mill received the Gold Award for its jute exports. The Bangladesh government also awarded Akij Jute Mill the National Export Trophy for the years 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08, and 2008-09.

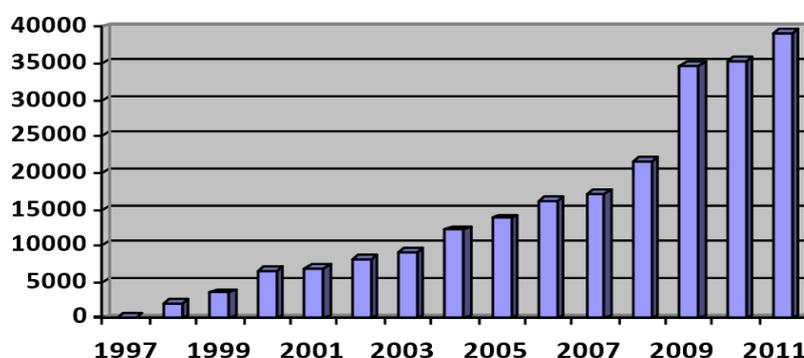


Figure 5.13: Export Growth Chart of Akij Jute Mills Ltd.

Source: Ministry of Finance

By 1982, the ready-made garments sector had also started booming. To support this garments industry, many big composite textile mills were established in Bangladesh. Consequently, Akij went to Mexico to buy a second-hand textile mill. In 1998, he established a textile mill by investing Tk450 million (US\$10.16 million). The mill had 19,000 spindles and a production capacity of 4.5 tons. Akij's son Bashir also travelled to Europe and bought new textile machines with 25,000 spindles. The mill now has 52,000 spindles and an invested capital of Tk3480 million (US\$44.6 million). Table 5.7 shows the annual turnover of Akij Textile Mill from 2008-2012.

Akij gradually added many other businesses to the Group. In 1997, he established Akij Particle & Board Mill with second-hand machines from Ecuador. At that time, the Partex Group was dominating the particle industry with a single layer particleboard.¹³⁷ However, Akij managed to produce a three-layer particleboard and also bought a brand new machine from a German company, Winepon, which could produce melamine boards. The Akij Group subsequently became the first company to produce melamine boards in Bangladesh.

In 2001, upon observing the increasing problem of adulterated foods and beverages in Bangladesh, Akij established Food & Beverage Ltd. with a capital of Tk2000 million (US\$35.68 million). The company's first product was full cream milk, 'Firm Fresh'. Akij's commitment to quality is evidenced by the fact that before starting production, his son Bashir had to make a written promise to Akij that he would never mix water with their milk for sale. Farm Fresh is now a well-known milk brand. Bashir commented,¹³⁸

¹³⁷ This is another prominent family-owned business in Bangladesh.

¹³⁸ Interviews were conducted with Bashir in Dhaka on 12 July 2013 and on 6 December 2014.

Father used to check each product's quality, taste, labelling, and packaging before it was sold in the market. He used to say that if we cannot have these products, we should not tell others to have them.

Food & Beverage's second product was juice. There were three available technologies for producing juices at that time: Hot Filling Technology (priced at Tk300-320 million or US\$5 to US\$5.8 million), Glass Filling Technology (priced at Tk40-50 million or US\$7-9 million), and Aseptic Cold Filling Technology (priced at Tk1200 million or US\$22 million). Although Aseptic technology did not use any preservatives, it was the most expensive one. Nevertheless, since preservatives are harmful for health, Akij decided to install Aseptic technology in his juice factory. Bashir hired three microbiologists with doctorate degrees from Germany to train the company's food technicians for two years on how to operate Aseptic machines. Akij Group is the first one in Bangladesh and the second in Asia to bring the aseptic juice packaging and filling system from Germany (*The Daily Star*, 4 October 2013).¹³⁹

Akij's 'Frutica Juice' was the very first preservative free juice in Bangladesh. The company then added cola soft drinks, mineral water, chips, flour, and noodles. Table 5.8 shows the three years turnover of Akij Food and Beverages Ltd.

In 2002, Akij established a cement factory. Before that, he sent Bashir to Germany to obtain knowledge of modern technology for cement factories. Bashir returned and informed Akij about Vertical Roller Mill (VRM) technology in Germany to produce cement using 30 percent less energy; however, it was very expensive.¹⁴⁰

¹³⁹ In aseptic processing, a germ-free product is packaged in sterile containers in a way that maintains high quality.

¹⁴⁰ VRM is regarded as the most environment-friendly technology across countries like United States, China, France, Spain, Middle East and South Asian regions.

Nevertheless, Akij decided to use this technology in his business. Using this technology, Akij pioneered the production of fly ash free cement in Bangladesh in 2009. With this technology, they were emitting 40 percent less carbon dioxide than other cement brands (*The Daily Star*, 10 October 2013).

As the population of Bangladesh increased, so did the demand for housing and construction materials. Observing this need, in 2004, the Akij Group set up a new tiles manufacturing plant on 38 acres of land in Trisal under the Mymensing district, with a yearly production capacity of 7.0 million square metres (SQM) (Ahsan, 2011). Akij invested Tk2000 million (US\$34.16 million) in this tiles-making project, funded by a group of banks led by Islami Bank Bangladesh Ltd. Presently, although a total of 13 companies in the country are producing around 18 million SQM of tiles yearly, this has far to go before meeting the country's demand of 49 million SQM. The rest of the demand is met through imports, mainly from China, France, and Italy.

When Akij passed away in 2006, his sons took on the responsibility of leading the business. However, it was easy for them to manage as they had been working with Akij for years, observing the ins and outs of running a sustainable business. The new businesses they established included: Akij Poly Fiber Industries Ltd. (2007), Akij Securities, a brokerage house, Akij Shipping Line, Akij Ocean Line Ltd. (2010), and Akij Gas Company Ltd. (2009).

Since its early days, the Akij Group has employed a direct distribution strategy for marketing products. In fact, Akij used to deliver his products by bicycle to various shops, instead of relying on distributors. Later on, he established a transport agency to deliver his products directly. This direct distribution strategy ensured the immediate availability of his products to customers and allowed for direct feedback from them. Even after the company expanded, this strategy was maintained.

In 1979, Akij started focusing on advertising through electronic media, billboards,

and signboards, which was rare at that time. In 1983, he even established his own marketing division, Akij Corporation.

Although the Akij Group remained focused on its core business, tobacco, it is also widely diversified. This expansion of the business, however, hindered the creation of more brand products like Akij Biri, despite considerable investment in modern Technology and marketing. In an interview, the Group's Managing Director Bashir, commented:¹⁴¹

We have not lost our focus on our tobacco unit; still we are known for Akij Biri, among our other prominent units like jute, cement, food, and beverages. We have rather diversified horizontally by adding a match factory, printing, and packaging in order to have control over the whole distribution. We have come up with several brands in cigarettes besides Akij Biri, however, the negative social branding against tobacco consumption affects our business, leading us to focus on other business segments to keep customer attention alive.

As Bashir points out, business was difficult for Akij's flagship tobacco company due to the negative social value attached to the tobacco industry. There were also no government policies in support of the tobacco industry, which might have given Akij a business advantage. Conversely, the government has legislated many regulations against the tobacco industry, including increase in duties and a ban on any kind of promotional campaign. Furthermore, due to large increases in taxes, cigarette prices have risen between 55 percent and 70 percent in the last two years. Tobacco companies in Bangladesh are subject to two additional challenges: firstly, the import of contraband cigarettes that deprives the legitimate manufacturer, and secondly, government restriction on the expansion of tobacco cultivation land, which inflates tobacco prices.

¹⁴¹ Interviews were conducted with Bashir in Dhaka on 12 July 2013 and on 7 December 2014.

Prevented from advertising or campaigning directly, tobacco companies are forced to use other methods for publicity, usually by sponsoring corporate social responsibility activities.

On this point, Bashir commented,¹⁴³

We are taking greater risks in Bangladesh as government policies are the most critical obstacle in the implementation of our diversification plans. The constant political interference in regulations and laws ... this implies a high uncertainty, which makes our investment highly risky. This is why we have diversified into different sectors, in order to reduce the risk of failure.

It should be noted that the Akij Group possesses very weak ties with the state. Akij had no political links or any involvement in lobby groups. However, his son Afil did get involved in politics in 1996, and became a BAL MP in 2009. Besides this, Afil and Akij's other son, Nasir, are also members of the Bangladesh Jute Spinners Association. Although the family has weak state ties, because of Akij's fame in business circles, they have enjoyed a good relationship with Bangladesh's various ruling regimes.¹⁴⁴ Compared to many conglomerates, Akij Group's annual turnover is low, US\$250 million in 2015.¹⁴⁵

Today, Akij Group is one of the biggest conglomerates of Bangladesh, with 42 large businesses, 32000 employees, and 2000 product categories. It accounts for 3 percent (more than Tk3300 crore or USD412 million in years 2011-12) of the national exchequer, and more than 1 percent of the country's GDP. Its exports are worth more than US\$150 million. In fact, its exports have exceeded its total imports since 2000.

¹⁴³ Ibid.

¹⁴⁴ Viewpoint of a television reporter from Channel-I, in an interview conducted in Dhaka on 15 July 2013.

¹⁴⁵ This view of the poor turnover of the Group is that of its Finance Director.

5.5.5 Conclusion

The history of Akij Group highlights how one boy's need for survival eventually became the motivational force behind the development of a huge business empire. Since Akij lacked resources like education and money, he had to start very small. He began his business in a traditional sector, tobacco, noting that the huge demand for cheap cigarettes or biri in villages would give him a chance to create a niche group. His entrepreneurial spirit kept him expanding his business slowly and steadily, diversifying carefully into potential sectors.

Nevertheless, Akij Group demonstrates sluggish growth, which can be attributed to the lack of policy benefits for its primary tobacco business, as well as its weak links with the state. Also, the family still follows the local traditional paradigm of 100 percent family ownership, despite their entrepreneurial character.

5.6 Case Study 5: Bangladesh Export Import Company (BEXIMCO) Group

5.6.1 Origins

Bangladesh Export Import Company (BEXIMCO) Group is among the top three conglomerates of Bangladesh and is a brand icon in pharmaceuticals, ceramics, textiles, and construction. This Group has demonstrated strong entrepreneurial capacity while also productively utilising state nexuses to develop its business. The Group originated in 1956 as a jute mill founded by politician Fazlur Rahman, who was the very first Bengali Commerce Minister of East Pakistan. However, the real shape of the business owes credit to Fazlur's two sons, Sohail and Salman, who took hold of the business after his death and diversified it into a successful pharmaceutical company, established multiple brand products, and eventually into one of the top ranking conglomerates of the country.

Founder Fazlur belonged to a rich and educated Muslim family of East Pakistan. He graduated with a degree in History in 1929 and obtained a Masters in Law in 1933.

Fazlur worked in the legal profession alongside being involved in politics and social work. He was a working committee member of the Bengal Provincial Muslim League and a member of the central committee of the All Pakistan Muslim League. In 1937, he was elected a member of the Bengal Legislative Council. Subsequently, in 1943 he was appointed as the chief whip of the Legislative Council, and became the Revenue Minister of the Bengal government in 1946. Later that year, he was again elected as a member of the Legislative Council.

Fazlur was the Minister for Education and Commerce in the cabinet of Khwaja Nazimuddin from 1951 to 1953. In 1954, he was elected a member of the East Pakistan Provincial Assembly from the Dhaka University constituency, as a candidate of the Muslim League. Besides his involvement in politics, Fazlur Rahman was the Chairman of the IFIC Bank, the Director of the Arab Bangladesh Bank and the Pubali Bank, a government bank, and the Director of Investment Corporation Bangladesh.

After the partition of India in 1947, Fazlur became a central cabinet member under Liaqat Ali Khan, in charge of the Ministry of Education, Commerce, and Refugees. After the partition, jute and textile became the two most prominent industrial sectors of East Pakistan. However, most industrial enterprises were based in West Pakistan. Jute manufacturing is one of the oldest traditional manufacturing sectors of Bangladesh, as geographical conditions there are appropriate for its growth. In fact, East Bengal used to produce 40 percent of the total world's jute (Alim, 1978). During the 1960s and 1970s, jute accounted for a major share of the manufacturing sector in national income and manufacturing employment (Thomas, 1979). Exports of jute and jute goods were the two most important sources of foreign exchange in Pakistan during the 1960s. However, it was only after the 1960s that the economic conditions of East Pakistan permitted a few local Bengali entrepreneurs to establish their own businesses, mainly those who had state connections and were wealthy.

In 1956, Fazlur started a jute company called New Dacca Industries Ltd. (NDI) by investing PKR 350000 (US\$73529) obtained from his savings and selling his land. Since he was the first Bengali to establish a jute mill, he enjoyed first-mover's advantage. However, due to his political responsibilities, he was unable to pay attention to his business and his small jute business eventually became debt ridden.

Fazlur died in 1965, at a point where NDI had a production capacity of only 4MT per day. His sons worked hard to salvage the business, managing in two years to slash their father's debt, increase output, and make the firm entirely export-oriented.

Unfortunately, just as the mill started performing well, the 1971 war for independence broke out. Due to political instability, operations of jute mills were constantly interrupted. Consequently, the country's jute production declined in 1971 and 1972. In 1972, the Bangladesh government nationalised the mill. The brothers had to wait almost a decade for the government to privatise industries that had been nationalised before they could reclaim their factory. During this period, they realised that although jute was the 'golden fibre', the ascendancy of export-oriented RMG and unfavourable policies had decreased the demand for jute goods in both domestic and international markets. The Rahman brothers therefore had to look elsewhere to survive in business.

In 1972, they co-founded the Bangladesh Export Import Company (BEXIMCO). At that time, only a few businessmen in East Bengal had ventured into importing drugs, as the 1957 Drugs Act permitted the import of certain drugs only under licences or permits issued by relevant authorities. However, the Rahman brothers managed to obtain export and import licences due to their familiarity with bureaucrats. They began importing drugs from Belgium, France, Britain, Germany, and the Netherlands, and exporting seafood and crushed bones.

In the 1970s, the pharmaceutical industry in Bangladesh was largely dominated by MNCs, and the country was very much import dependent. In fact, local pharmaceuticals were manufacturing only 10 percent of the country's medicines. Since there was huge demand for drugs, the brothers' business proved almost instantly successful, generating an annual turnover of around Tk30 million (US\$6.3 million).

In 1976, the brothers went on to establish BEXIMCO Pharma Ltd. (BPL). Observing the huge domestic demand, BPL started importing drugs from Europe, Britain, and the United States. Although Square Pharma was the pioneer pharmaceutical company in Bangladesh, BEXIMCO Pharma quickly captured market demand due to their quality and price. In 1980, the company began manufacturing and marketing licensee products for Bayer AG of Germany and the US-based Upjohn Inc. From 1983, BPL started manufacturing its own products. The company started exporting in 1992 and currently exports medicines to about 45 countries.

In 1978, their jute company was returned to the Rahman brothers. Currently, the company's production capacity of jute yarn and twine is 52MT per day. Its yarn is now used by premier carpet and rug manufacturers in Europe and America. Besides carpet yarn and twine, NDI also produces yarn and twine for Tatami mats, as well as other floor coverings for gardening and household purposes. NDI also specialises in producing high-valued yarn with special treatments, such as those that are dyed, sized, polished, rot-proofed, and waxed.

The brothers have also extended their jute division into three different companies: New Dacca Industries Ltd., Sonali Ansh Ltd., and Esses Exporters Ltd. The three firms together have a total annual turnover of over US\$20 million. In 1979, the brothers established Shinepukur Jute Spinners Ltd., which was later renamed as Shinepukur Holdings Ltd. However, in 2005, NDI acquired Shinepukur Holdings' entire jute business.

Local pharmaceutical production only started flourishing after the implementation of Zia's 1982 Drug Control Ordinance, which banned certain types of drugs from the market, limited the marketing rights of foreign companies, and established price control for finished drugs and their raw materials. This resulted in the withdrawal of many foreign companies from the market (in which they had a share of around 70 percent in 1970), and strong growth in local production.

At the time of BEXIMCO Pharma's incorporation, however, the market was still dominated by many foreign pharmaceuticals; therefore, survival was not at all easy. Furthermore, after the 1982 drug policy, many new local pharmaceuticals emerged, resulting in stiff competition. Nevertheless, BEXIMCO Pharma is still one of Bangladesh's top three pharmaceuticals, holding its own against both local and foreign companies.

Among the local pharmaceutical companies, Square Pharma is leading with an annual revenue of US\$100 million, followed by BEXIMCO, Acme, Opsonin, Eskayef, ACI, and Incepta. However, a key issue for the sector is that it still imports most of its products' ingredients, including APIs. In actual fact, the local pharmaceutical sector's principal activities are formulating drugs from imported ingredients, packaging them, and marketing them to retail pharmacies within the country. Most of its products are branded generic products.

The top five pharma companies controlling approximately 50 percent of the market share were Square Pharma (13.93 percent), Fisons (12.4 percent), BEXIMCO (7.17 percent), Glaxo (6.99 percent), and Opsonin (5.9 percent). This means that even in 1997, competition existed between local and multinational pharmaceuticals (*Shawon, 2011; Lima, 2009*).

Eventually, the local pharmaceutical industry flourished and competition increased dramatically. Square, BEXIMCO, Incepta, Acme, SK-F, Drug International,

AristoPharma, and ACI, are the current competitors in the medicine market (World Bank Report, 2013). By 2012, about 255 pharmaceutical companies produced producing 20,080 brands of medicines worth Tk70000 million (US\$863 million) annually in Bangladesh, which meets about 97 percent of the total domestic demand (Chowdhury, et al., 2013).

According to another World Bank report, BEXIMCO Pharma was third in the market with total sales of Tk4200 million (US\$60.96 million) in 2009 (World Bank Report, 2013). BPL is also the first Bangladeshi company to be listed in London's Alternative Investment Exchange. Today, it holds a 15 percent share in the domestic market, competing with multinational giants such as Glaxo Welcome, Novartis, Hoechst, Rhone Poulenc Rorer, and Fisons (Lal, 2011).

5.6.2 Family Tree

BEXIMCO Group has reached its third generation in the family business (see Figure 5.14). The founder's eldest son, Sohail, is the current Chairman of the Group. Besides serving the family business, Sohail holds prominent positions in various banks and lobby groups. He is the Chairman of IFIC Bank Ltd., the Director of Pubali Bank, the Director of the Industrial Promotion and Development Company, and the Director of the Investment Corporation of Bangladesh. Sohail's son, Shahriar, graduated from England and joined the family business as a director.

The founder's youngest son, Salman, is Vice Chairman of the Group and a well-known figure in political circles, lobby groups, and banks. He is the director of the Dhaka Stock Exchange, the founder of the Bangladesh Enterprise Institute, and President of several associations, such as the MCCI, the Bangladesh Textile Mills Association, the Bangladesh Association of Pharmaceutical Industries, and the South

Asian Association for Regional Cooperation (SAARC) Chambers of Commerce and Industry.¹⁴⁶ Between 1994 and 1996, he was President of FBCCI. Salman is also on the board of directors of IFIC Bank Ltd.¹⁴⁷ In addition, he serves as personal advisor to the current Prime Minister, Sheikh Hasina.

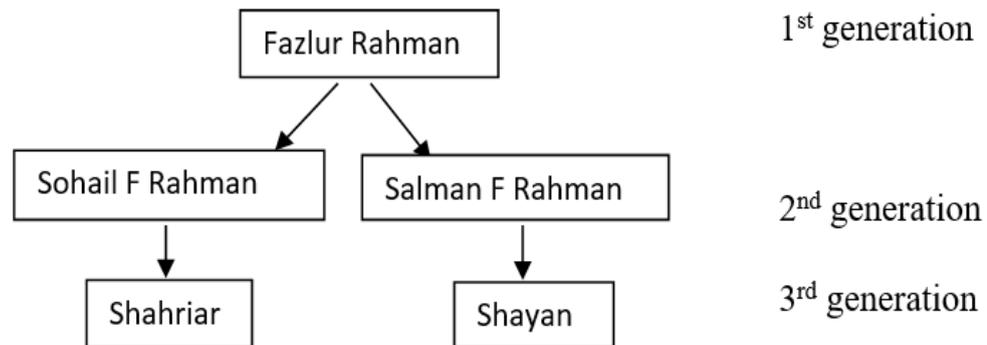


Figure 5.14: Family Genogram of BEXIMCO Group

Source: Interview

Salman's only son, Shayan, joined the family business as a director after graduation from a university in Britain. He married a BNP minister's daughter. Under his leadership, Beximco developed a media unit. Salman's only daughter, Shamaila, died in a tragic car accident in 2001, at the age of 23 while she was studying for a Bachelor of Arts in Law at University College London (*The Daily Star*: 9 October, 2001). She was not involved in the business. In fact, no female family member is involved in the business.

¹⁴⁶ The SAARC is an economic and political organisation of eight countries in Southern Asia.

¹⁴⁷ IFIC Bank is a finance company established in 1976 as a joint-venture between the government and the private sector. In 1983, when the government began allowing banks into the private sector, IFIC was converted to a full-fledged commercial bank. Currently, the Bangladeshi government holds 32.75 percent of the bank's share capital, while the sponsor directors hold 11.31 percent. The public owns the rest.

5.6.3 Ownership and control

BEXIMCO Group was one of the first groups in Bangladesh to professionalise its management. In fact, the Rahman brothers hired professionals to run BEXIMCO from the initial years of the business. These experts were paid a high salary and given a certain level of decision-making authority. Besides this, the Group provides management and development training programmes throughout the year for all its employees. In addition, managers and key professionals are periodically sent abroad for more training.

Although the brothers have not appointed any outsiders on the Group's board, they have listed four companies on the stock market: Bangladesh Export Import Company Ltd., BEXIMCO Pharmaceuticals Ltd., Shinepukur Ceramics Ltd., and BEXIMCO Synthetics Ltd. The family only owns a 30 percent share of the Group; the rest belongs to outsiders (see Table 5.5). The sons of Salman and Sohail have shareholdings in the Group; however, they are not on the board. None of the female family members – Salman and Sohail's mother, Syeda Fatina Rahman, Salman's wife, Syeda Rubaba Rahman, and daughter Shamaila Narmeen F. Rahman, and Sohail's wife, Shamim Rahman, and daughter, Sunehra Fasihur Rahman – are involved in the business, despite their aristocratic family background.

Table 5.5: Board of BEXIMCO Group (family and non-family members)

Name	Family/non family member	Position	Number of Shares
A.Sohail F. Rahman	Family	Chairman and Managing Director	32,777,925 (15%)
Salman Rahman	Family	Vice Chairman	36,778,746 (15%)
Iqbal Ahmed	Non-family	Director	7%
M.A. Quasem	Non-family	Director	7%
O.K. Chowdhury	Non-family	Director	7%
A.B.S. Rahman	Non-family	Director	7%
Dr. Abdul Alim Khan	Non-family	Independent Director	Nil
Barister Fahimul Huq	Non-family	Independent Director	Nil
Md. Asad Ullah	Non-family	Executive Director and Company Secretary	4%
Azahar Uddin Ahmed, FCA	Non-family	Head of Internal Audit	Nil
Total family ownership 30%			

Source: Interview

When family-controlled businesses in Bangladesh choose outsiders as directors, they are often close friends or people who have links with the state (Uddin and Chowdhury, 2007; Nusrat, 2013). For instance, BPL's directors include managing director Nazmul Hassan, who is an MP and the current President's son. Another director is Abdur Rahman, who was an advisor to the caretaker government of Bangladesh. Table 5.5 clearly shows that although BEXIMCO Group includes outsiders on board, they do not hold any shares, whereas family members hold 30 percent shares of the Group. The outsiders are employed with salary.

5.6.4 Growth and Performance

The literature on entrepreneurship indicates that a strong entrepreneurial base works as a safety mechanism for businesses in developing economies, helping them endure rapidly changing times as these countries democratise and industrialise. In order to

survive, Salman and Sohail initially diversified into pharmaceuticals, which allowed them to capture the huge market demand for local medicines. Their success gave them confidence to diversify further, eventually creating numerous branded products. The brothers diversified the company vertically and horizontally into different growth potential sectors such as ceramics, textiles, real estate, energy, chemical, construction, IT, and media (see Figure 5.15). Their business development shows that they did not rely much on joint-ventures (refer to Figure 5.16), indicating that they possessed business strengths and expertise across different sectors.

BPL has captured the leading position in the pharmaceutical industry as it is the single largest producer of metered-dose inhaler (MDIs) in Bangladesh and the only company in Asia to obtain a manufacturing contract for GSK's Ventolin® inhaler.¹⁴⁸ Also, BPL's MDI facility was designed and installed in collaboration with an industrial giant Pamasol, and has an annual production capacity of four million canisters. In 2008, BPL received approval from the Therapeutic Goods Administration (TGA) of Australia for new manufacturing facilities, for oral solid dosages (tablets and capsules), and metered dose inhalers and sprays. In the same year, BPL received export approval from the health ministries of the Gulf Cooperation Council (GCC) countries to commence export of medicines into that region. BPL is the first company from Bangladesh to receive this approval (BPL Website).¹⁴⁹

In 2005, BPL was awarded the SAARC Country Gold Award by Sri Lanka's premier chamber, the Ceylon National Chamber of Industries (CNCI). BPL also received the National Export Trophy (Gold) three times - in 1998, 1999 and 2000 - for its exceptional performance in exporting medicines (BEXIMCO Pharma website).¹⁵⁰

¹⁴⁸ MDI is a device that delivers a specific amount of medication to the lungs, in the form of a short burst of aerosolised medicine that is usually self-administered by the patient via inhalation. It is the most commonly used delivery system for treating asthma, chronic obstructive pulmonary disease (COPD) and other respiratory diseases.

¹⁴⁹ Accessed from: www.beximcopharma.com on 3 July 2013

¹⁵⁰ Accessed from: www.beximcopharma.com on 3 July 2013

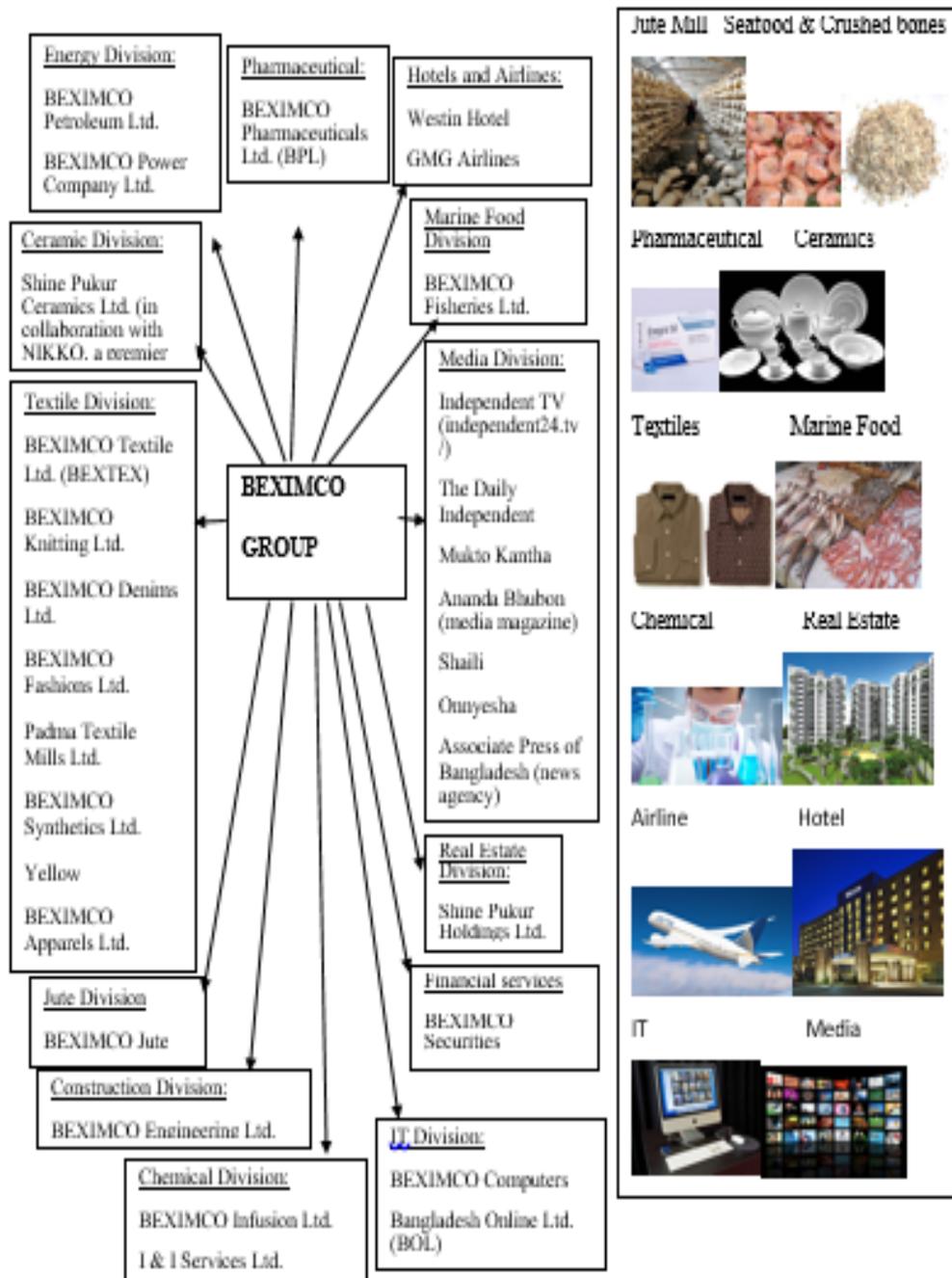


Figure 5.15: BEXIMCO Group of Companies (As at 2014)

Source: Interview

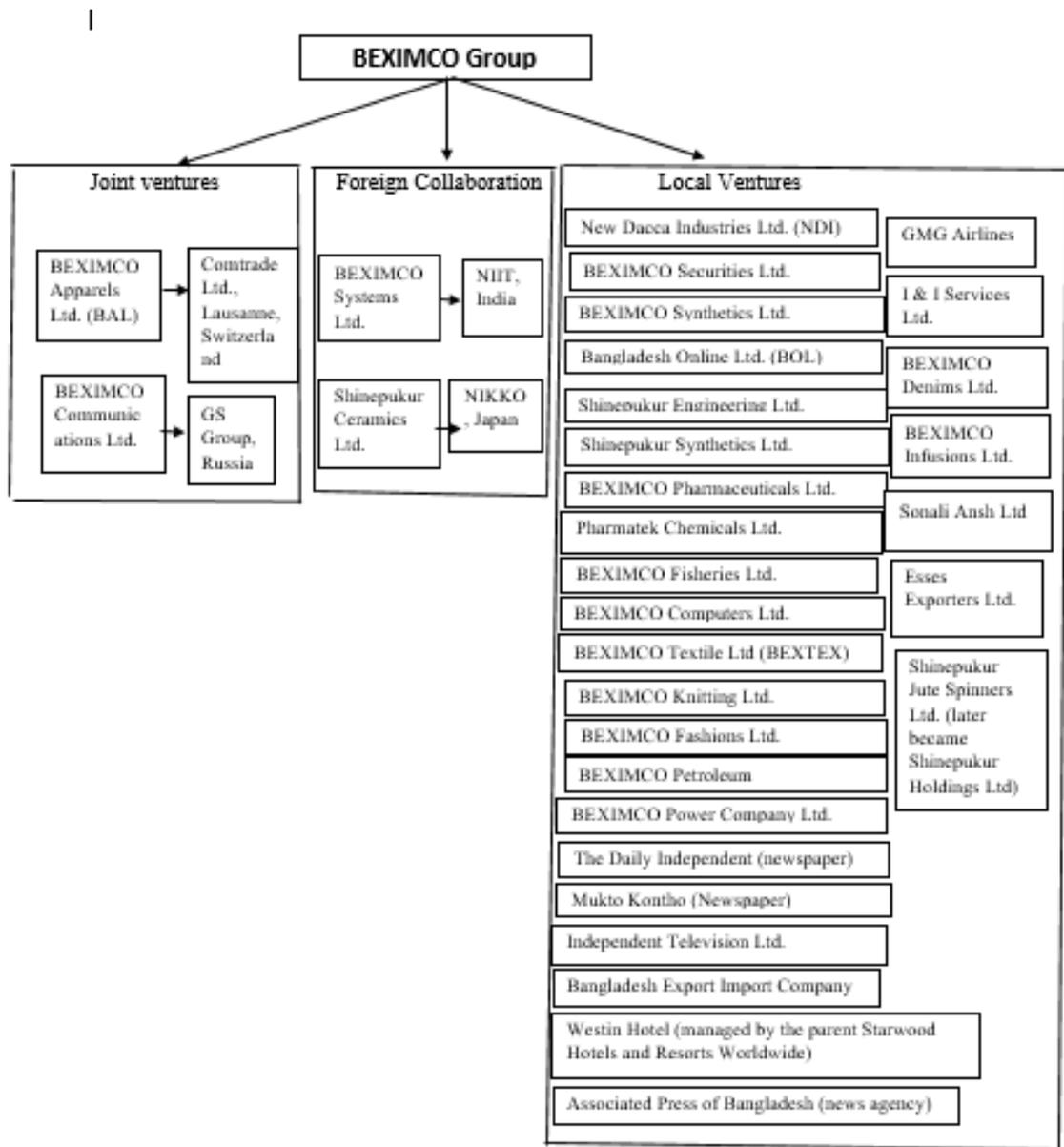


Figure 5.16: Corporate Structure of BEXIMCO Group (As at 2014)

Source: interview

By 1980, BEXIMCO had become a brand name in Bangladesh’s pharmaceutical industry. Salman and Sohail then further diversified into various growth potential sectors where the government was providing incentives. In 1983, they established BEXMICO’s first IT unit, Beximco Computers Ltd. (BCL). With the launch of BexiBank, an integrated multi-user, multi-tasking banking application system, BCL’s software became well known. It is currently in use in over 300 branches of 15 major banks nationwide.

In 1984, BEXIMCO entered the textile industry with the establishment of BEXIMCO Textile Ltd. (Bextex). The company began production in 1990 and was publicly-listed in 1992. Its mill has an installed capacity of 288 high-speed air-jet looms in its weaving section, as well as a high-tech dyeing and finishing section with a capacity of 100,000 yards of finished fabric per day. It currently produces about 44 million garments every year.¹⁵¹

In 1985, another textile firm, Comtrade Apparels Ltd., was established, a joint-venture project between Comtrade Ltd. of Lausanne, Switzerland, and the BEXIMCO Group. The name of this company was changed to BEXIMCO Apparels Ltd. in 1997. The company specialises in women's tops and men's shirts. It currently produces over 2.5 million units of high quality men's attire and ladies' blouses for prominent brands retailed in the United States, Canada, and Europe.

Other firms in BEXIMCO's textile division include BEXIMCO Knitting Ltd., BEXIMCO Fashions Ltd., Padma Textile Mills Ltd., BEXIMCO Synthetics Ltd., and Yellow BEXIMCO Knitting Ltd., which is a state-of-the-art composite knit fabric production mill which exports knit garments. BEXIMCO Fashions is a 100 percent export-oriented garments factory, located in the Dhaka Export Processing Zone at Savar. Padma Textile Mills is a cotton and polyester blended yarn-spinning mill with 122,000 spindles. BEXIMCO Synthetics is a polyester filament yarn and drawn texturized yarn (DTY) production unit located near the BEXIMCO Industrial Park. It became a public limited company in 1993. BEXIMCO's latest textile firm, Yellow, was established in 2004 and has outlets in Bangladesh as well as in Pakistan, China, and the Far East.

¹⁵¹ More information on Bextex can be found in the 2010 Bextex Annual Report.

As noted by Kochanek (1996), BEXIMCO has been one of the 14 top family firms in Bangladesh since the 1980s, when their sales and assets topped Tk1 billion. It had a total of 6,500 workers in 1988 and its annual turnover reached Tk3000 million (US\$99.94 million) in 1990. To address the country's growing housing demands, BEXIMCO has also established a Real Estate division with two companies: Shinepukur Holdings and BEXIMCO Engineering Ltd. (BEL). Shinepukur Holdings' aim was to segment the real-estate market and develop demographically specific housing projects. BEL, on the other hand, was established as a construction unit. BEL has undertaken several important construction projects both in and outside Bangladesh.¹⁵²

In the 1990s, BEXIMCO further diversified its pharmaceutical, IT, and textile divisions. In 1993, the Group diversified the former by establishing BEXIMCO Infusions Ltd., Pharmatek Chemicals Ltd., and I & I Services Ltd. BEXIMCO Infusions was founded as a chemical company, with an annual production capacity of six million bottles of life saving I.V. fluids. Pharmatek Chemicals Ltd. manufactures Paracetamol, catering to almost 60 percent of the local market, and supplies products to national and multinational companies operating in Bangladesh. Meanwhile, I & I Services Ltd. functions as the distribution wing of the chemical division. It maintains a large distribution network with 20,000 customers nationwide.

In 1998, BEXIMCO diversified its IT division by establishing another IT company, Bangladesh Online (BOL). BOL has the fastest access among ISPs in Bangladesh via 116 lines at 33.6 kbps. In 2004, the Group diversified its textile business by incorporating another textile company, Yellow. This company retails the latest fashions in men's and women's wear and has become a brand name in the country.

¹⁵² BEL has worked a number of other major projects including a 6km road from Kushtia to Jhenaidah; with Hyundai Engineering & Construction JV for the construction of the historic 4.8km-long Jamuna Multipurpose Bridge Project; a 102 meter long pre-stressed concrete girder bridge over Putimari River at Bagerhat, under the Local Government Engineering Department (LGED); a 165 meter long P.S.B Bridge on the 18th KM Fulbaria-Kaliakair-Dhamrai Road, under the Gazipur Road Division, Roads and Highways Department; a Jetty and Water intake structure in Karnafuli River; and a 275kv transmission line crossing over the Klang river in Kuala Lumpur, Malaysia.

In 1999, BEXIMCO founded Shinepukur Ceramics, in collaboration with NIKKO, a premier Japanese company. This company manufactures and markets high quality porcelain and bone china tableware.

BEXIMCO also has a flourishing media division. It owns a television channel, a media agency, newspapers, and magazines, through which the Group has direct influence over the media. BEXIMCO's television channel, Independent TV, was launched in 2012. *The Daily Independent* and *Mukto Kontho* are the Group's two newspapers, while *Ananda Bhuban*, *Shaili*, and the weekly *Onnyesha* are its three magazines. BEXIMCO's news agency, the Associated Press of Bangladesh, provides up-to-date and accurate news-feeds to the Bangladeshi press.

The most recent venture by BEXIMCO's media division was the establishment of BEXIMCO Communications Ltd. in 2013, a joint-venture with the Russian industrial giant, the GS Group. This led to the launching of the country's first Direct-to-Home (DTH) technology for television viewers. DTH technology enables broadcasting companies to directly beam signals to a television set through a receiver installed in the subscriber's house, instead of using cable connections (*Dhaka Tribune* 21 August 2015).

BEXIMCO has also invested in other local and foreign firms. It has a 50 percent stake in a local airline company, GMG Airlines, and contributed US\$3.8 million to buy two planes. In 2009, the Group additionally lent GMG US\$5.2 million to help the airlines through a financial crisis (*bdnews24.com*: 17 June 2010); that same year, the Group also bought into Westin (managed by Starwood Hotels and Resorts Worldwide

Inc.), investing about US\$20 million (*bdnews24.com*: 16 June 2010; *bdnews24.com*: 17 June 2010). The Group has also invested US\$25 million for the establishment of a pharmaceutical inhaler plant in Saudi Arabia. Moreover, it operates sales offices in New York and Dallas, with 169 foreign employees from 20 countries.

As Shayan, Salman's son and current Director of BEXIMCO, stated: *To achieve a global footprint, we will have to take our hub outside Bangladesh.*¹⁵³

On the topic of diversification, Salman, the Managing Director of the Group, commented,¹⁵⁴

Diversification is a way to grow in business and expand the territory. For us, diversification at first was a strategy to save us from loss as we were in debt with the jute mill. Then, eventually, we diversified in different fields whenever we observed business potential.

BEXIMCO Group invests US\$3.5 million in R&D annually, which is a big amount compared to other Bangladeshi firms (Lal, 2011). This investment, however, has generated sizeable returns for them. For example, BEXIMCO Pharma's R&D team has developed a wide range of generic products, including difficult to copy formulations in defined specialty areas, such as multi-layer tablets, sustained release formulations, dispersible tablets, CFC-free inhalers, prefilled syringes, lyophilized injectable, and sterile ophthalmic. It exports medicines to 45 countries.

Moreover, BEXIMCO has adapted its poor performing units through strategic mergers and acquisitions. The Group merged eight low performing companies with high performing firms and closed down three businesses (*bdnews24.com*: 2 August 2011).¹⁵⁵

¹⁵³ This interview was conducted in Dhaka on 2 July 2013.

¹⁵⁴ This interview was conducted in Dhaka on 3 July 2013.

¹⁵⁵ The group also merged eight businesses with Bangladesh Export Import Co. Ltd. (Padma Textile, Beximco Textile, Beximco Knitting, Beximco Fisheries, BOL, Shinepukur Holdings, Bextex, and Beximco Denims) in order to balance losses and downward growth. In 2005, Beximco Infusions Ltd. merged with its parent company (Beximco website). In order to gain better financial performance, BEXIMCO Ltd. also merged with Beximco Fisheries and Shinepukur Ceramics. BEXIMCO has additionally acquired four of its non-listed sister concerns (International Knitwear and Apparels, Beximco Fashion, Crescent Fashion and Design, FreshTex Bangladesh), which increased its paid-up capital from US\$24 million to US\$1.1 billion.

When interviewed in Dhaka, Salman commented¹⁵⁶, *such a merger will not only result in the formation of a major company in terms of asset base, revenue, and profits, but will ultimately benefit shareholders through maximisation of their return.*

The history of BEXIMCO's growth and performance indicates that it is highly entrepreneurial; it has diversified into 35 business areas and has five publicly-listed companies. However, the family's direct and indirect state linkages also explain BEXIMCO's development and longevity as these connections have given it easy access to government rents like contracts, projects sanctions, and loans.¹⁵⁷ For example, Fazlur and his sons were able to obtain licences for their jute mill and pharmaceutical company in the beginning years of their business, when access to licences was restricted. New government policies also aided in BEXIMCO's growth, such as the 1982 drug policy that restricted foreign pharmaceuticals to the production of drugs that could not be produced locally; this helped local pharmaceuticals to flourish. As a Bangladesh economist noted:

*BEXIMCO Group is an example of a politician getting involved in business; however, afterwards his successors took major initiatives to explore in business and further extended their political links in order to have greater access to government facilities and control over policy-making.*¹⁵⁸

In 1982, Salman and Sohail partnered the Dubai-based Galadari Brothers Group and established the Arab Bangladesh Bank (AB Bank). However, in 1985, the brothers sold their stake in the AB Bank to their partners and used the funds to establish the IFIC Bank, in which both brothers invested a 30 percent stake. Salman is the current Chairman of this bank (Lal, 2011).

¹⁵⁶ This interview was conducted in Dhaka on 3 July 2013.

¹⁵⁷ This comment was made by the TIB Chairman, Iftekharuzzaman, on 8 July 2013.

¹⁵⁸ This interview was conducted on 8 July 2014.

The Rahman brothers' directorships in local and private banks, as well as their possession of their own leasing, insurance, and brokerage house, BEXIMCO Securities, have given them much influence in the financial sector.

Additionally, Salman's personal relationship with various political parties gave the Group an added advantage in securing power over policy-making.¹⁵⁹ Salman even set up a political party, the Prosperous Bangladeshi Movement in 1996; however, the party was short-lived as Sheikh Hasina lost the elections in 2001.

Salman's political connections were clearly utilised in 1999 when he circumvented a penalty for defaulting on a loan, thanks to Sheikh Hasina's influence.¹⁶⁰ In spite of this, Salman went on to become the Chairman of the Bangladesh Association of Publicly-Listed Companies (The Daily Star, 5 July, 2009). In fact, Awami League President and current Prime Minister Sheikh Hasina nominated Salman as her adviser for private sector development affairs (*The Daily Star: November 6, 2016*). However, in 2007, the military-installed caretaker government arrested him, and he was jailed for a few years. The charges levelled against him by the Anti-Corruption Commission included falsification of documents to obtain bank loans and possession of wealth beyond his income.¹⁶¹ However, when Sheikh Hasina regained power in 2009, all charges against Salman and BEXIMCO were dropped. In fact, according to the Bangladesh Bank, all BEXIMCO companies were literally removed from the loan defaulters list when Sheikh Hasina came into power (*bdnews24.com: 3 November 2009*).

Even more surprising is the fact that the banks themselves did not take any strict measures against Salman for these loan defaults. Among the list of 2,196 loan defaulters who dodged loans of Tk154510 million (US\$2242.74 million), BEXIMCO Group tops

¹⁵⁹ Sheikh Hasina Wajed, the Prime Minister of Bangladesh, is the sister of the Rahmans' childhood friend Sheikh Kamal. Salman's son Shayan also married a BNP leader's daughter.

¹⁶⁰ According to the Central Bank of Bangladesh's 2013 report, Salman took a loan of US\$2 billion for Beximco Textiles between 1994 and 1995 (*bdnews24.com.: 3 November 2009*).

¹⁶¹ The Anti-Corruption Commission filed a case on 1 October 2007 against Salman for charges of amassing Tk1820 million (US\$26.53 million) through rescheduling a loan of Tk1920 million (US\$28 million) from the AB Bank, by forging documents for six plots of land in Gazipur (*The Daily Star: 6 July 2009*).

it with a loan defaulting amount of Tk353.89 crore (*The Daily Star*, 6 July 2009). When Salman approached the central bank with a debt rescheduling plan of Tk52690 million (US\$764.81million) which he took from seven banks, out of which Janata, Agrani, Sonali bank rescheduled their loans considering the Group's contribution to the country's economy and employment generation. Salman showed two reasons behind the Group's liquidity crisis -- politically motivated credit restrictions on the Group between 2001 and 2008 and repayment of Tk8000 million (US\$117.2 million) in bank loans from 2012 till 2014. The state banks Agrani, Rupali, Sonali and Janata bank rescheduled BEXIMCO's Tk7750 million (US\$113.53 million), Tk6040 million US\$88.48 million), Tk9824.4 million (US\$145.3 million) and Tk18490 million (US\$270.85 million) with an interest rate of 12.5 percent, 11 percent and 11 percent respectively. (*The Daily Star*, 26 December 2014; 13 November 2014).

In an interview, former deputy governor of the central bank Khondkar Ibrahim Khaled said that BEXIMCO took loans from different banks by resorting to irregularities, and later had those rescheduled using political clout. Khaled added that the rescheduling proposals gave several facilities to the Group including a low interest rate than the regular interest rate of 13-14 percent, long term payback period (15 years) etc. (*The Daily Star*, 15 December 2014 *The Daily Star*: January 22, 2015; *The Daily Star*: November 13, 2014). When asked the reason for favouring BEXIMCO, the chairman of Bangladesh Institute of Development Studies (BIDS), Zaid Bakht, said,¹⁶² *BEXIMCO is facing a tight cash flow, but banks are considering their contribution to the economy.*

Although these banks were partial to Salman, in the eye of the general public, he is widely criticised not only for loan defaults but also for the massive stock market crash in 2010.

¹⁶² Commented during the interview conducted on 6 July 2013 in Dhaka.

Salman is said to have manipulated the stock exchange from December 2010 to January 2011. During this period, the Dhaka Stock Exchange's DGEN index dropped by more than 29 percent, causing over 3.5 million people to lose their investments. Salman has also been accused for massive irregularities in the valuation of GMG shares, with accounting anomalies in revenue, operating expenses, gross profit, agency commission, and tax (*Asia Times: 13 April 2011*).¹⁶³ Beximco Group took loan of Tk1650 million (US\$23.95) from a state-run commercial bank Sonali in 2009 when they bought the lion's share of GMG Airlines. Sonali officials said they have repeatedly requested the group to repay the loans and also served legal notices on them. Sonali bank recently has put up for auction a mortgaged property owned by Rahman brothers after they failed to repay about Tk2281.9 million (US\$29.04 million) against their loans taken for GMG Airlines (*The Daily Star: July 29, 2016*). However, when Sheikh Hasina came into power, Salman was not only released from jail, but was also became the president of the Dhaka Stock Exchange (*The Daily Star: August 28, 2008*).

5.6.5 Conclusion

BEXIMCO Group is a good example of highly entrepreneurial family members who also utilised direct and indirect state nexuses to develop their company. BEXIMCO began with a first-mover advantage in both jute and pharmaceuticals. Although its founder Fazlur does not seem to have been a risk-taker, the second generation members were undoubtedly high risk-takers and entrepreneurs who successfully expanded the business in a time of great economic and political upheaval. Today, the Group owns 35 businesses.

¹⁶³ An indicative price of GMG shares at 150 taka (US\$2.18) per share was reached through 'unrealistic' accounting data that included a 120 percent gain in net profit over the first nine months of 2010, compared to 2009, a 133 percent gain in net profit in the same period, and a 35 percent jump in revenue. Meanwhile, commission and tax dropped 60 percent, according to the balance sheet submitted to the issue manager and the SEC.

Despite having to deal with state incapacity, the second generation members were able to identify market demands and act quickly to capture the market. They were not affected by the weak state as they were highly entrepreneurial. In addition, they utilised the state's incapacity in their favour; relying on state nexuses to make profits while creating brand products. In fact, the state rents received by them were amply paid back to the state through brand products and substantial revenue.

Salman's strong grip over the media and various financial institutions, along with his involvement in lobby groups, also contributed to BEXIMCO's influence over policy-making. Salman has been criticised many times for misusing his state nexuses in order to procure government rents such as bank loans, and even exploiting his position in the stock market to make huge profit. Nevertheless, it cannot be denied that he and his brother have used these rents in an entrepreneurial manner to build their business empire, instead of relying solely on state linkages.

5.7 Case Study 6: Rahimafrooz Group

5.7.1 Origins

Rahimafrooz Group's founder, Abdur Rahim, belonged to a middle class family but lost both his parents by the age of seven. Despite his early struggles in life, he managed to start a small trading concern, 'Rahimafrooz', in 1950 by investing PKR 200000 (US\$42016). After gaining distributorship of Dunlop Tire and Lucas Battery, the company ventured into the automotive battery industry. Eventually, when 2nd generation joined in after founder's death, they became a pioneer in manufacturing local industrial batteries, Instant Power Supply (IPS), and solar power. The Group's success can be attributed to its focus on capturing market demand and brand establishment; unlike most Bangladeshi conglomerates, they did not diversify widely and did not rely on state connections for business expansion.

The orphaned Rahim was brought up by his uncle. He was not privileged enough to

attend formal schooling while growing up, and instead worked in his uncle's departmental store. Eventually, he started a small tailoring and textile business in partnership in Kolkata. In the early 1940s, he began small-scale commercial trading on his own. He moved to Chittagong in 1947 after the partition and started afresh with very little capital in hand.¹⁶⁵ Rahim married Ayesha in 1945. In 1950, he established a small trading concern dealing in various items.¹⁶⁶ This proprietary business was formally incorporated on 15 April 1954 as Rahimafrooz & Co. The company was named after Abdur Rahim's eldest son, Afroz Rahim.

With the earnings from his trading business, Rahim bought a small piece of land in Chittagong, which he then sold in exchange for land in Dhaka. Since he did not have enough money to start a business on a large scale, he leased his land to a British company who wanted to build a factory. He made an agreement with the British company that he would have distributorship of whatever products they manufactured on his land. This was how Rahimafrooz obtained distributorship of Lucas Battery in 1959 and exclusive distributorship of Dunlop Tyre in 1978.

When the British left in 1980, Abdur Rahim took over the factory. However, he passed away two years later. By then, Rahim's two sons, Afroz and Feroz, had joined him in his business. However, his family had no clear vision how to move forward as Rahim had not developed a succession plan. After a family discussion, it was decided that Rahim's eldest son, Afroz Rahim, would take on the role of Group Chairman, while his second son, Feroz Rahim, would be the Group's Managing Director.

¹⁶⁵ Chittagong is a division of Bangladesh and a major port city.

¹⁶⁶ Information provided by Rahim's second son, Niaz Rahim, during an interview conducted in Dhaka.

In 1985, under the second generation, the Group established Rahimafrooz Batteries Ltd. (RBL) and started producing industrial batteries. It pioneered the manufacturing of local industrial batteries in Bangladesh. In 1991, it established another business under its storage power division, Rahimafrooz Accumulation Ltd. (RAL), in collaboration with Electrona of Switzerland. RAL now produces and markets 300 types of industrial batteries.¹⁶⁷ They are ISO 9001 and ISO 14001 certified. In 1992, RAL started exporting batteries. The company has also implemented an occupational health and safety management system (OSHAS 18001) to protect its employees. To ensure the quality of its batteries, the Group has technical collaborations with various other companies, such as the Lucas Battery Company, the Technical Support Group (TSG), Hawker Batteries, Invensys (United Kingdom), Eltek (Norway), and AEES (France). Currently, Rahimafrooz manufactures about 200 varieties of batteries for cars, motorcycles, IPS, and other applications, and is the largest lead-acid battery manufacturer in Bangladesh. ‘Lucas’ and ‘Spark’ are its local high capacity automotive battery brands, while ‘Volta’, ‘Optus’, and ‘Delta’ are its international brands. The company’s automotive and other appliance battery production capacity is over a million N50 units per annum. They export automotive batteries, VRLA, and customised industrial batteries to 65 countries.

5.7.2 Family Tree

Currently, the Rahimafrooz Group is run by second and third generation family members (see Figure 5.17). In Rahimafrooz Group, female members were not actively involved (they are shareholders) in business until the 3rd generation, which shows their transformation from paternalistic conservatism to an open concept for female involvement in the family business. The founder’s three sons, Afrooz, Niaz, and Feroz,

¹⁶⁷ Rahimafrooz industrial batteries are used in telecommunication, power stations, railways, electric vehicles, forklifts, ships, buoy lighting, UPS, inverters, and solar power systems.

are actively involved in the business, while his two daughters, Talat Haque and Zeenat Islam, are homemakers and only have shareholdings in the Group. Afroz joined the business in 1972. Feroz joined the business in 1976, and Niaz in 1983. After Rahim's death, his sons made their mother Ayesha a shareholder in the Group. The wives of Feroz and Niaz, Feroza Rahim and Farzana Rahim, likewise are shareholders. Ayesha's brother Ismail and sister Zainab Moinare also involved in the Group, as deputy managing director and shareholder respectively.¹⁶⁸

Although Rahim himself did not study much due to early struggles in life, he groomed his children with good education. Afroz has a master's degree in political science from Dhaka University, Feroz obtained a post-graduate diploma in Management Studies in London, and Niaz has a master's degree in business administration from Concordia University in Canada. Talat has a Bachelor of Science from Home Economics College, Dhaka, and Zeenat has a master's degree in international marketing from Dhaka University.

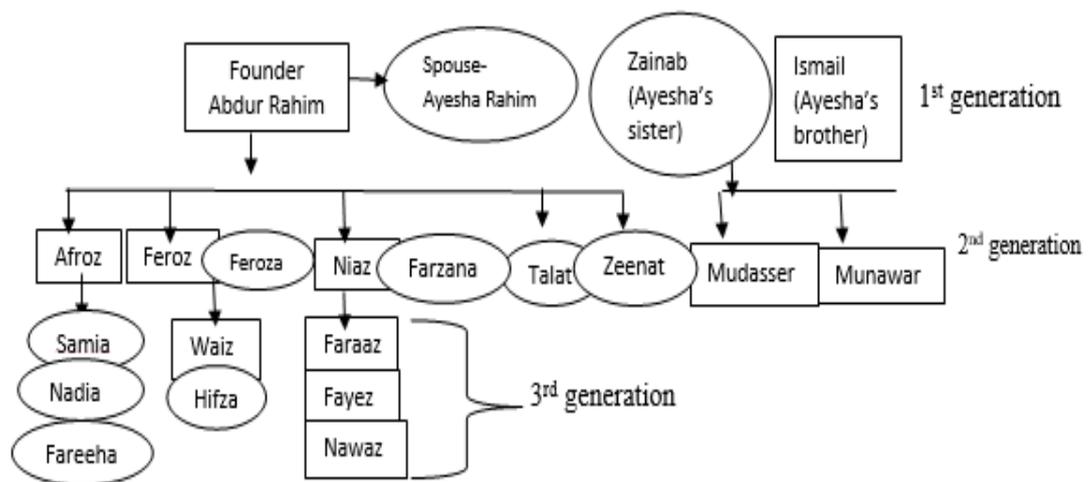


Figure 5.17: Family Genogram of Rahimafroz Group

Source: interview

¹⁶⁸ Zainab Moin's husband was Moin Omer who died a few months before Rahim passed away, as commented by Nahid Rahim, a family member.

The third generation members mainly received their degrees from abroad. Some of them are already in the business and some are currently studying. Afrooz's three daughters, Nadia, Samia, and Fareeha, all graduated from overseas universities. Nadia did an MBA at INSEAD in Paris, Samia did a master's degree at Sussex University in Britain, and Fareeha graduated from Middlesex University in London.

Feroz has one daughter and two sons in the business. His daughter, Hifza, has a master's degree from Nottingham University, while his first son, Waiz, graduated from the University of Southern California. His youngest son, Fayez, completed his A-levels at the International School Dhaka in Dhaka. Feroz's wife, Feeroza Naznin Rahim, is also a graduate. She studied at Eden College in Dhaka.

Niaz has two children in the business, Faraaz and Nawaz. Faraaz graduated from Boston University and Nawaz completed his degree at Macquire University in Australia. Niaz's wife, Farzana Rahim, has a Master of Law degree from Dhaka University.

Rahim also included his sister-in-law Zainab's capable and educated two sons, Munawar and Mudassir, in the family business. Munawar has a Bachelors in Business Administration from St. John University in the United States and Mudassir has an MBA from the Institute of Business Administration (IBA) of Dhaka University.

5.7.3 Ownership and Control

As mentioned, the family's second and third generation members are well educated, and some even had outside working experience on which they drew on in expanding the business. It is noteworthy that they did not diversify widely like a majority of family firms; instead, they concentrated on brand development and on capturing the renewable energy sector. Also, most of the female members in Rahim's family are involved in running the business; this is not the norm in Bangladeshi family firms.

Although apprenticeship was not followed for the second generation due to founder Rahim's sudden death, the third generation members joined the business in entry positions or as trainees. In an interview, Niaz commented,¹⁶⁹

When my son used to give his business card while meeting with other company MDs or Chairmen, they used to be shocked that a family member had a junior position. In fact, his friends also used to tease him as most of them joined their fathers' businesses directly at top positions. This culture of non-professionalism has made a trend of taking successors into top positions based on relation, not merit.

Abdur Rahim was generous enough to take care of his brother-in-law and sister-in-law's family just like his own family, and included them in his business. Md Ismail, Rahim's brother-in-law, is currently the Deputy Managing Director of the Rahimafrooz Group. Zainab Moin, Rahim's sister-in-law, is a homemaker; however, she has shareholdings in the group. Her sons, Mudassir Moin and Munawar Moin, are directors in the group.

The second generation can additionally be credited with adopting the Family Council method of discussion, the first family firm in Bangladesh to do so.¹⁷⁰ In 2007, they also implemented a family constitution in the Group in order to ensure proper business governance structure. This family constitution directs the family to recruit successors, i.e. the third generation, using apprenticeship. Despite these positive initiatives, the family has yet to adopt professionalism since the Group is still 100 percent family-owned (see Table 5.6) while none of its board members are outsiders. None of the Group's businesses are publicly-listed.

¹⁶⁹ This interview was conducted in Dhaka on 15 July 2013.

¹⁷⁰ A Family Council is a professional way of discussing family and business issues.

Table 5.6: Board of Directors and Management of Rahimafrooz Group (all family members)

Name	Position and family/non	Number of shares (in
Afroz Rahim	Group Chairman (Board Member)	364 (1.14%)
Feroz Rahim	Group Managing Director (Board	357 (1.12)
Niaz Rahim	Group Director (Board Member)	441 (1.38)
Mohamed Ismail	Group Deputy Managing Director	2898 (9.07)
Munawar Misbah Moin	Group Director(Board Member) 3 rd	1127 (3.52)
Mudassir MurtazaMoin	Group Director (Board Member)	1127 (3.52)
Ayesha Rahim	Shareholder 1 st	357 (1.12)
Talat Haque	Shareholder (2 nd generation)	4641 (14.52)
Zeenat Islam	Shareholder (2 nd generation)	4641(14.52)
Zoinab Moin	Shareholder (1 st generation)	644 (2.01)
Feroza Nazneen Rahim	Shareholder (2 nd generation)	1932(6.04)
Waiz Rahim	Shareholder (3 rd)	1610(5.04)
Hifza Rahim	Shareholder (3 rd)	1610(5.04)
Nadia Afroz Rahim	Shareholder (3 rd)	1715(5.37)
Samia A. Rahim	Shareholder (3 rd)	1715(5.37)
Fareeha Afroz Rahim	Shareholder (3 rd)	1715(5.37)
Syeda Farzana Rahim	Shareholder (2 nd)	1432(4.48)
Faraaz Abdur Rahim	Head of business storage division	1212(3.79)
Nawaz Abdur Rahim	Shareholder (3 rd)	1212(3.79)
Fayez Abdur Rahim	Shareholder (3 rd)	1212(3.79)
	Total	31962 (100%)

Source: Interview

5.7.4 Growth and Performance

Although the Group's founder Rahim had not initially planned to enter the energy sector, when Rahimafrooz became an instant hit in the market through its distributorship of Lucas and Dunlop, he realised that this sector had good growth potential. The energy sector in East Pakistan at that time was mainly dominated by electricity, which was expensive and inadequate in meeting the demands of an increasing population.

In fact, although the demand for electricity in Bangladesh is much higher than its supply, the government has not been able to develop new generation plants to meet this

demand. 40 percent of the power plants are more than 30-35 years old and are already due for a major overhaul. Additionally, they are running below capacity due to inefficiency. Besides, private generation of electricity is costly, as it requires a highly priced licence. Although electricity is transmitted through the public grid, many companies, especially those in industrial sectors such as textiles, pharmaceuticals and chemicals, generate electricity for their own consumption.

Observing this need for electricity, the second generation family members of Rahimafrooz started production of local brand automotive batteries and pioneered solar power manufacturing in Bangladesh through the establishment of Rahimafrooz Renewable Energy Ltd. (RREL) in 1985, in collaboration with British Petroleum (BP).

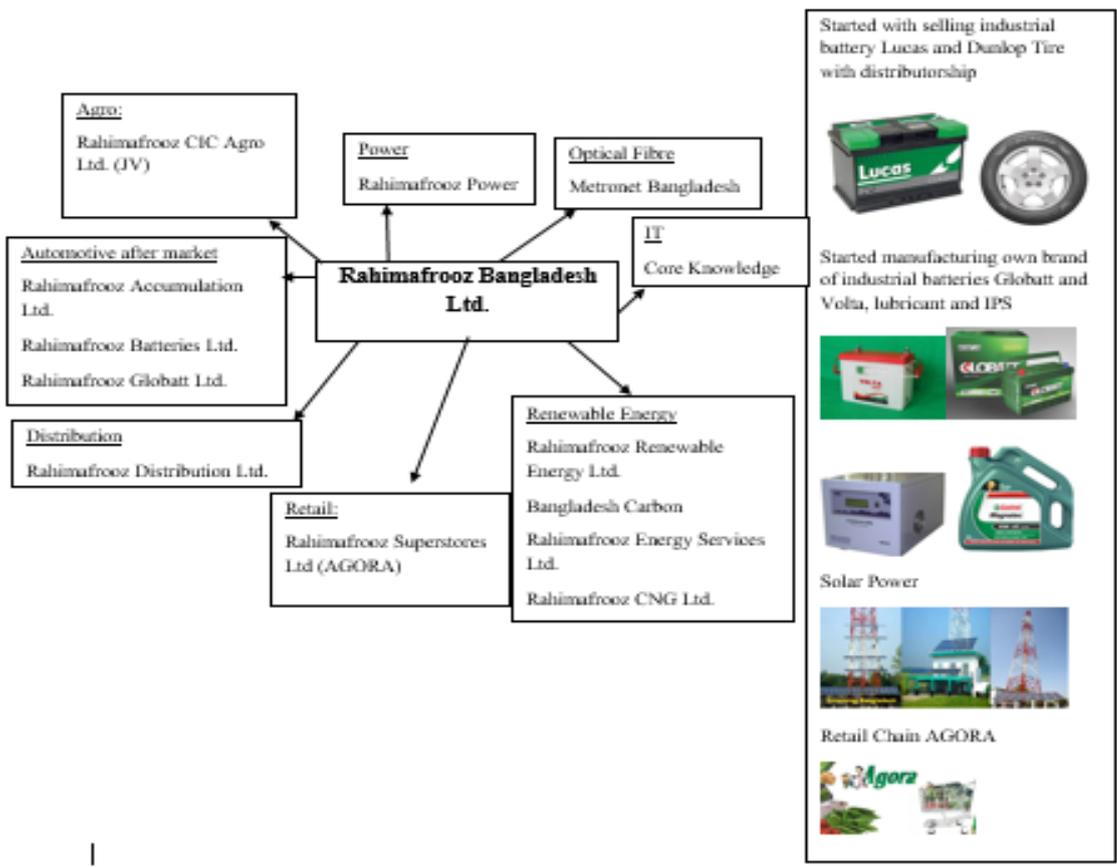


Figure 5.18: Rahimafrooz Group of Companies (As at 2014)

Source: Interview

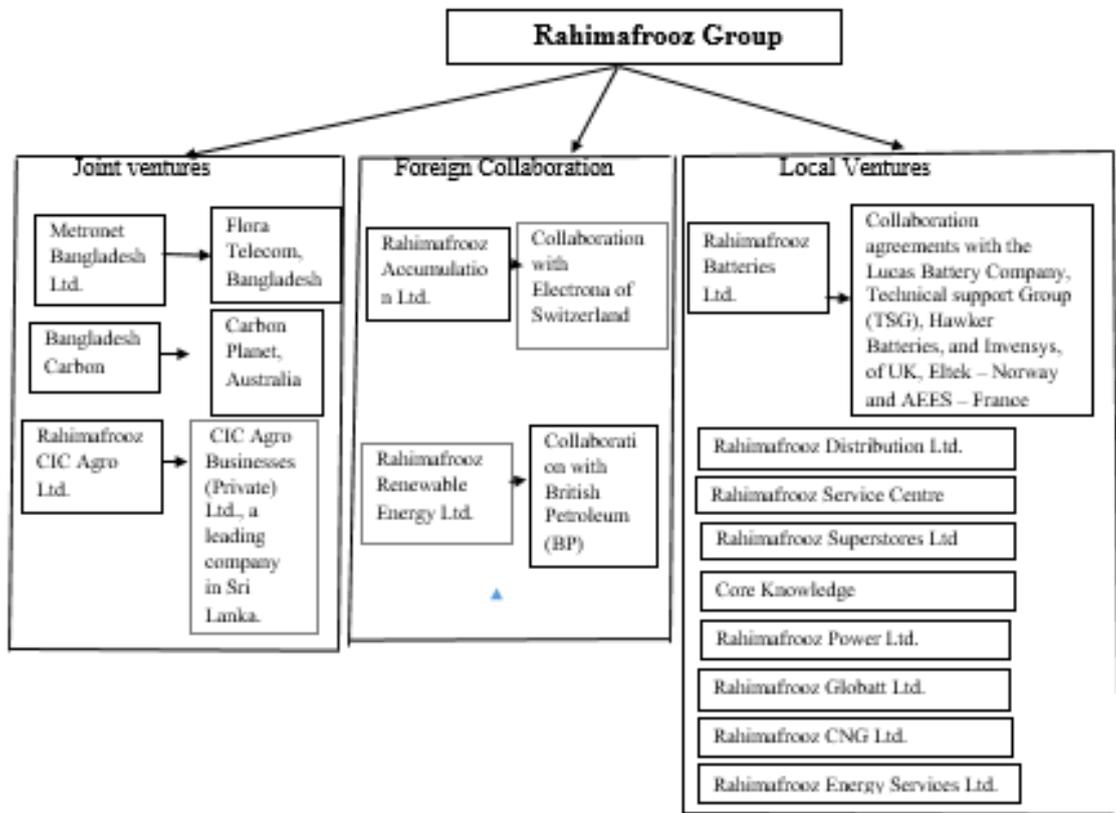


Figure 5.19: Corporate Structure of Rahimafrooz Group

Source: interview, company website

However, renewable energy in Bangladesh has yet to take off, except in schemes for rural electrification, which cover individual households financed mainly through Micro Finance Institutions (MFIS). These schemes mostly use solar power (most common) and biogas from manure as energy sources. Examples of these schemes include the work of a leading NGO, Grameen Shokti, which provides power to 230000 households from 7000 biogas plants, and the endeavours of RREL in 1985 to equip rural households with solar home systems. In this project, Rahimafrooz equipped 52,000 homes with complete solar systems and supplied batteries for a further 50,000 systems.

For this work, the company received the Ashden Award in 2006.¹⁷¹

¹⁷¹ Ashden is a London-based charity that works in the field of sustainable energy and development. Its work includes the annual Ashden Awards, advocacy and research in the field of sustainable energy, and mentoring and practical support for award winners.

The company has also begun exporting solar panel products to Nepal and Dubai very recently, in 2014.

Although Rahimafrooz secured a good market as a pioneer in alternate and renewable energy in Bangladesh, it continued diversifying into other sectors in order to hedge business risks and take advantage of the policy benefits in other sectors. One of the main reasons for entering her sectors was lack of any direct policy advantage for their flagship business (renewable energy). However, the group diversified mostly horizontally than vertically. Feroz's comment below clearly indicates his grudge towards the regimes' focus on the textile sector, which has resulted in other business sectors like energy suffering. He commented,¹⁷²

This is why business diversification is a necessity for businesses, to hedge risk of failure while dealing with an unstable political environment and to grow well. So far, no regimes have reformed any policies in order to facilitate sectors like energy, tobacco, marine, cement, building materials, property development and construction. In fact, the government has mainly focused on sectors like textile, pharmaceuticals and agro.

In the process of diversification, Rahimafrooz established Rahimafrooz Service Centre in 1989, the very first local electronic engine diagnostic centre for vehicles. Currently, it has eight automobile service centres in Dhaka and Chittagong. It also distributes and markets various household appliances and electronic goods through its electronics retail chain, Ureka.

In 1993, upon observing the great need for local IPS providers in Bangladesh, Rahimafrooz launched Rahimafrooz Instant Power System. In 1994, the Group acquired

¹⁷² This interview was conducted in Dhaka on 16 July 2013.

Yuasa Batteries (Bangladesh) Ltd. and launched Excel Rethreads. Demand for its batteries was so high in India that in 2000 it opened its first office in that country in Ahmedabad. Today, Rahimafrooz is the largest lead acid battery manufacturer in Bangladesh and exports to 44 countries. In fact, Rahimafrooz received the National Export Trophy for industrial battery export in 2003, and for IPS export in 2011.

Another aspect of Rahimafrooz's business strategy was to gain control over the Bangladesh market by expanding its distribution wing. In 2000, Rahimafrooz established its own distribution company, Rahimafrooz Distribution Ltd. (RDL). Today, RDL has a network of 172 dealers, 263 retailers, and 102 lubricant dealers all over the country who deal with international tyre brands like Dunlop, Kenda, and Apollo, the international lubricant brand Castrol, the battery brands Globatt, Lucas, and Spark, and the company's own brand, RZ Tyre. RDL is also the exclusive distributor of Daewoo electronics in Bangladesh.¹⁷³

Another aspect that adds to Rahimafrooz Group's high entrepreneurial skills is that they adopted first mover advantage even in the process of diversification. Rahimafrooz pioneered the supermarket industry in Bangladesh. Until 2001, there was not a single retail supermarket in the country. People used to buy food and grocery from raw markets. In 2001, Rahimafrooz established Bangladesh's first retail supermarket chain, Agora. After Agora's great success and popularity, many other retail supermarkets were developed, such as Shopno, Nondon, Mina Bazar, and Unimart.

In 2002, Rahimafrooz Energy Service Ltd. (RESL) was established in order to promote distributed power. The company provides rental power with both diesel and gas generators. Additionally, it markets home and industrial lighting products from General Electric USA (GE) and electrical accessories from Hager UK.

¹⁷³ Dawoo electronics under Rahimafrooz offers a wide range of high quality household appliances such as LCD TVs, CTVs, ACs, refrigerators, microwave ovens and washing machines, at attractive prices. The available models for the 18-month warranty system for Rahimafrooz IPS are 350 VA, 400 VA, and 600 VA capacity.

In response to rising prices of petrol and diesel in Bangladesh, natural gas is being compressed and used in vehicles as CNG. The use of CNG has largely increased due to its low cost compared to liquid fuels such as petrol and octane diesel. In fact, since 2002, two stroke engines have been banned in Dhaka and Chittagong City, and all three wheelers and cars have converted to using CNG. Observing this trend, in 2003 Rahimafrooz established Rahimafrooz CNG Ltd., through which it started providing CNG conversion and automobile service, CNG sales under the Quickfill brand, CNG station equipment, technical service for CNG equipment, and refuelling stations.¹⁷⁴ The company was rebranded as Rahimafrooz Gastech Ltd. (RAGT) in 2012.

By 2000, the ICT sector in Bangladesh had started developing. The Rahimafrooz Group therefore decided to enter into this sector. In 2004, it established a fibre optic-based digital solution provider for data communication, Metronet Bangladesh Ltd. (MBL), in a joint-venture with Flora Telecom, the first organisation in Bangladesh to offer fully digital fibre optic commercial networking.

In 2009, RREL joined hands with Carbon Planet, Australia, and launched Bangladesh Carbon, a Clean Development Mechanism (CDM)-based consultancy and carbon trading service. Bangladesh is considered one of the most vulnerable countries in the world to climate change and adverse effects of global warming. Bangladesh Carbon therefore aims to develop, implement, and commercialise carbon emission reduction projects under the CDM guidelines of the United Nations Framework Convention on Climate Change (UNFCCC) Kyoto Protocol. It also has an exclusive agreement with Tricorona, under which it receives project development support services.¹⁷⁵

¹⁷⁴ Quickfill is the first ever chain of branded CNG refueling stations in Bangladesh. Quickfill presently serves customers in Dhaka, Chittagong, Manikgong, and Tangail.

¹⁷⁵ Tricorona is a global developer of emissions reduction projects and a trader of carbon credits, with operations in Stockholm, Beijing, and Singapore. It develops and buys carbon credits from emission reduction projects and trades a variety of credits in the international carbon markets.

In 2009 as well, Rahimafrooz established another battery manufacturing plant, Rahimafrooz Globatt Ltd. (RGL), with an annual production capacity of 2.5 million units. The company offers a broad range of maintenance free automotive batteries for a variety of vehicles (manufactured according to JIS¹⁷⁶ and DIN¹⁷⁷ standards), ranging from small cars to large commercial vehicles.

In 2010, Rahimafrooz became the first local company to set up a low-cost High Speed Diesel (HSD) power plant connected to the national grid, through its subsidiary Rahimafrooz Power Ltd. (RZPL). This was also the first rental power project in the country, financed by the Bangladesh Bank.¹⁷⁸

In 2011, Rahimafrooz established Rahimafrooz CIC Agro Limited (RCAL), a joint-venture with CIC Agro Businesses (Private) Ltd., Sri Lanka. RCAL provides farmers with complete agricultural solutions by emphasising self-sufficiency through modernisation of agriculture production, resulting in increased production, processing, and value addition. The company focuses on modernising and bringing efficiency to plant nutrition, mechanisation, and tissue culture through continuous research and development. They import premium quality agriculture machineries such as tractors, cultivators, power tillers, and diesel engines.¹⁷⁹

The first and second generation were not only conscious about grooming successors, but also focused on upgrading their staff's technological and managerial skills through continuous on-the-job and overseas training. This was especially necessary since Rahimafrooz's main focus is the energy sector, which requires continuous technical improvement and modernisation. The Group is aware of this and spends about US\$1 million on R&D every year.¹⁸⁰

¹⁷⁶ Japanese Industrial Standards (JIS) specifies the standards used for industrial activities in Japan. The standardisation process is coordinated by the Japanese Industrial Standards Committee and published through the Japanese Standards Association.

¹⁷⁷ DIN stands for Deutsches Institut für Normung (German Institute for Standards).

¹⁷⁸ Bangladesh Bank is the central bank of Bangladesh.

¹⁷⁹ RCAL is the national distributor of the technologically advanced Deutz-Fahr tractor, the only German brand tractor in Bangladesh. This tractor is extremely compatible with land and road conditions in Bangladesh.

¹⁸⁰ Comment made by Niaz Rahim during an interview conducted in Dhaka on 15 July 2013.

Unfortunately, the Bangladesh government has yet to effectively implement adequate policies in support of the energy sector and lacks transparency in this sector's tendering process. Rahimafrooz has not received any direct policy benefits for tier flagship renewable energy business except for general opportunities that emerged through privatisation and export liberalisation policies after the 1990s. Nevertheless, the energy sector enjoys some concessions from time to time; for example, in the 2009-2010 budget, the government exempted VAT on solar panels, although custom duty on imports was increased to 5.66 percent from 4.07 percent (*Gunatilake & Roland-Holst, 2013*).

It is noteworthy that neither founder Abdur Rahim nor any of his family members have ever had any direct links with politics. However, like most Bangladeshi big and renowned businessmen, Rahim's sons are involved in lobby groups. Niaz Rahim was the president of FBCCI, DCCI, a government nominated director of the Bangladesh Development Bank Ltd. (BDBL), a government nominated director of Agrani Bank Ltd., a member of the Bangladesh Employers Federation, the President of the Bangladesh Supermarket Owner's Association (BSOA), and the former president of the Bangladesh Accumulator Battery Manufacturers Association (BABMA). Feroz Rahim in turn is the director of the IFIC bank, a member of MCCI, a member of the Australasia Bangladesh Chamber of Commerce and Industry (ABCCI), the Vice President of the Canada Bangladesh Chamber of Commerce & Industry (CBCCI), and a member of BMCCI. Since Rahim's sons are directors in several banks, it may have been easy for them to access bank loans while expanding their business. However, the Group mainly relied on entrepreneurial skills to survive and grow under a weak state. They transformed state incapacity into business opportunities by capturing demand in unidentified sector (renewable energy).

Currently the Group has about 13 businesses (see Figures 5.18 and 5.19) and employs

8,000 people. Its annual turnover was US\$275 million in 2015. It is interesting that the Group's annual turnover is relatively low compared to the majority of conglomerates in Bangladesh. It is possible that its initiatives against the wide diversification status quo in the country have hindered its growth. Additionally, their state nexuses were low compared to other family firms under this study for which they could not access enough economic rents or could influence over policy making.

When interviewed about the Group's diversification strategy, director Niaz Rahim noted:¹⁸¹

Although we have slowly diversified in other sectors, our core focus is on the energy sector that gave us a brand name. I personally think making a strong brand name is much more important than making more money. Over diversification could have given us a higher turnover, but we preferred to stay focused on our primary core sector.

5.7.5 Conclusion

Energy is one of the most important sectors in Bangladesh. Although electricity is the most widely used form of energy in the country, since independence, the government has struggled to generate enough electricity to meet its population's demand. In this respect, local firms such as Rahimafrooz Group have contributed tremendously by pioneering local automotive and industrial batteries manufacturing in the country and introducing alternative energy sources such as CNG and solar power. Rahimafrooz has also established itself as a dominant manufacturer and exporter in the energy industry, as it has the largest battery export plant in South Asia. It not only markets and distributes various automotive after-market products such as automotive batteries, tyres and lubricants, but also produces a line of electronics ranging from home appliances to power backup systems.

¹⁸¹ This interview was conducted in Dhaka on 15 July 2013.

Although the Group's founder Rahim started off focusing on distributorship of foreign brand industrial batteries and tyres, eventually his sons took over and captured first mover advantage in producing the country's first locally manufactured industrial batteries, IPS, and solar power devices. In fact, the second generation took greater risks compared to the first generation as the Group started manufacturing and exporting under the second generation's leadership. Despite not receiving policy benefits for its core energy business, the Group risked horizontal diversification and even created brand products, pioneered in manufacturing industrial battery, IPS, solar power, super market concept. This is how they dealt with state incapacity despite the founder's not having financial or political strength. Family members' utilized entrepreneurial skills in a way that they did not need to rely on state-nexuses for their survival and growth under a weak state. Nevertheless, its low turnover (US\$275 as of 2015) compared to other family firms under this study

can be attributed to lack of direct policy benefits for its core renewable energy business, lack of government rents due to their low state affiliation, and their conservatism of retaining full family control over the business. This also indicates that only high entrepreneurial skills are not good enough to do financially well in a country like Bangladesh where state-nexuses is also needed for smooth survival and growth.

5.8 Case Study 7: PRAN-RFL Group

5.8.1 Origins

PRAN-RFL Group is an example of a businessman's patience in finding the right business. A retired major general, Amjad Khan Chowdhury, founded the Group in 1981 in Rangpur.¹⁸² He started off with a cast iron business, Rangpur Foundry Ltd. (RFL); however, the business did not make profit due to competition from existing cast iron companies.

¹⁸² One of the divisions of Bangladesh.

To deal with his losses, Amjad then established two more businesses, in property development and in the agro-based industry. Fortunately, his agro-processing company became an instant hit due to aggressive marketing, reasonable pricing, and a wide range of product categories that attracted the younger generation. Also because agro is one of the prominent sector in Bangladesh that get government's attention while planning policies.

Amjad belonged to an educated middle class family from the Natore district. He attended school and college in Dhaka, graduated from the Pakistan Military Academy and then the Australian Staff College in 1954. He joined the Pakistan Army in 1956. He was given many important positions in the army, including the General Officer Commanding at Comilla and Bogra. Besides his service in the army, Amjad is the former President of MCCI and a present member of its executive committee, the former Vice President of the Bangladesh Association of Publicly-Listed Companies (BAPLC), and the former Director of Infrastructure Company Limited (IDCOL).

Since Amjad started business only after liberalisation took place, he managed to obtain a bank loan of Tk500000 (US\$27798) for capital in 1981. However, this loan amount was not large enough, so Amjad had to use his wife's land along with his personal savings as added capital. He so initially injected Tk3 million (US\$0.14 million). RFL started off producing cast iron products like tube-wells and water-pumps to ensure pure drinking water, as well as cheap irrigation facilities for the rural masses. For the first several years, the company showed losses due to high competition. Amjad therefore thought of adding a property business as he observed an increasing demand for property in Bangladesh's burgeoning population. Consequently, in 1983, Amjad established a property development company, Property Development Ltd., in the hope that it would save him from further losses. To start the company, he appealed for a bank loan from Pubali Bank; fortunately, its bank manager knew Amjad and agreed to be his

guarantor.

During that time, housing facilities in the country were not enough for the entire population. Since the government was not able to provide enough housing, the private sector attempted to resolve the situation through real estate development. In the late 1970s, there were less than five real estate companies in Dhaka, including the Islam Group and the Concord Group. This number increased to 42 in 1988, and to about 250 companies in 2004. Along with the expansion of this sector came various complications that required swift solutions. In 1991, in an effort to formally promote private sector real estate development in Bangladesh, Amjad renamed his property development company the Real Estate and Housing Association of Bangladesh (REHAB).

Amjad's property development company registered profits as it was a pioneer in the housing industry. However, in order to minimise possibility of failure, Amjad decided to add another enterprise to his business. In 1985, he established two agro-based products companies, Program for Rural Advancement Nationally (PRAN) and Agricultural Marketing Company. He included his children in this business.

Amjad's decision to enter the agro-based business was influenced by the sector's comparative advantage in Bangladesh due to good soil fertility and constant availability of water, sunlight, and agro farmers. In fact, Bangladesh, then East Pakistan, was known as the agricultural hub of Pakistan due to its favourable climate conditions. 47.5 percent of the total population is involved in agro-based businesses, contributing 19.29 percent of the total GDP.¹⁸³

¹⁸³ As per the Ministry of Agriculture Statistics, 2014.

The agro-industry is one that uses or processes agricultural products as raw materials in its production process (Hsu, 1997). The industry includes businesses like food processing, poultry farms, dairy farms, fish freezing/processing industries, fruit processing industries, as well as the processing of agro products such as tea, salt, rubber, rice, edible oil, seeds, and jute. Agro-based industries can therefore be defined as a group of businesses that are directly or indirectly engaged in the activities of production, conversion, and provision of food.

According to Gregg & Uexkull (2011), in 2006, Bangladesh had 6,139 companies operating in the agro food-processing sector, among which 90 percent were small enterprises (less than 50 employees). The majority of them were rice milling (3,885) and bakery (1,145) companies. Other significant categories included grain milling (226), vegetable oil (133), and confectionaries (100) (Gregg & Uexkull, 2011). The sector is primarily domestically focused, but has significant exports. It is a globally important exporter of frozen shrimps and has substantial exports in both lightly processed food products like mango juice, spices, and beverages, as well as heavily processed foods (Gregg & Uexkull, 2011).

There are substantial value-adding opportunities in the agro-industry relative to agriculture. According to the World Bank, in low and middle income countries, the food processing sector is typically one of the largest industrial activities in terms of value-adding (UNIDO, IFAD & FAO, 2008). Like other economically poor and technologically under-developed countries, food processing in Bangladesh has traditionally been small-scale, with domestic or family businesses using common knowledge for the processing of raw agricultural commodities into food and feed (Huq & Love, 2000). Although commercial-scale food processing using modern technology especially for wheat and rice milling, mustard seed crushing, and very limited bread and cookie manufacturing appeared during the 1960s, the growth of this sector did

not gain momentum in terms of operational scale and quality until the mid-1980s (*The Daily Star: 18 September 2015*). However, the industry now processes increasingly diverse products to meet the changing demands of the Bangladeshi population.

Through PRAN, Amjad contracted farmers to produce fruits and vegetables for processing in PRAN factories to produce fruit juices and other beverages. Although there were other agro-based companies in the country, Amjad's business flourished due to his focus on a niche market, juices and beverages for young people. He also marketed his products aggressively through advertisements and low pricing, which made his products more appealing compared to other brands.

At the time of PRAN's inception, some other local existing brands in the food and beverage industry were Transcom Beverages Ltd. (an exclusive PepsiCo franchisee), Abdul Monem Ltd., Cocola Food, Bengal Group of Industries, and ACI Foods & Beverages Ltd. (Quddus, 2009). There were also well-known MNCs operating in the country, such as Nestle (Bangladesh) Ltd. and Coca-Cola Far East Ltd. (Bangladesh branch). Both foreign and local companies were enjoying good business in meeting local demand. Therefore, it was not easy for PRAN to capture market demand instantly; however, their aggressive marketing strategy, impressive product variation, and wide distribution soon made them famous.

Once PRAN successfully became a leading brand in food and beverage items, many business groups established agro-based business, such as the Square Group, Akij Group (Cola, Lemu, Speed), Global Beverage Co. Ltd., the Sunman Group, Sajeeb, ACI, Alin Foods, Bombay Sweets, Abdul Monem Group, Kazi Food, Partex Beverage (RC), Acme Food and Beverage, and Jamuna Group (*The Daily Star: November 02, 2016*).¹⁸⁴

¹⁸⁴ In 1996, Partex Beverage established its beverage unit and came up with the brand RC.

Currently, agro-food is the second largest manufacturing sector in Bangladesh in terms of value addition. Roughly two thirds of the country's agro-food companies are located in rural areas. It is worth noting that these companies export processed and packaged food to Africa and the Middle East countries where its demand is increasing. (*The Daily Star: November 02, 2016*). They earned nearly Tk20000 million (US\$256.93 million) from exports in fiscal 2015-16 where PRAN-RFL Group alone accounted for three-fourths of the sum: Tk1,400 crore or USD175 million (*The Daily Star: November 02, 2016*). PRAN exports to 130 countries, including 40 African countries, all Middle-Eastern countries, India, Malaysia, Australia, the UK, France, Italy, Canada and the US.

Apart from beverages, PRAN also manufactures dairy and bakery products, various kinds of pulses, and tea leaves. The success of PRAN's brand name can be attributed to its unique distribution strategy. This strategy involves ensuring the availability of its products throughout the country by establishing a huge distribution network. The company also started exporting its food and beverage items in 1991.

Amjad's second agro-based business, the Agricultural Marketing Company, mainly manufactures chinigura aromatic rice and fruit juices. It also cultivates mushrooms, tomatoes, and various spices for export.

In addition, the company processes, preserves, and markets olives, mangos, and pineapples. The modern strategy of using agricultural products to make food and beverages made PRAN Group a brand name very soon.

5.8.2 Family Tree

Amjad has four children; two joined him in business as directors of the Group (see Figure 5.20). Amjad's wife, Sabiha, is a director of the PRAN-RFL Group. She obtained a bachelor's degree in economics from Punjab University in 1966 and a Master of Economics from the University of Dhaka in 1975. She obtained another master's

degree in English from Rajshahi University in 1981.

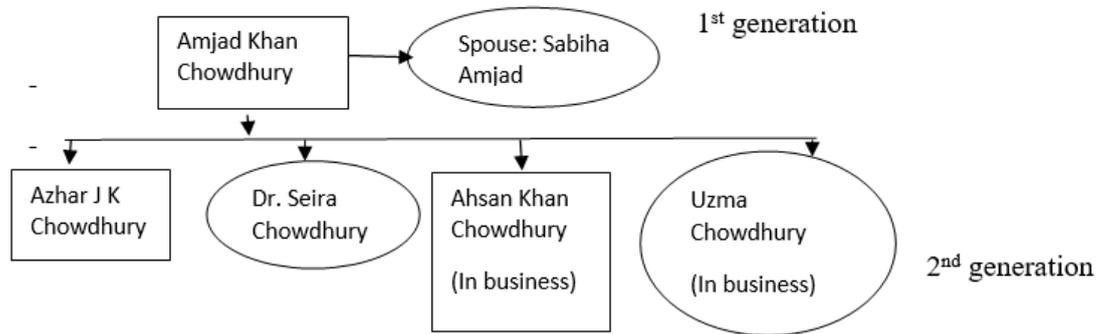


Figure 5.20: Family Genogram of PRAN-RFL Group

Source: interview

Amjad’s efficient and qualified children are one of the main reasons for his success in business. Among his four children, Azar K. Chowdhury, Ahsan Khan Chowdhury, Uzma Chowdhury, and Dr. Sera Huq, Ahsan and Uzma are actively working with him in the business while the other two have shareholdings. Azar Chowdhury graduated as a Mechanical Engineer and then obtained an MBA in the United States. Currently, he is self-employed in America. Sheira Haq completed her medical degree in Canada and is now practicing as a physician in Toronto. Ahsan and Uzma after finishing their graduation worked for five to eight years and then joined the family business, their prior work experience were helpful in guiding the family business for further growth through wise diversification.

Ahsan has been the Deputy Managing Director of the PRAN-RFL Group since his graduation in 1992. He has a Bachelor of Arts in Business Administration from Wartburg College, in the United States. During his university years, he was the President of the International Student Association. After returning to Bangladesh, he joined the board of Directors of RFL. He attended many training sessions, seminars, and courses on management development, strategic planning, financial management, and sales and marketing, both at home and abroad. Besides this, Ahsan has directorship in

the Midland Bank.

Uzma is the Director of Corporate Finance in PRAN-RFL Group. She is in charge of overseeing the functions of the Group's finance department, which includes costing, valuation of assets, project funding, treasury management, quality assurance, insurance management, and internal audit. Uzma completed her bachelor's degree in 1998 at the University of Texas at Dallas, majoring in accounting. Before she joined RFL, she worked as an accountant for Trammell Crow Company for eight years, as well as a property management accountant for the First Worthing Real Estate Management Company in Dallas, from 2000 to 2001. She obtained her Chartered Professional Accountant (CPA) certification from the Texas State Board of Accountancy in 2003.

5.8.3 Ownership and Control

PRAN-RFL Group emerged recently, in the 1980s, and thus has only reached the second generation into business. As one of the few Muslim family firms to implement succession planning, Amjad followed Islamic Sharia while dividing his business among his children. Although his children now manage the business, Amjad still holds the position of Managing Director in the Group.

Unlike most conservative family businesses in Bangladesh, PRAN Group has listed two of its businesses, Agricultural Marketing Co. Ltd. and Rangpur Foundry Ltd., on the stock market (see Table 5.8), and has professionalised its board as well. The family has only 63 percent ownership in the business (see Table 5.7).

Amjad and his children deliberately encourage the involvement of outside expertise in the company, including the board of directors. In fact, the Group's current chairman, Mahtab Uddin, is an outsider, who served since 1954 in Pakistan and then the Bangladesh Army. He retired as a Lt. Colonel in 1974 and then worked as the Chief of Investigation Cell in the Bangladesh Textile Mills Corporation (BTMC) until 1983. He became Chairman of PRAN Group in 1984. The independent director of the Group,

M.A. Mannan, is an outsider who served in Pubali Bank from 1979 to 2006. This gave PRAN Group a strong relationship with Pubali Bank.

Amjad's daughter, Uzma, the finance director of the Group, commented,¹⁸⁵

I do not understand why business groups would like to keep full control of business within the family, as any business that wants to grow and sustain itself needs professional hands. My father even did not keep us as board members; my brother and I are directors in the Group, performing our responsibilities professionally. The managers take major operational decisions. If it's a major kind of decision then we might come in and give them our opinion.

Table 5.7: Board of PRAN-RFL Group (family and non-family members)

Name	Position	Shareholding
Lt. Col. MahtabUddin Ahmed (Retd.)	Chairman	1.27%
Major Gen. Amjad Khan Chowdhury	Managing Director (Family member)	25.84%
Sabiha Amjad	Director (family member)	5%
Ahsan Khan Chowdhury	Director (family member)	19.42%
Sheira Chowdhury	Director (family member)	.45%
Uzma Chowdhury	Director (family member)	.45%
Azhar J.K. Chowdhury	Director (family member)	.54%
M.A. Mannan	Independent Director	0
Total family ownership		43.5%

Source: Annual Report, Interview

¹⁸⁵ Interview conducted in Dhaka on 17 December 2013.

Table 5.8: Publicly-listed companies of PRAN-RFL Group and their shareholding Pattern

Public Companies	Shareholding Status				Total (%)
	Sponsors & Directors	Govt.	Institutions	General Public	
Agricultural marketing Company Ltd.	42.75	0	1.34	55.91	100
Rangpur Foundry Ltd.	50.00	0	9.78	40.22	100
	Shareholding Status				Total (%)
Private Companies	Sponsors & Directors	Govt.	Sponsors & Directors	Govt.	Sponsors & Directors
All 39 private companies	100				100

Source: Annual report, interview

When asked why only two businesses out of the Group's 40 are publicly-listed, Uzma replied,¹⁸⁶

The security market has an unattractive requirement where a high portion of dividend declaration is needed, which is a hassle. Business has both ups and downs. In our country, the shareholders always expect a growth in dividend; they cannot accept any fall of dividend. We want to avoid shareholder abuse when facing any falls.

When recruiting his children into the business, Amjad followed the apprenticeship method. Ahsan joined the business as a sales representative and deliveryman and Uzma entered it as an executive in the finance department. From these entry positions, they gradually were promoted to senior positions.

5.8.4 Growth and Performance

Although PRAN Group's agro business was successful, the company chose to continue diversifying into multiple sectors (see Figure 5.21), within which they have all local ventures except one joint venture as shows in Figure 5.22. Amjad decided to invest another 10 crore taka to save his initial cast iron business, RFL.

¹⁸⁶ This interview was conducted in Dhaka on 17 December 2013.

In 1996, Amjad diversified RFL's cast iron products to include PVC products, and in 2003, he diversified the company further into products like uPVC pipes, household plastic products, hoses, doors, sheets, and electric/electronic items. In diversifying RFL, Amjad established RFL Plastics Ltd. (2002), Banga Plastic International Ltd. (2006), Durable Plastic Ltd. (2009), Habiganj Plastics Ltd. (2011), and RFL Exports Ltd. (2010). Currently, RFL produces more than 2500 products, including outdoor and household furniture, food containers, dish drainers, laundry baskets, wastebaskets, storage boxes,

Kitchen ware, bathroom fittings, cleaning accessories, and garment hangers. Amjad's main reason for diversification was to hedge the risk of loss from his initial cast iron business. However, eventually he diversified in order to capture the market with many product categories. When interviewed regarding diversification, Amjad replied,¹⁸⁷

Diversification is a must for any businessman to survive in Bangladesh. For me it was not a strategy to grow, but to stay alive. My cast iron business did not work out, for which I thought of two other options where our agro business became our flagship business. Eventually we added other units wherever we could sense profit and this is what every businessman will do to make money.

In 2003, PRAN merged with RFL and the PRAN-RFL Group was created. By diversifying its RFL cast iron unit into a wide variety of reasonably priced plastic and PVC products, PRAN-RFL changed the face of the plastic market.¹⁸⁸ While before, middle and lower middle class people were buying very low quality plastic products, they could now buy good quality but reasonably priced plastic kitchenware and home accessories from PRAN-RFL.

¹⁸⁷ This interview was conducted in Dhaka on 18 December 2013.

Currently, PRAN-RFL Group produces 25 types of light industrial and plastic products, including 170 food products. PRAN-RFL products include pumps, tube wells, bearings, gas stoves, etc. The Group has become the leading cast iron foundry and light engineering centre of Bangladesh.

The Group's agro division also eventually horizontally diversified through the addition of a variety of food and beverage producing companies, such as Natore Dairy Ltd. (2006), PRAN Dairy Ltd. (2002), PRAN Confectionery Ltd. (2003), PRAN Beverage Ltd. (2004), and Banga Bakers Ltd. (2010). The division also established other agro-based companies, such as Agricultural Marketing Company Ltd. (1985), PRAN Foods Ltd. (1986), PRAN Agro Ltd. (1999), Banga Agro Processing Ltd. (2001), PRAN Agro Business Ltd. (2001), Mymensingh Agro Ltd. (2006), Habiganj Agro Ltd. (2010), Natore Agro Ltd. (2011), Sylvan Agriculture Ltd. (2012), Banga Millers Ltd. (2010), and PRAN Exports Ltd. (2004).¹⁸⁸

Furthermore, the Group has also diversified vertically into logistics, packaging, filling stations, scrap, hangers, medical and technological equipment, trading, and textiles. It established Bangladesh Lift Industries Ltd. (2000), Banga Plastic International Ltd. (2006), Banga Building Materials Ltd. (2007), Rangpur Metal Industries Ltd. (2008), Sun Basic Chemicals Ltd. (2008), and RFL Construction Ltd. (2010). In 2012, RFL Electronics was also established with the brands Bizil, Click, and VISION. The VISION brand consists of televisions, fridges, electric kettles, fans, etc., while the Click brand caters to lights, switches, etc., and the Bizil brand markets cables.

When asked why they needed to diversify further given that their core business was so successful, Ahsan replied:¹⁸⁹

¹⁸⁸ Rural people use UPVC pipes for tube-wells and water distribution activities.

¹⁸⁹ This interview was conducted in Dhaka on 17 December 2013.

Business is for expansion. However, we have diversified only when necessary. Our diversification strategy was fine-tuned by expert advice and we have therefore added business in the most potential sectors of Bangladesh with high demand, such as medical, filling station, and textiles. Up till now, readymade garments is the maximum foreign currency earning sector through export, for which we added textile in our basket.

PRAN Group has taken various steps in order to ensure continuous technological improvement. In 1991, AMCL set up a factory with machineries for bottling and canning, and installed a Tetra-pack facility as well as a modern extrusion plant for snack food. Through AMCL, Ahsan also introduced modern techniques in agriculture to farmers. Additionally, he initiated a contract farming scheme in 1992, where around 76,000 farmers from Rangpur, Rajshahi, and Khagrachori, work with the Group to provide the latter with valuable crops.

In 2013, the Group established a food, plastic, and metal processing industry in Habiganj on a 200 acre piece of land. In order to ensure safe disposal of factory wastage, the Group developed the very first Effluent Treatment Plant (ETF) in Bangladesh. This concern about factory by-products is very rare among agro-based business groups in Bangladesh.

In 1991, PRAN Group started exporting agro-based products like juice, beverages, dairy, and snacks to France. Presently, the Group exports to about 106 countries, including Africa, Asia, North America, and the Middle East. It also exports hangers and other garment accessories to the United States, Canada, Europe, and Japan. The Group earned US\$2.9 million from exports in 2013-14. Exports in 2010-11 were US\$2.79 million and in 2011-12 US\$2.78 million.

The Group spends about US\$1.3 million on R&D annually. It achieved the 'Best National Export Award' for eight consecutive fiscal years (1999-2000, 2000-01, 2001-

02, 2002-03, 2003-04, 2004-05, 2007-08, 2009-10). PRAN also received the ‘UDC Business Awards 2011’ as the best food and beverage products manufacturer in Malaysia. Besides these achievements, PRAN is the first food processing company in Bangladesh to receive an Integrated Management System (IMS) certificate (*The Financial Express*, 3 January 2003).¹⁹⁰ IMS is a combination of an Environmental Management System (ISO14001: 2004) and British Standard Occupational Health Safety Assessment Series (BS OSHAS) 18001:2007. This certification means that PRAN is able to ensure occupational health safety and appropriate environmental management.

¹⁹⁰ Companies that get this certificate have an IMS that combines all related components (Quality, Environmental, and Safety Management) of a business into one system for easier management and operations.

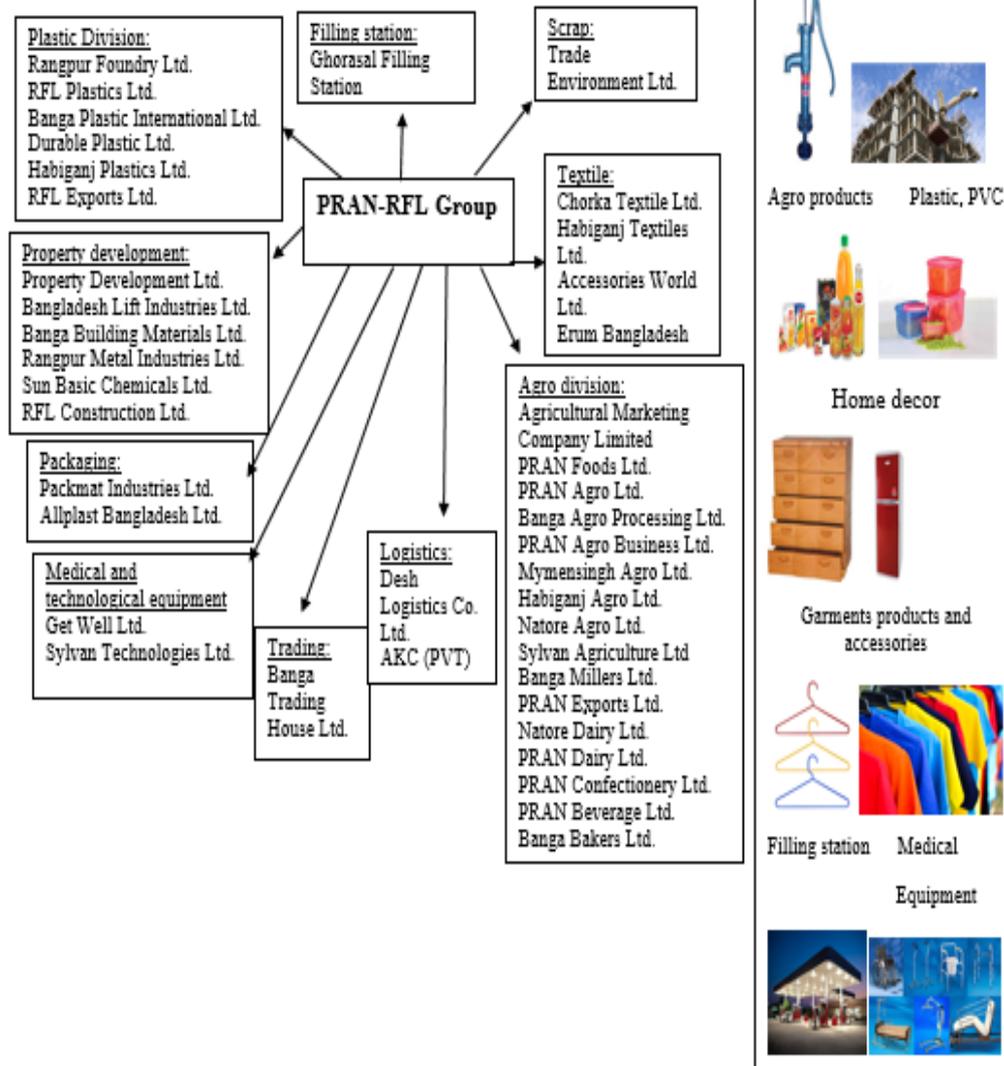


Figure 5.21: PRAN-RFL Group of Companies (As at 2014)

Source: Interview

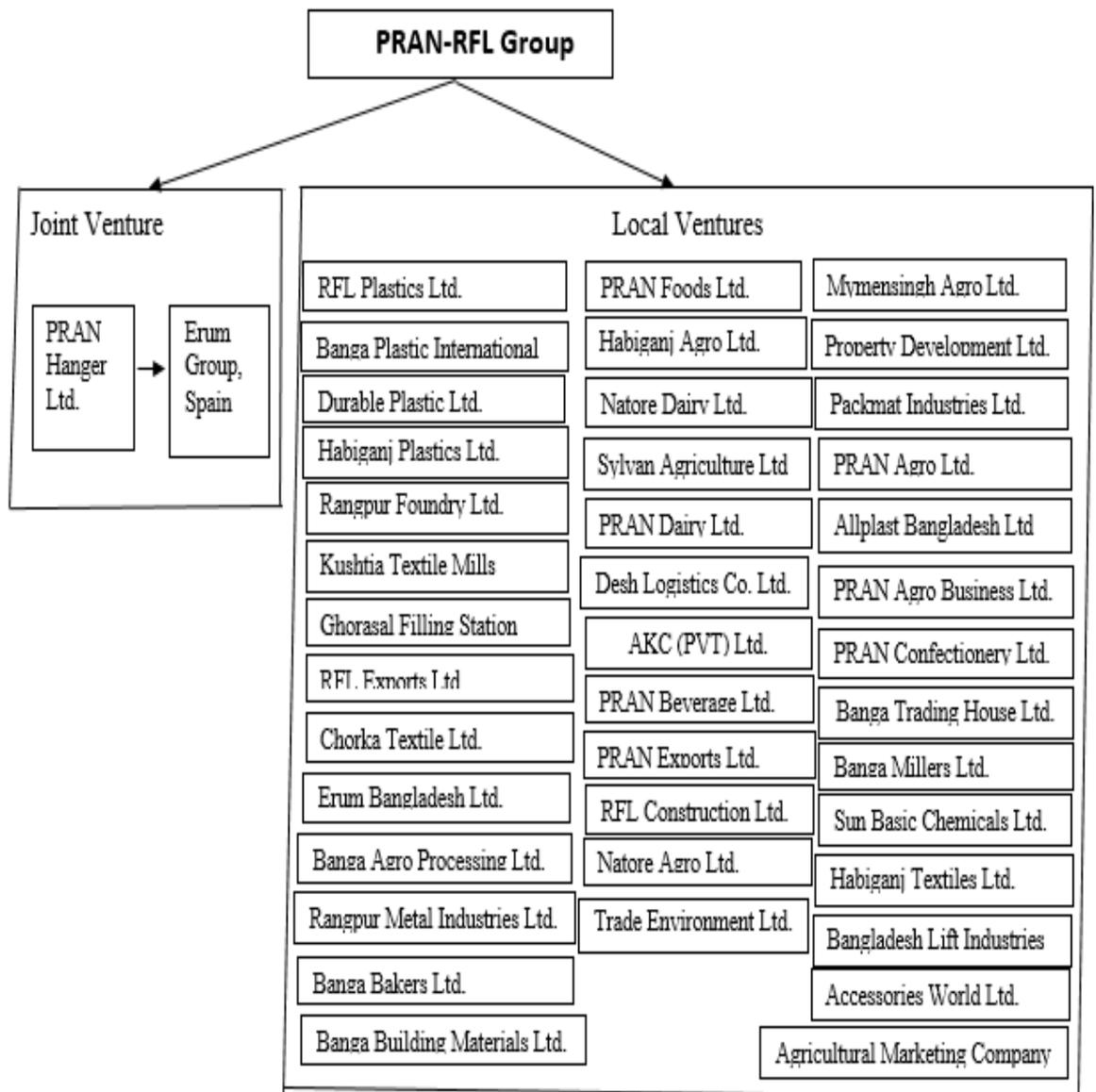


Figure 5.22: Corporate Structure of PRAN-RFL Group (As at 2014)

Source: interview, company annual report, website

Unlike most family businesses, PRAN Group has not focused much on external Corporate Social Responsibility CSR activities; rather, it has adopted a unique internal CSR programme by providing employees with housing, food, transport, training school, overseas training programmes, and schooling for children, etc.

The care extended to the Group's employees and their families makes them feel valued, thus resulting in higher employee retention. According to Uzma,¹⁹¹

Helping employees and factory workers along with their families is definitely an important CSR for any group as it is benefiting their lives on one hand, and on the other hand it helps the group by satisfying employees and workers, which can reduce turnover.

PRAN's training programmes include sales training, store management training, mid-management level training, material management training, and basic English courses. The company's contract farmers too receive continuous training in producing and storing quality fruits and vegetables. Besides this, in order to increase its dairy yield, PRAN offers veterinary support as well as counselling and training to farmers regarding handling cattle feed and performing artificial insemination. Currently, 78000 contractual farmers are working with PRAN.

The Chief Operating Officer of PRAN Agro Business Ltd., Md. Mahatabuddin, commented,¹⁹²

We arrange a training programme for mango farmers every year. This year we have completed training about fifteen hundred mango farmers. In this training session, farmers learn how to manage orchards, as well as pest control and post-harvest handling issues.

Currently, PRAN Group has 42 businesses with over 5000 product categories. It employs around 60000 workers. The annual turnover of the Group was US\$750 million for 2015.

¹⁹¹ This interview was conducted in Dhaka on 17 December 2013

¹⁹² This interview was conducted in Dhaka on 18 December 2013

Although the founder and his successors have no direct political links, Amjad is well known among bureaucrats due to his army background. Besides this, Amjad is also actively involved with lobby groups and banks. He presumably utilised his connections with government officials several times, as he did not face hurdles in arranging capital for his business extensions.

Amjad also benefited from the policies of the BNP and BAL governments for agro-based businesses and exporting, obtaining two loans within the first three years of establishing his business. He was also able to arrange an Enterprise and Entrepreneurial Fund from Bangladesh Bank for his business. State patronage has been helpful in ensuring the smooth survival of PRAN. However, regarding support from government policies, Uzma commented, ¹⁹³

The government doesn't have any policy to develop business. They have their own agenda - to alleviate poverty, tackle donor agency pressure, and alleviate unemployment. Yes, these policies do help businessmen and the nation in a way, however, there is no particular policy implementation that can support entrepreneurs to start a venture.

Uzma further commented,¹⁹⁴

Previously patronage was helpful to businesses, but now businessmen got out of it as we have two parties. We are conscious about our rights. There is actually no benefit having patronage with politics. For survival, sometimes patronage helps but with patronage alone, business cannot survive. They should have their own strength.

Uzma's comment shows that the Group's successors preferred to rely on their entrepreneurship skills rather than focusing on state patronage. of major business groups in Bangladesh, Uzma replied,¹⁹⁵

¹⁹³ This interview was conducted in Dhaka on 17 December 2013.

¹⁹⁴ This interview was conducted in Dhaka on 17 December 2013.

¹⁹⁵ This interview was conducted in Dhaka on 17 December 2013

When questioned further about financial institutional connections as a common strategy *It is not a strategy. It is another way to make money as directors get profit sharing opportunity and Bangladesh has got good prospects in banking. Besides, by having bank directorship we can have access to know other banks, which can be of good use if we any time need help. As a successful business group, we are known to people and the bank feels comfortable providing loans to us.*

Nevertheless, there are some challenges that firms such as PRAN face in Bangladesh. The country's food processing industry faces acute problems of low capacity utilisation, technological obsolescence and marketing shortfalls. The quality of finished products is generally very poor due to high fluctuations in raw material quality and lack of efficient technologies and trained manpower. There is no technology capable of maintaining food and beverage safety standards and hygiene throughout the manufacturing process. The industry is also struggling due to the high cost of energy and uncertain availability of adequate raw produce for processing purposes.

To address this situation, research is being conducted to help the industry become more competitive in the international market. For instance, Mujeri and Alauddin (1994) investigated how a weak technological position as well as lack of R&D can be improved to develop more efficient processes and new products. The Bangladesh Standards and Testing Institute (BSTI) has also formulated standards for all processed food items currently produced in or imported into Bangladesh.

These standards, in general, cover raw materials and their quality parameters, hygienic conditions under which products are manufactured, and packaging and labelling requirements. However, the implementation of these standards has been slow due to confusion over applicable regulatory requirements among the numerous government departments responsible for ensuring food safety.

In fact, as much as 30 to 35 percent of Bangladesh's fruits and vegetables are wasted due to lack of processing and preservation facilities. Simple processing of fruits and vegetables, such as pickling, sun-drying or canning, has historically been practiced in Bangladesh as a household activity. However, despite the recent development of industrial preservation and industrial processing facilities, approximately 2 percent of fruits and a negligible percentage of vegetables are being processed into value-added products. These products include juices, concentrates, pulp, jams, jellies, pickles, and chutneys. Fresh fruits and vegetables are being processed (graded, chilled, and packaged) for the export market, but this is in negligible quantities. It is heartening to note though that 10 large industrial groups, including PRAN, Akij, and Square, have installed modern fruit processing plants, while 20 other local small and medium-size fruit and vegetable processing enterprises currently are in operation.

Uzma also expressed her dissatisfaction regarding the ongoing local political chaos that has negatively affected the business sector.¹⁹⁶ She said,

Our major business is food and beverage, which is directly related to agricultural commodities, where daily transportation facilities are an important factor. However, we often face tremendous difficulties in transporting the crops, raw materials, and finished goods, due to the daily political unrest of the country; this in fact causes damage of stored products and delay in supply.

¹⁹⁶ This interview was conducted in Dhaka on 17 December 2013

5.8.5 Conclusion

PRAN-RFL Group is a family business that emerged in the post-liberation or modern era when state support was better for businesses compared to the pre-liberation war period. Although agro businesses were common in Bangladesh, PRAN's modern technology and aggressive marketing strategy quickly made them key players in the market. Today, PRAN is the largest processor of fruits and vegetables in Bangladesh, exporting to 106 countries. Furthermore, PRAN has shown high entrepreneurial spirit in its business operations by hiring outside experts, going public, and keeping highly qualified and experienced successors on the company board. PRAN-RFL group diversified widely and wisely, however, kept focused on flagship business and establishing brand products.

Although PRAN Group does not have any direct state ties, Amjad's former service in the Army along with his lobby group and bank involvement may have helped it gain access to government rents like bank loans, trade licences, and project approvals. PRAN Group also enjoyed privatisation advantages and export incentives from its initial years. In addition, since agro was a prominent industrial sector in Bangladesh, the Group's core flagship business received policy benefits from the government. Thus, it can be concluded that high entrepreneurial spirit combined with state-nexuses jointly made it possible for PRAN Group to register a high turnover rate.

CHAPTER 6: COMPARATIVE ANALYSIS

6.1 Introduction

The prevailing ethos of these case studies demonstrates that entrepreneurship alone cannot drive business development in Bangladesh and that state connections are needed to help businesses pursue growth in peace while dealing with state incapacity. Some of the firms demonstrated strong entrepreneurial spirit (PRAN, Akij, Rahimafrooz), while others had high state nexuses (A.K. Khan) that paved the way for them to influence policy-making in a manner that would benefit their respective industries; and in some cases, they had both (BEXIMCO, Anwar, Square). By linking entrepreneurship and state nexuses with state incapacity, they created large firms.

Each family business group applied entrepreneurship and state nexuses uniquely when developing its business. Unfortunately, there is insufficient primary and secondary data detailing the development of these firms, as state nexuses have enabled them to circumvent disclosing this information. Only a few of the family firms have listed some of their subsidiaries in the stock market who share information regularly with the public; however, their financial records are not kept for more than six to seven years. This is why this study could not rely on the insufficient data and therefore utilizes interviews with various parties like economists, bank officials, politicians, media reporters, etc. rather than just focusing on the family members of the firms, as an alternative method of accessing the impact of entrepreneurship and state nexuses on the business development of these firms. Another reason to interview various professionals (government and non-government officials, media and bank personnel) besides interviewing the family members and employees of seven family firms is to reduce the biasness of information they have provided. Understandably, this could help the researcher to double check the interviewees' information.

This chapter presents a comparative analysis of the seven family firms discussed in

Chapter 5, exploring how the variables of entrepreneurship and state nexuses have respectively affected their overall development within a weak state. The chapter is divided into four sections. The first section contains a comparative analysis of the seven firms with regard to specific entrepreneurial capacities that assisted their development. Meanwhile, the second section presents a comparative analysis of the seven firms with respect to forms of state support in forms of policy benefits and state nexuses that nurtured their business growth. The third section scrutinises the diverse patterns of entrepreneurship and state nexuses these seven family firms possess. Finally, the fourth section examines the impact of these firms' development on society.

6.2 Entrepreneurial Analysis of the Seven Family Firms

The case studies in Chapter 5 clearly indicate that the development of these seven family firms in Bangladesh has been overshadowed by three major crises: East Pakistan's economic deprivation, the 1971 liberation war, and the after-effects of this war. The business operations of six out of the seven firms in this study (A.K. Khan, BEXIMCO, Square, Anwar, Akij, and Rahimafrooz) were undermined by these crises, facing difficulties surviving due to various forms of state incapacity, such as weak institutions, wayward institutional development, ineffective policies with inconsistent implementation, pervasive corruption, non-transparent administrative activities, deviant political and bureaucratic behaviour, and absence of public accountability (Kochanek, 2000). In this situation, firms with financial strength and/or political connections like BEXIMCO and A.K. Khan had better opportunity for survival compared to Square, Akij, Rahimafrooz, and the Anwar Group, who lacked these capacities in the initial years of business. This is why this latter group of firms remained small until independence and survived by relying mainly on their entrepreneurial skills. However, the seventh firm in this study, the PRAN group, only emerged post-industrialization, which enabled it to enjoy a transformed and open economic business context. However,

it had to contend with a newly-created competitive business environment.

Understandably, the founder is the major source of entrepreneurship in family firms. His knowledge, expertise, and social networks represent important intangible assets for the company. The future prosperity of both family and business depended on how well the founder could pass on these to the next generation and how far these were trusted and valued by the next generation (Lee et al. 2003; Neubauer and Lank 1997). The founders of Akij, Rahimafrooz, A.K. Khan, and PRAN played significant role in shaping the business, whereas in Anwar, BEXIMCO, and Square Group, the successors played major role in business growth.

The three major sectors in Bangladesh are agriculture, manufacturing, and services. The services sector is the dominant one, constituting 52.76 percent of the GDP followed by manufacturing and agriculture at 28.61 percent and 18.64 percent respectively. The services sector can be further divided into banking and finance, transport, and communication. Although the entrepreneurial skill level is not same for all seven family firms, all seven groups are leading brand names in one or more industries of Bangladesh. A majority of large business groups in Bangladesh cannot be categorized under a single sector as they all are highly diversified. Understandably, this was a consequences of state incapacity where firms had to try their luck in different sectors to grab the policy benefits for each sectors. In fact, most of them established their flagship business after they started diversifying. For example, PRAN group's flagship business, agro industries, is the third enterprise it ventured into when its very first cast iron business was registering losses. For BEXIMCO, the pharmaceutical business is its second venture, pursued after its first jute mill business became ridden with debt. For Anwar, the cloth business was the second business in the family after their comb & button business.

Moreover, Square, Rahimafrooz, and Akij began their flagship ventures in their initial years in business, after identifying major needs in the market for pharmaceuticals, renewable energy, and cheap handmade cigarettes respectively. Nevertheless, A.K. Khan seems to be merely a rent seeker as it could not establish a single brand product or flagship business despite wide diversification. A.K. Khan as a minister got the opportunity to secure government rents and expanded his business, especially through joint-ventures, an easy strategy to enter a sector with an advantage of getting foreign technology and expertise. A.K. Khan Group too is entrepreneurial as it did survive for a long time and was able to take up the opportunities to grow through joint-ventures and worked with the government. This opportunity identification is entrepreneurship. However, their entrepreneurial capacity was not at a high level as family members could not utilize these rents productively as they failed to establish any brand product. These rents, however, helped them become big and powerful. The following subsections compare the entrepreneurial capacities of the seven family firms.

6.2.1 Identifying Opportunities

One important entrepreneurial characteristic is being able to identify business opportunities by observing scarce market resources and creating new businesses to address current needs (Gries & Naudé, 2010; Shane & Ventakaram, 2000; Kirzner, 1973). The seven family firms under this study not only identified opportunities to enter into a certain sector, but also kept on identifying opportunities to expand gradually through diversification and by exporting their products. The founders of these firms were well-informed about policy limitations in various sectors for which some family firms like BEXIMCO, Anwar, Akij, and PRAN started off in traditional sectors like jute, comb & button, tobacco, and agro respectively where demand already existed, while Square, A.K. Khan, and Rahimafrooz were able to identify unfulfilled needs in the market by starting off in modern sectors like pharmaceutical, match factory, and

renewable energy respectively. While exploring business opportunities, the founders' prior knowledge strongly influenced their process of opportunity recognition, similar to what Shane and Venkataraman (2000) persuasively argued. All seven founders have utilized their social ties as well as prior knowledge in accessing opportunities to create ventures, which is similar to what numerous scholars have suggested (Brush et al., 2001; Aldrich, 1999; Aldrich and Zimmer, 1986; Aldrich and Waldinger, 1990; Steier and Greenwood, 2000; Aldrich and Langton, 1998).

Among the strategies used by these firms to enter into business were first-mover's advantage¹⁹⁷, niche market strategy¹⁹⁸, distributorship¹⁹⁹, and licensing²⁰⁰. Interestingly, firms like A.K. Khan, Square, and Rahimafrooz started off by grabbing the first-mover's advantage by respectively establishing Bangladesh's first match factory, pharmaceutical company, and industrial batteries; other firms grabbed first-mover advantage later, after diversifying when their first business did not do well. For example, the 3rd generation member of the Anwar group took hold of the business and established the first silk mill. Beximco's 2nd generation members, Salman and Sohail, secured first-mover's advantage by diversifying into pharmaceuticals, after its initial jute mill business turned out to be a loss. Square Group created a niche market for itself after observing the needs of rural people for affordable life-saving drugs; it had first-mover's advantage as the first local pharmaceutical company in the country.

¹⁹⁷ The firm which exploit first a technology, distribution system, or organisation system which results in strong competitive position for others (Jones, 1996)

¹⁹⁸ Niche marketing is a targeted marketing plan that focuses on one particular section of the market that has high potential to connect with a product or service (Jones, 1996).

¹⁹⁹ A distributorship agreement is a contract made between an individual or entity (the "distributor") and the supplier, setting out the terms under which the distributor may sell the products. A distributor is one who buys products from a supplier, warehouses them, then sells them to retailers or to end-use customers (Jones, 1996).

²⁰⁰ An agreement whereby one firm gives to another the use of assets like trademarks and patents (Jones, 1996).

Although Akij did not have first-mover advantage, its tobacco business was also initiated by adopting a niche market strategy: targeting poor people who could not afford to smoke cigarettes. PRAN emerged after the 1980s, when competition was already high. Since it could not secure first-mover advantage, it adopted a niche market strategy by targeting the young generation and fulfilled their demand for a particular type of juice and beverages.

The common pattern of growth noticed among these firms is that they mainly focused on the domestic market. They, however, managed to expand quickly through wide diversification into multiple sectors (see Table 6.1), in order to enjoy the competitive advantage of various industries. This diversification strategy has helped them survive while operating in an economy led by a weak state. Besides, most of the large family firms focused on exporting their products as the government encouraged exports by offering various incentives like zero import duty when importing machinery and spares for export; export processing zones and industrial parks were also set up.

Table 6.1: Opportunity Identification and Innovativeness of the Seven Family Firms

Group name	Opportunities Identified				Innovativeness					
	Primary Sector (Traditional/modern)	Strategies to enter market (Niche/first-mover advantage)	Methods employed to expand	Techniques to enter foreign market	Business units and products	Marketing strategies	New concept or product for local market	Diversification (vertical)	R&D spending, per year	Technological upgrading
Anwar	Traditional (Comb and button + textile)	1st mover advantage [First Privately Owned Silk Mill (1966) First Cable & Wire Manufacturing Company (1956), First Cotton Yarn Spinning Mills 1966 (Awarded Oeko Tex Standard 100	Wide diversification	Export-oriented; Distributorship of FORD car	25 units. From 7 to 20 products	Market segmentation. Direct selling & advertisements	First silk mills and cable factory, cotton yarn spinning mills and kitchen towel	V+H	US\$2 million	Import machines and hire foreign operators
A.K. Khan	Modern (match factory)	1st mover's adv. (1st match factory in East Pakistan)	Wide diversification	Export-oriented; 8 joint-ventures with Eline Union AG, Australia; Maruha Nichiro Corp., Japan; Viyella, UK; Ceylinco Consolidate, Sri Lanka; Panbo Systems BV, Netherlands;	23 units. From 5 products to 20 products	Retailing, advertising	Established first match factory, insurance company, plywood company and private bank in East Pakistan	V+H	US\$60,000	Import machines

Table 6.1: (Continued)

Group name	Opportunities Identified				Innovativeness					
	Primary Sector (Tradition	Strategies to enter market (Niche/first-	Methods employed to expand	Techniques to enter foreign market	Business units and number of	Marketing strategies	New concept or product for	Diversification (vertica	R&D spending, per year	Technological upgrading:
Square	Modern (Malaria medicine)	Niche + 1st mover's adv. (Malaria medicine)	Wide Diversification	Exports to 36 countries Import foreign branded medicines & API, Sell Licensee medicines of Belgium's Janssen Pharma & Swiss company F. Hoffmann-LA Roche Ltd. Square has contract manufacturing with foreign brands for which they produce PUMA, Esprit, Strauss clothes	28 units. From 7 to 5000 products	Retailing and advertise ments	Frist malaria medicine producer ; first local consume r items with internati onal quality	V+H	US\$\$5 million	Import machines and operators, hire best research students from Local research institute (BUET)

Table 6.1: (Continued)

Group name	Opportunities Identified				Innovativeness					
	Primary Sector (Traditional/modern)	Strategies to enter market (Niche/first-mover)	Methods employed to expand business	Techniques to enter foreign market	Business units and number of products	Marketing strategies	New concept or product for local market	Diversification (vertical/horizontal)	R&D spending, per year	Technological upgrading: Import technology
Akij	Traditional (Tobacco)	Niche (handmade cigarettes)	Wide diversification	Export-oriented; Joint-venture with RAK ceramic Ltd., UAE; sell licensee cigarettes of Marlboro & Marlboro Full Flavor	42 units. From 3 to 2000 products	Market segmentation. Retailing and advertisements	Fly ash free cement, preservative free milk, color free juice	V+H	US\$2 to US\$3 million	Import machines and hire foreign operators
BEXIMCO	Traditional + Modern (Jute + Pharmaceuticals)	1 st mover: Jute mill and local pharmaceuticals	Wide diversification	Export-oriented; Import Foreign branded medicines; Sell licensee medicines of Bayer A.G, Germany & Upjohn Inc., US; Joint-venture with GS Group, Russia & Comtrade Ltd, Switzerland; Ceramic unit has foreign collaboration to use NIKKO;s technology. BEXIMCO added additional YELLOW (apparel unit) owned	35 units. From 10 to 2000 products	Retailing and advertisements	Its jute mill was among the first few by a Bengali owner; first international quality ceramic industry, Shine pukur, established in 1970	V+H	US\$3.5 million	Import machines and hired foreign experts

Table 6.1: (Continued)

Group name	Opportunities Identified				Innovativeness					
	Primary Sector (Traditional)	Strategies to enter market (Niche/first-	Methods employed to expand	Techniques to enter foreign market	Business units and number of	Marketing strategies	New concept or product for local market	Diversification (vertical)	R&D spending, per year	Technological upgrading: Import technology
Rahimafrooz	Modern (Alternative energy)	1st mover as industrial battery and solar power manufacturer and fiber optic-based digital solution provider.	diversification	Export-oriented; Distributorship of Lucas Battery & Dunlop Tire, Globatt, Spark, Castrol oil, Daewoo Electronics, General Electric USA (GE) & Hager UK; Foreign technical Collaboration with Electrona of Switzerland and British Petroleum (BP); Joint-venture with Flora Telecom, Carbon Planet of Australia, CIC Agro Business(Pvt) Ltd., SriLanka	13 units. From 6 to 300 products	Retailing and advertisements	First local industrial battery and IPS, retail supermarket (AGORA)	V+H	US\$1 million	Import machines. Joint venture, foreign collaboration and distributorship.

Table 6.1: (Continued)

Group name	Opportunities Identified				Innovativeness					
	Primary Sector (Traditional/modern)	Strategies to enter market (Niche/first-mover advantage)	Methods employed to expand	Techniques to enter foreign market	Business units and number of products	Marketing strategies	New concept or product for local market	Diversification (vertical)	R&D spending, per year	Technological upgrading: Import
PRAN	Traditional + Modern (Cast Iron and Agro)	Niche + 1 st mover adv. With cast iron (tube well) and extension of agro-based industry	well diversified	Export-oriented; Joint-venture with Erum Group, Spain	38 units. From 14 to 5000 products	Market segmentation. Retailing & advertisement	First modernized agro-based products	V+H	US\$1.3 million (3% of sales)	Import machines

Sources: Interviews taken from 29 June 2013 till 20 July 2013; from 12 December 2013 till 20 December 2013; from 3 December 2014 till 23 December 2014; Humayun, 1991; www.akkhan.com; Osborne, 2008; Barua, 2012; Hassan, 2013; Rahman, 2012; Jony, 2012; www.pranrflgroup.com; http://www.pranfoods.net/; Lall, 2011; www.beximco.com; Bdnews24.com (23 July 2005; 14 November 2008; 2 August 2011; 16 June 2010; 17 June 2009); Entrepreneur, 23 November 2012; The Daily Star 3 June 2012); Solaiman (2008); www.anwargroup.net; Dainik Inkilab, 5 March 2012; Dainik Prothom Alo (4 June 2012, 19 May, 2012); Shomokaal, 29 February 2012; Prothom Alo, 29 February 2012.

Some business groups took advantage of state crises to get into business. Anwar and Akij captured market demand through diversification during the liberation war, at a time when most businessmen lost everything. Akij bought necessary food items at a minimum price from wholesalers who were leaving the country during the war. Two years later, Akij sold these food items at quadruple the price, making a huge profit. Similarly, when Anwar had to close his textile mills during the war, he diversified into trading rice, kerosene oil, and tin to survive. When BEXIMCO's jute mill was nationalized after the war, Salman and Sohail had to diversify. They started exporting crushed bones and seafood, as well as importing medicines. A.K. Khan started business in his father-in-law's construction project which Bari, his father-in-law, got for his state affiliation when the country was going through infrastructure restructuring after the partition of 1947; however, A.K. Khan started his own venture in a traditional tobacco sector by establishing a match factory. Moreover, when A.K. Khan suffered liabilities due to the nationalization of his companies after the 1971 liberation war, he survived by diversifying quickly into different sectors through multiple joint-ventures. Grabbing joint ventures were easy for him as he was part of the state (as Industrial minister).

Nevertheless, all seven firms, while starting the business, were well aware of the poor technology available in the country for which all of them grab opportunities to survive and grow in business using one or more techniques to enter foreign markets; this helped them to bring in foreign technology and expertise to enhance business growth. Where some groups relied more on foreign affiliation (A.K. Khan, BEXIMCO, Square and Rahimafrooz), some relied less (Anwar, Akij, and PRAN). For instance, all seven family firms exported their products to many countries. Besides, in particular, Anwar Group got the distributorship to sell FORD cars under its automobile unit; PRAN Group's hanger unit has a joint-venture with Erum Group, Spain; Akij Group has one

joint-venture in its ceramic unit with RAK Ceramic Ltd., UAE and is also the licensee cigarettes of Marlboro & Marlboro Full Flavor.

On the other hand, A.K. Khan Group has eight joint-ventures in total, which allowed them to expand into new areas even where they lacked expertise. As the Managing Director of A.K. Khan commented: *When it's a technologically advanced industry and we don't have the expertise for it ... joint-ventures help us create a new market.* Its joint-ventures are with Eline Union AG, Australia; Bengal Fisheries Ltd. with Maruha Nichiro Corp., Japan; COATS Bangladesh Ltd. with Viyella, UK; AK Ceycon Ltd. with Ceylinco Consolidate, Sri Lanka; AK Panbo Agro Ltd with Panbo Systems BV, Netherlands; AK Water Health BD Ltd. with WaterHealth Inc., USA & IFC; and CEAT BD Ltd. with M.Y. & Union, Sri Lanka. BEXIMCO Group imported foreign branded medicines initially and then started selling licensee medicines of Bayer A.G, Germany & Upjohn Inc., US. Additionally, BEXIMCO Group has two joint-ventures: their media division has a venture with GS Group, Russia and its apparel division has a tie-up with Comtrade Ltd, Switzerland. BEXIMCO's ceramic unit, Shinepukur, has foreign collaboration (technical collaboration) with NIKKO to use their technology. BEXIMCO added additional YELLOW (apparel unit) owned outlets in Pakistan, China, and the Far East besides Bangladesh. Square Group used to import foreign branded medicines initially, though now it only imports API. Square then started selling licensee medicines of Belgium's Janssen Pharma and Swiss-owned F. Hoffmann-LA Roche Ltd. before it started manufacturing its own brands.

Square's apparel division has contract manufacturing for which it now produces many foreign-branded (PUMA, Esprit, Strauss) clothes. It is the sole marketing agent of Microsoft Corp. for Bangladesh and Square hospital is affiliated to the US-based Methodist Healthcare, SingHealth of Singapore, the Bangkok Hospital Medical Center

of Thailand, and the Christian Medical College of India. Rahimafrooz Group started business with the distributorship of Lucas batteries and Dunlop tyres and then started manufacturing its own branded batteries. Then, its battery division secured the distributorship of Globatt, Spark, and Castrol oil; its renewable energy division obtained the distributorship of Daewoo Electronics, General Electric USA (GE) and Hager (UK). Rahimafrooz also has a foreign technical collaboration with Electrona of Switzerland and British Petroleum (BP). Additionally, it has joint-ventures with Flora Telecom (through its ICT unit), Carbon Planet of Australia (renewable energy unit), and CIC Agro Business (Pvt) Ltd., Sri Lanka (agro unit).

6.2.2 Innovation

Innovation, an essential function of entrepreneurship, involves creating new wealth producing resources or endowing existing resources with enhanced potential for creating wealth (Drucker, 1985). Bangladesh is a developing country with major technological constraints where R&D is still in its infancy. Innovation requires R&D. Investing in R&D is an essential tool for ensuring productivity (Van Praag & Versloot, 2007). Therefore, most Bangladeshi family businesses have mainly designed modifications or duplications of products and concepts, instead of inventing something new. Additionally, most firms in Bangladesh are focused on the domestic market, where innovation has never been a common business practice. It therefore can be argued that Schumpeter's entrepreneurship definition does not apply to poor countries like Bangladesh, as within this context, firms are already considered pioneers just by introducing goods and services from western countries into the local market.²⁰¹

²⁰¹ Schumpeter defined entrepreneurship as innovation.

The reason can be either their loss of entrepreneurial focus while diversifying into too many sectors or the requirement of the particular sectors a family firm is engaged in. For instance, the pharmaceuticals, consumer products, food & beverage, toiletries, and ICT sectors require continuous product development; hence, firms in these sectors tend to invest more on R&D.

Table 6.1 also shows vertical (unrelated businesses) and horizontal (related businesses) diversification of the seven family firms, through which they generated new products and services. This diversification strategy certainly has given all of them the opportunity to expand business and capture market demand. A.K. Khan Group currently has 23 businesses with 200 product categories. Anwar Group has 25 businesses with 200+ products. Akij Group has 42 businesses with 2000+ products. Square Group has 28 businesses with 5000+ products. BEXIMCO Group has 35 businesses with 2000+ products. Rahimafrooz Group has 13 businesses with 300 products and PRAN group has 38 businesses with 5000 products. Understandably, Akij, Square, BEXIMCO, and PRAN have more products than the other firms, due to their involvement in pharmaceuticals, consumer products, and food items, which usually have wider product ranges. Among various sectors, textile, pharmaceuticals, agro, ICT, and jute attracted the groups more as those got greater government attention through policy benefits.

Through diversification, firms can also perform a cost-discovery function (Table 6.1), as new concepts and technology are introduced, providing other entrepreneurs with information on the profitability of new activities (Hausmann & Rodrik, 2003). All seven firms introduced new concepts and technology to Bangladesh. Rahimafrooz pioneered the manufacturing of industrial batteries, solar power, IPS, and retail supermarkets. Square introduced international quality locally, in manufactured consumer products and toiletries. Additionally, Square helped develop Bangladesh's

agricultural/agro-processing sector by launching the very first tissue culture laboratory utilising AgriBiotech.²⁰² Square also came up with the first air ambulance/EMS service in Bangladesh, and established Square Hospital, the first hospital in Bangladesh to be affiliated with foreign hospitals.²⁰³ Another novel venture is Square Herbal & Nutraceuticals Ltd. As Samson from the Square Group commented (Barua, 2012): *I can't guide the people before knowing the technology. So, we regularly take suggestions regarding modern technologies from advisors in America and Europe.*

BEXIMCO group also introduced new concepts and technology to Bangladesh. BEXIMCO Pharma was the first company in Bangladesh to locally produce metered dose inhalers. It is the only company in Asia outsourced by GSK for the manufacturing of its major brand Ventolin®. Bextex, BEXIMCO group's flagship textile unit is the manufacturer and exclusive Bangladesh licensee of the American company, Cortex-2000, and utilises cutting edge technology from Japanese companies such as TAKASAGO, MINO, and SKK. Meanwhile, BEXIMCO's ceramic unit, Shinepukur Ceramics, has established the very first Bone China business in Bangladesh, with new technology from the Japanese company, NIKKO. Additionally, BEXIMCO can be credited for introducing Direct-to-Home (DTH) television viewing technology to Bangladesh, through a joint-venture with the Russian GS Group.

Anwar Group established the first textile printing mill and silk mill in East Pakistan and created a famous brand product called the 'Mala Saree'. Anwar's son, Manwar, commented: *We bring technical expertise from abroad when we add a new business unit, as they are well aware of the product and technology. They do the installation and product development for us.*

²⁰² AgriBiotech produces 10,00,000 seedlings per year (Square Group website).

²⁰³ SQUARE Hospital is affiliated with Methodist Healthcare, Memphis, Tennessee, America; Christian Medical College, Vellore, India; and Care IVF (In-vitro fertility centre) Centre, Singapore.

However, after launching the Mala Saree, Anwar Group diversified into various industries, but could not create any more brand products despite its wide diversification. One possible explanation for this is that it lost entrepreneurial focus, concentrating instead on quick growth. A.K. Khan established the very first match factory, plywood company, and insurance company in East Pakistan; this group also embarked on a joint-venture that enabled it to introduce a new water purification technology in Bangladesh. However, A.K. Khan and his sons mainly identified business opportunity through their state nexuses while expanding business. He and his successors utilized government rents to garner huge profits. Joint-ventures were a major strategy for them to get into new sectors and for bringing in new technologies and concepts. This strategy gave them the opportunity to secure foreign technology and expertise despite having little knowledge about it. As a result, the group became a conglomerates, yet could not establish a brand name or even a flagship business.

Akij Group created a brand name in the biri business (Akij Biri) by targeting the huge rural population where there was a demand for cheap cigarettes. The Group was the first to come up with the fly ash free cement and also the first to import Aseptic cold filling machines to manufacture preservative-free fruit juices in Bangladesh. Akij Group flourished in the biri business. However, Akij's sons later tried to dissociate his brand name from biris as the label 'Biri Company' carried negative social value as well as a low company profile. Therefore, they began diversifying in food, beverage, cement, etc.

However, tobacco is still its flagship business, although it switched focus from biris to cigarettes to adapt to changing market demands. Although it gained fame in the tobacco sector, the Akij Group did not become famous in its other ventures despite using new concepts and technologies, while competing with new family firms like Hashem Group and Abul Khair Group.

In actual fact, the key to business success is fulfilling the 4Ps. The marketing mix of 4Ps emphasises the importance of competing through price, product differentiation, place (or location), and promotion strategies in the pursuit of market share. Among the seven firms, BEXIMCO and Square kept focus on the 4Ps. The firms that emerged in the pre-liberation period like A.K. Khan, BEXIMCO, Anwar, Akij, Rahimafrooz, and Square, did not face price competition or the need to adopt product differentiation initially, as they captured market demand very easily through their first-mover's advantage.²⁰⁴ Eventually, when the market became competitive, especially after trade liberalization took place, they focused on pricing, aggressive advertising, product differentiation, and retail network expansion.

Table 6.1 shows that Akij, Anwar, and PRAN used market segmentation²⁰⁵ while designing their core products and gradually employed branding²⁰⁶ and advertisements as marketing strategies. Akij used retailing to market his products. He used to give his biris to small retailers who delivered them to other villages and towns. In fact, Akij and PRAN Group also segmented their food and beverage products keeping the changing market demand in mind. Demand for processed foods was picking up, thanks to rising incomes and busy lifestyles in Bangladesh. Besides, the growing number of restaurants,

²⁰⁴ Price competition means lowering product prices compared to the competitors.

²⁰⁵ Dividing the target market into smaller groups with similar needs and then designing products and services accordingly.

²⁰⁶ A name which facilitates product differentiation.

hotels, and supermarkets were also driving demand for processed foods. At present, domestic producers such as PRAN, Golden Harvest, Aftab, and Kazi Farms are dominating the processed foods market; Akij, Shezan, Danish, and Acme are strong players in the juice segment after PRAN; Ahmed Foods, Square and PRAN Group are strong players in the daily and sauce segment (*The Daily Star*, 18 September 2015).

Anwar Group initially adopted the same strategy, using retailing to deliver products such as sarees to village and town markets. Eventually though, Anwar employed direct selling by establishing his own printing mills as well as many sales centres all over the country.

All seven family businesses have focused on product strategy²⁰⁷ and promotion strategy,²⁰⁸ consequently spending highly on R&D and advertisements (such as electronic and print media, sponsorship programmes, billboards, and campaigns). PRAN Group was well known for its aggressive advertising in the 1980s, at a time when advertising among agro-based groups was uncommon. Square and BEXIMCO even have their own strategic partner for brand development. The Executive Marketing Director of the PRAN Group commented: *Our products need promotion. We want to reach all people. This is the reason for spending more on advertisements.*

Radio is an emerging media with a fast reaching effect in Bangladesh for which major brands are spending on radio commercials (*The Daily Star*, 7 September 2012). The FM (frequency modulation) radio stations have emerged as the newest and quick-reaching media among urban people, especially the youth. Besides, the cost of advertising on radio is much less than on television, which is another important factor behind the growth both in number of commercials and the spending by major brands.

²⁰⁷ Developing and introducing a new product.

²⁰⁸ Bringing awareness of the product to the target market.

However, the print media still remains the largest advertising vehicle, grabbing around 43 percent of all spending, while TV commercials account for 39 percent (*The Daily Star*, 7 September 2012). Akij and PRAN Group are among the top 10 groups spending on audio ads (*The Daily Star*, 7 September 2012).

Although these family firms engage in business outside national borders through exporting, they cannot be termed as multinational enterprises as they do not control operations in foreign countries. They do, however, rely on foreign agreements like joint-ventures, licensing, and franchising in order to gain access to modern technologies and expertise. The corporate structures of the seven groups show that the A.K. Khan Group has eight joint-ventures, BEXIMCO four, Rahimafrooz three, Akij and PRAN one joint-venture each, while Square and Anwar have none. BEXIMCO also invested approximately US\$20 million in 2010 in the Westin Hotel (bdnews24.com: 16 June 2010; *The Daily Star*, 17 June 2010), while Anwar Group took up distributorship of the global automobile icon, Ford.²⁰⁹ These joint-ventures²¹⁰ and foreign affiliations have been helpful in supplying foreign experts to these family firms and to provide training for family members and employees. This, in fact, indicates the firms' capacity to capture new expertise and skills in various sectors.

6.2.3 Risk-Taking

Entrepreneurs should have the ability to take risks, handle the unknown, and tolerate ambiguity. According to this study's findings (Table 6.2), all seven family firms qualify as risk-takers. However, some have taken more risks than others.

²⁰⁹ Westin Hotel is managed by the Starwood Hotels and Resorts Worldwide Inc.

²¹⁰ Firms often engaged in joint-ventures in order to gain access to expertise without the need to hire more staff, to leverage existing technologies and patents developed by other companies, to share the risk of high-leverage but uncertain ventures, and to establish a presence in new, untapped markets, including international opportunities.

First of all, operating a business in a weak state like Bangladesh is risky where the institutional framework is very weak. Examples of these risks include higher investment in the business (which translates into more risk, given the unstable economic and political context of Bangladesh), and investing family assets and personal savings.

This is why family firms are called entrepreneurial as the initial capital generally comes from personal and family assets. In some instances, an entrepreneur's family or extended family not only provides needed capital, but provides other resources such as access to markets, sources of supply, technology, and even new ideas (Dyer & Handler, 1994; Reynolds et al., 2004). This happened in all seven firms where the founder as well as successors contributed with credit facilities, contracts, concepts, and technology ideas through their entrepreneurial skills and personal networks.

Understandably, since the founders of A.K. Khan, BEXIMCO, and PRAN had greater financial and political strength compared to the other founders, their start-up capital investment was higher. The founders of the other four firms (Anwar, Square, Akij, and Rahimafrooz) only had limited savings and assets to invest in their businesses and therefore took a higher initial risk by investing their limited savings and family assets.

Additionally, among the seven family firms, only Square Group started business through a partnership. The other six family firms started business as a sole proprietorship which entailed greater risks than the Square Group's partnership approach.

Moreover, family firms usually steer clear of public listing, due to the risk of losing family control, the desire to circumvent debts, and reluctance to spur fast growth (Gomez-Mejia et al., 2003; Morck et al., 2000; Amit & Villalonga, 2006). However, four out of the seven family businesses studied (BEXIMCO with four listed companies

out of 35, Square with four listed companies out of 28, Anwar with two listed companies out of 25, and PRAN with two listed companies out of 38) have gone public. The other three firms, A.K. Khan, Rahimafrooz, and Akij, have yet to publicly-list their companies. This may be because they already possess enough financial resources to raise capital without going public and/or they are too conservative to let go of family control.

6.2.4 Adaptability

True entrepreneurs are able to proactively adapt to crises and uncertainty and act positively to change the situation (Covey, 1989). In a weak state like Bangladesh, entrepreneurs constantly have to navigate acute internal as well as external crises. According to Chapter 2, the common internal challenges faced by Bangladeshi companies are strengthening and maintaining managerial capacity, retaining employees, and satisfying the changing demands of customers; whereas the external challenges they struggle with include continuous economic and political turmoil (Khan, 2000), poor infrastructure and technology, unskilled labour, limited and highly priced credit, inadequate supply of power, gas, and water, as well as growing incidences of crime and extortion. If firms cannot successfully manage the internal and external complexities of their organisation, they will fail to achieve growth or realise only minimum growth (Clifford, 1975).

Table 6.2 Adaptability and Risk-Taking Capabilities of the Seven Family Firms

Group name with primary business sector	Adaptability				Risk-taking			
	With financial ups and downs (merge or shut down)	Training for managers/unskilled workers	With technological constraints	Start-up capital	Source of capital	Legal structure (sole proprietorship/partnership)	Public listing	
Anwar	4 units closed	Overseas training for line managers, head of department and project heads; on the job training for workers	Commenced business as a trader, then started manufacturing after getting knowledge of modern technology, foreign affiliation	Rupee100000 (US\$21008)	Family asset	Sole	2	
A.K. Khan	Closed 6 units	Technical training school	Depended highly on joint ventures	PKR0.45 million (US\$0.09 million)	Family (father-in-law)	Sole	No	
Square	2 units closed and 3 merged	Overseas training and on the job training	Started with manual production followed by licensee medicines; gradually started manufacturing own medicines.	PKR30000 (US\$6300)	Family (from father) and partners' investment	Partnership	4	
Akij	5 units closed	On the job training; have training sessions and school for workers; hire renowned professors to provide training sessions for top and mid-level managers.	Manually produced Biri, then bought 2nd hand machines from abroad and bought new machines	PKR5000 (US\$1050)	Personal savings	Sole	No	
BEXIMCO	7 merged and 3 units closed	Overseas training & on the job training	Started with manufacturing jute yarn; then under foreign licensee started pharmaceutical production	PKR350000 (US\$73529)	Family asset	Sole	8	

Table 6.2 (Continued)

Group name with primary business sector	Adaptability			Risk-taking			
	With financial ups and downs (merge or shut down)	Training for managers/unskilled workers	With technological constrains	Start-up capital	Source of capital	Legal structure (sole proprietorship/partnership)	Public listing
Rahimafrooz	2 closed	Overseas training, on the job training	Started with distributorship of batteries and then tire, then eventually started manufacturing	PKR200000 (US\$42016)	Family asset (a land) and personal savings	Sole	No
PRAN	5 merged	Extensive on the job training and overseas training for all mid and top level workers and factory workers.	Started with local production techniques; then started importing machines for agro business.	Tk 3 million (US\$0.14 million)	Family asset, personal provided fund, savings and bank loans	Sole	2

Note: The start-up capital is showed in Taka, as provided by the family members (in approximate figures for Anwar, A.K. Khan and Rahimafrooz). During the Pakistan era, the currency was Pakistani Rupee and before 1947 it was Indian Rupee.

Sources: Interviews taken from 29 June 2013 till 20 July 2013; from 12 December 2013 till 20 December 2013; from 3 December 2014 till 23 December 2014; Humayun, 1991; www.akkhan.com; Osborne, 2008; Barua, 2012; Hassan, 2013; Rahman, 2012; Jony, 2012; www.pranfigroup.com; http://www.pranfoods.net/; Lall, 2011; www.beximco.com; Bdnews24.com (23 July 2005; 14 November 2008; 2 August 2011; 16 June 2010; 17 June 2009); Entrepreneur, 23 November 2012; The Daily Star 3 June 2012); Solaiman (2008); www.anwargroup.net; Dainik Inqilab, 5 March 2012; Dainik Prothom Alo (4 June 2012, 19 May, 2012); Shomokaal, 29 February 2012; Prothom Alo, 29 February 2012.

Furthermore, due to limited state cultivation of natural resources, firms in Bangladesh do not have access to raw materials; instead, they mostly import the raw materials needed for their products. However, some firms like Anwar, BEXIMCO, and Akij have chosen traditional sectors like rice, jute, and tobacco, which have raw materials within the country. Other firms have coped with this situation by diversifying horizontally to gain control over the production, processing, and marketing of raw materials.

Besides, access to financial resources is another major challenge for entrepreneurs in Bangladesh, unless they have state links that provide privileged access to funding. All seven family firms under consideration diversified in order to hedge the financial risks. Besides this, all seven firms have either merged or shut down their low performing businesses to reduce losses. For example, in order to improve financial performance, Beximco Ltd. merged with Beximco Fisheries and Shinepukur Ceramics in 2008 (*The Daily Star*, 15 July 2008) and later on with Bextex Limited in 2011 (bdnews24.com: 2 August 2011). BEXIMCO also acquired four of its non-listed sister concerns (International Knitwear and Apparels, Mexico Fashion, Crescent Fashion and Design, Freshtex Bangladesh) through which their paid-up capital rose from US\$24 million to US\$1.1 billion (*The Daily Star*, 23 April 2012). Anwar Group also shut down its cable and cutlery businesses as they were incurring losses,²¹¹ while A.K. Khan and Rahimafrooz had to close six and two businesses respectively due to poor financial performance.

Interestingly, the family members of these seven firms commonly held ownership and directorships of public as well as private banks. This allowed them better access to bank loans with low interest rates and the opportunity to circumvent proper documentation.

²¹¹ As stated by Manwar Hossain, Managing Director of the Anwar Group, during an interview on 10 July 2013.

In addition, since the majority of bank directorships are controlled by these large family firms, they maintain good relationships with each other in order to mutually exchange facilities.

Understandably, in order to survive in a competitive market, entrepreneurs have to continuously update themselves regarding relevant technological advances. However, in a developing country like Bangladesh, firms have to rely heavily on externally acquired technology as the country lacks modern and adequate technology. Some firms hire technical expertise from abroad, whereas others import machineries and initiate joint-ventures, while others take on licensing and distributorships of foreign brands (Amsden & Hikino, 1994; Erramilli & Rao, 1990).

This study's findings indicate that the seven family firms began using foreign technologies at different times in their development. The Akij, Square, and Anwar Groups initially relied only on domestically available technologies. Eventually, after they became financially strong, they began importing second hand/new machineries from abroad. Square while starting off as a pharmaceutical company adopted licencing first and eventually started manufacturing drugs. In contrast, A.K. Khan, BEXIMCO, and PRAN had enough capital to import new machineries for production right from the beginning of their ventures. They also had strong political ties, which assisted them in acquiring import licenses. Rahimafrooz smartly relied on foreign distributorship, which enabled them to sell foreign branded batteries and tires, despite limited financial strength.

Moreover, the founders and successors of these family firms also learnt about modern technologies by visiting developed countries and hiring foreign technical personnel, as well as by embarking on joint-ventures through which they obtained foreign technology along with technical expertise. For example, Akij and his sons travelled to many countries to gain practical knowledge about operating factories and

machines. Square Group hired machine operators from abroad to train their local employees.

A.K. Khan, PRAN, and Anwar embarked on joint-ventures with foreign companies in order to bring in modern technology and expertise. The involvement of foreign directors further increased the quality and transparency of decision-making in their companies. Another reason for companies to adopt joint-ventures was to enter into a sector where they did not have the requisite expertise for it (Zahra & Filatotchev, 2004). For example, Rahimafrooz entered the textile industry with an investment partner because they did not have sufficient expertise in the sector.

Further, Bangladesh although is advantaged due to its cheap and abundant labour; however, this only seems to be useful in labour-intensive industries like textiles. Since most labour lacked education and skills, they were unable to work in capital-intensive industries. This is how a competitive advantage became a bottleneck in Bangladesh. Kanbur (1979) describes the entrepreneur as someone who takes risks and navigates the uncertainties of production caused by unskilled labour. All seven groups demonstrate these characteristics, as interviews with the firms' family members revealed that they provided their employees with both on-the-job training as well as overseas training. In fact, in order to penetrate export markets, Square, BEXIMCO, and PRAN even hired renowned professors and foreign experts to train mid-level and top management to improve product quality and design. Additionally, PRAN Group sends its top and mid-level managers abroad for training on modern management and marketing techniques, while also providing selected workers with overseas training on machine operation and technical skills. Anwar Group holds on-the-job training, while A.K. Khan and Rahimafrooz run training schools inside their office premises that conduct regular training sessions for employees and managers.

Nevertheless, interviews with the family members of these firms revealed frustration

regarding their challenges in managing labour. They think that the state should take responsibility for establishing proper vocational training institutions, as mere on the job training does not adequately equip workers to handle complicated and modern technologies.

Besides being adaptable with the external constraints, family firms in developing countries like Bangladesh keep on handling internal complexities, especially managerial issues. No family or financial institution is large enough to staff the managerial hierarchies required to administer modern multiunit enterprises. The growth of the corporation demands more investment and financial resources, for which the shift from personal family capitalism to financial capitalism takes place, where bankers and other financiers shared top management decisions, occurred. Besides, the salaried managers develop specialized knowledge and are able to generate funds necessary for continued expansion (Chandler 1980). Keeping that in mind, all seven of the family firms have appointed outside professionals to run their companies. In addition, all seven firms have given some level of decision-making authority to outside experts. Among the seven firms, Square, BEXIMCO, Anwar, and PRAN have included outsiders as board of directors and have given them some level of decision-making authority. Furthermore, all seven founders groomed their successors with good education, enabling them to lead the businesses with modern knowledge and skills. This also assisted the firms to fill managerial gaps through which Akij, A.K. Khan, and Rahimafrooz have grown big; yet, they could keep full family control over the business as they educated the next generation.

6.2.5 Generational Development

The survival of any family business is highly dependent on its entrepreneurial practice across generations. A founder with high entrepreneurial spirit can ensure that a second tier management team is developed who can take over the business, with the ability

to identify future entrepreneurial opportunities and threats and adapt accordingly. In the seven cases, this notion is clearly visible, where the predecessors developed the next generation with all possible entrepreneurial skills. In fact, the seven family firms share some common approaches while developing successors. According to the interviews with the family members, the predecessors kept in mind three major issues when grooming the next generation: providing them with both moral and institutional education to fill the managerial gap and act with professionalism; educate them to keep a balance between family and business issues in order to prevent succession related problems; and make them capable enough so that they can contribute to business development.

In this generational development process, some founders used apprenticeship while grooming the successors (Square, PRAN and Rahimafrooz) who joined the business in entry positions and were only promoted after they had demonstrated adequate competence; some founders used job rotation (Akij) in order to train them in managing different businesses; others just ensured good education and job experience and let the successors serve in senior management (A.K. Khan, Anwar, and BEXIMCO).

Table 6.3 Generational Development of Seven Family Firms

Group name	Ownership and control	Successor development (education and job experience)	Dealing with Succession	Contribution by successors	Businesses added by founder and successors	Most dynamic generation/s in business expansion
Anwar	Family has 35% ownership	1st-3rd graduates, 4th-5th post-graduates and experienced	1 st -3 rd no succession planning; 3 rd -4 th Islamic Sharia. Anwar is currently Chairman	3 rd generation came up with Belgium Rolling technology for Ispat production; 1st time in Bangladesh	Founder: 1 2 nd generation: 1 3 rd generation: 12 4 th generation: 7	3 rd generation member
A.K. Khan	Family has 100% ownership	All 3 generations well educated abroad. 3 rd generation has working experience	1st to 2nd generation followed the Islamic Shariah inheritance law; 3rd joined recently	3rd generation came up with water purification technology	Founder: 10 2 nd generation: 7 3 rd generation: 6	Both 1st and 2nd generation
Square	Family has 28.6% ownership	1st-2nd graduates, 3rd-4th graduates from abroad	1st to 2nd no succession; 2nd-3rd Islamic Sharia; 4th generation recently joined	4th generation came up with plant tissue culture laboratory	Founder: 1 2 nd generation: 16 3 rd generation: 8 4 th generation: 4	Mainly 2nd generation, 3rd helped in expansion
Alkij	Family has 100% ownership	1st generation no education, 2nd well educated from abroad with experience	1st-2nd Islamic Sharia	2 nd generation came up with fly ash free cement, preservative free juice	Founder: 20 2 nd generation: 22	Mainly 1st generation, 2nd helped in further expansion
BEXIMCO	Family has 30% ownership	1st-3rd are graduates, 3rd graduated abroad and have experience	1st-2nd no succession planning, 2nd and 3rd now working together	2nd generation brought corporate culture by recruiting professionals. 3rd came up with optic fiber cable	Founder: 1 2 nd generation: 30 3 rd generation: 4	2 nd generation took main initiatives for growth and expansion
Rahimafrooz	Family has 100% ownership	1st-3rd generation members are graduates. 3rd have graduated from abroad and have experience	1st-2nd no succession planning, 2nd-3rd Islamic law	2nd generation came up with the first locally produced industrial battery, IPS and Solar power, Family Council	Founder: 3 2 nd generation: 6 3 rd generation: 4	Mainly 2 nd generation and 3 rd generation contributed in expanding the business.
PRAN	Family has 63% ownership	1st and 2nd are graduates from abroad. 2nd has experience	1st-2nd followed Islamic law. Amjad is now the MD	2nd generation came up with environment free dumping,	Founder: 28 2 nd generation: 10	1st generation took main initiatives and 2nd helped in further expansion

Sources: Interviews taken from 29 June 2013 till 20 July 2013; from 12 December 2013 till 20 December 2013; from 3 December 2014 till 23 December 2014; Humayun, 1991; www.akkhan.com; Osborne, 2008; Barua, 2012; Hassan, 2013; Rahman, 2012; Jony, 2012; www.pranfigroup.com; http://www.pranfoods.net/; Lall, 2011; www.beximco.com; Bdnnews24.com (23 July 2005; 14 November 2008; 2 August 2011; 16 June 2010; 17 June 2009); Entrepreneur, 23 November 2012; The Daily Star 3 June 2012; Solaiman (2008); www.anwargroup.net; Dainik Inquilab, 5 March 2012; Dainik Prothom Alo (4 June 2012, 19 May, 2012); Shomokaal, 29 February 2012; Prothom Alo, 29 February 2012.

i. Bringing professionalism into the family business

Among the seven firms under consideration, Square, BEXIMCO, Anwar, and PRAN have fully professionalized their firms, inviting outsiders on board while keeping majority ownership within the family (Table 6.3). However, since these four firms have listed their businesses on the stock market, their family ownership has decreased. PRAN has 63 percent family ownership, Square has 30 percent, BEXIMCO has 28.6 percent, while Anwar has 35 percent.

Professional management can also be integrated into a family business by restricting board seats to family members but hiring non-family employees with professional management talents (Dyer, 1989). Three out of the seven firms, Akij, Rahimafrooz, and A.K. Khan, have adopted this approach. These three firms are still 100 percent family-owned and have not listed any of their businesses on the stock market or appointed any outsiders on board. However, they have all appointed salaried managers who have expertise in business. They have also invested in grooming their successors with professional degrees.

The successors of these seven family firms are all highly educated, with many holding overseas degrees and work experience. Although some of these firms' founders were poorly educated (namely the founders of the Anwar, Akij, and Rahimafrooz Groups), they ensured the best possible education for their successors. The founders who were fortunate enough to be educated, such as Amjad (founder of PRAN), Samson (founder of Square), A.K. Khan, and Fazlur (founder of BEXIMCO); they also groomed their successors with excellent education. Furthermore, when choosing successors for their respective businesses, the founders of these seven firms were extremely careful and rational. Anwar's son, Khaled, only started heading the textile division after graduating in textile engineering, while Akij's son, Momin, was given the responsibility of overseeing the leather division only after graduating in leather technology. Amjad's

daughter, Uzma, a chartered accountant from the United States, also obtained eight years of working experience prior to joining the family business.

Square, PRAN, and Rahimafrooz have followed the apprenticeship method in training their successors. For example, each of Samson's sons initially joined the Square Group by performing clerical responsibilities including door-to-door marketing of medicine. They were not allowed to use their father's car and were treated like any other employee. Amjad's son, Ahsan, joined the PRAN group as a truck deliveryman, travelling to villages to monitor the quality of fruits and vegetables before delivering them. In the Rahimafrooz group, the second generation directly joined the company at top positions due to their father's sudden death; however, third generation members were expected to join the company through apprenticeships.

Even in the firms that did not follow apprenticeship, on the job grooming was emphasised. For example, although Akij appointed his sons directly to management positions, he gave them extensive training through job rotations and supervisions by senior experts and sent them to various countries in order to learn about modern technologies.

The longevity of these Bangladeshi family firms can therefore be attributed to the mutual efforts of these qualified successors and their talented salaried managers. This again questions the validity of the Chandlerian model that argues for the superiority of managerial capitalism over personal capitalism (Chandler, 1984).

ii. Preventing Succession Related Problems

Although not formally instituted, elaborate traditional succession plans contribute to the survival of Bangladeshi family firms. Interviews with the successors of the seven firms revealed that succession has a common pattern in Bangladesh, where family firms do not plan for succession while their founders are alive. Commonly, the business passes to the next generation only after the founder passes away. However, in the event

that succession planning is implemented before the founder's passing, the founder normally still chairs the business until his death; the successors do not complain as they grew up in an extended and joint family culture.

Among the seven families, only Square is a Christian family, while the other six are Muslims who follow Islamic Sharia Law (where sons receive 3/4 and daughters receive 1/3 of total assets) when dividing the business among the children.²¹² Three common factors helped these seven firms avoid family feuds over succession. Firstly, the founders never forced any of their children to join their businesses; whoever felt interested and passionate about the business joined. Secondly, in firms where daughters did not join the family business due to cultural norms, the founders did not deprive them of a share of the assets.

The interviews with the successors (Khaled and Manwar from the Anwar Group, Uzma from PRAN, Shamim and Bashir from Akij, Samuel from Square, and Niaz Rahim from Rahimafrooz) indicate that they prefer to make decisions mutually, as suggested by Sharma et al. (2003b). This is why these seven family firms could weather multi-generational succession without problems. However, not all Bangladeshi family firms were as successful as these seven firms in maintaining harmony between family members. For instance, the Qasem, Partex, and Islam groups split in business due to inter-personal conflicts among family members.²¹³ The Bharasha group also experienced an unfortunate incident where one brother tried to kill the other over a business issue.²¹⁴

²¹² According to the Inheritance of Islamic Sharia Law, a portion for male is equal to that of two females.

²¹³ Islam Group is a renowned family businesses of Bangladesh.

²¹⁴ Bharasha Group is a renowned family business of Bangladesh where the successors have had a major split.

iii. Contributions of Successors to the Family Business

Table 6.3 shows how the successors have contributed towards the development of these seven family firms. For example, successors were responsible for introducing machine importing, foreign affiliations, and distributorship into Anwar, Square, Akij, and PRAN. The vertical diversification of Akij and PRAN was also due to the second generation's lead. For instance, under the leadership of Akij's son, Bashir, the Group came up with new concepts like fly ash free cement and preservative free milk. Similarly, when Amjad's children, Uzma and Azhar, joined the business, the PRAN group launched modern PVC items, home décor, and beverages. The Rahimafrooz group also went into manufacturing only after the second generation joined the business. In fact, it was the second generation (Rahim's sons) who developed the company's industrial batteries, IPS, and solar power system. The Anwar Group only started flourishing under the leadership of third generation member Anwar Hossain, while Square's and BEXIMCO's real journeys were initiated by second generation members. The important contributions made by these successors contradict the family business literature, which reports that the survival rate of family firms drops as successors join the business.

In fact, not only did the successors assist their firms in catching up with modern technology and professionalism, but they also guided their respective companies in upgrading implementation of the 4Ps. For instance, in accordance with Philip Kotler's '3rd generation marketing' concept, the successors began designing advertisements that connected their products with the emotions of customers.

The successors also focused on developing corporate social responsibility (CSR) activities, which in turn helped them build brand image and gain customer loyalty. Under their leadership, BEXIMCO, Square, Anwar, Akij, and A.K. Khan established a variety of charity clinics and schools for the poor. BEXIMCO and Square also sponsor

social and sports events, while PRAN sponsors road shows and workshops to educate the masses regarding food safety and healthy living. PRAN assists the rural population by providing streetlights and street repairs.

6.3 Role of the State in Family Firms' Survival and Growth

Unless the state provides businesses with essential elements such as infrastructure and favourable policies and incentives, businesses cannot survive and grow. Developed nations are able to efficiently implement policies that nurture growth of businesses in terms of quality and branding. In contrast, developing nations are unable to plan and implement policies with transparency due to state incapacity, resulting in the awarding of rents to big businesses. This business-politics nexus trend is, however, common in both developed and developing nations.

According to Brinkerhoff & Goldsmith (2004), clientelism or patrimonialism is a rational response in developing countries where survival is difficult (Brinkerhoff & Goldsmith, 2004). In these circumstances, a patron is needed for survival. The Bangladesh government inherited this concept of political patronage in nurturing its businesses from the British. In this system, the state supplies businesses with resources (tangible and intangible) and in return receives funding for elections or voting support (Brinkerhoff & Goldsmith, 2004).

Large family businesses in Bangladesh usually possess either direct or indirect linkages with the state in order to enjoy government concessions and economic rents, as well as to influence policy-making in a manner that benefits their businesses. Bangladeshi businessmen may have been driven to form these state linkages because the state's policy support, sans nexuses, has always been limited and inadequate for proper business development. In fact, the developmental history of these Bangladeshi family firms as discussed in Chapter 2 clearly illustrates that the economic deprivation of East Pakistan and the double partition rendered the Bangladeshi state weak and incapable of

performing a firm role in business development.²¹⁵ As a result of the double partition, the bureaucrat's role was taken over by less educated and less experienced people, leading to the preference of personal connections over merit for recruitment. The focus of Bangladeshi political leaders and bureaucrats on quick money-making further intensified the rapid deterioration of policy planning and implementation (Khan, 1999; Huque & Rahman, 2003; Arfina Osman, 2010).

Expertise development is a major issue for the government, as the educational system still lacks modern techniques and vocational training. Bangladesh has a brain drain problem, with the educated middle class venturing overseas for opportunities such as better education, better job facilities, a higher salary and a secure life.

6.3.1 Role of the State in family firms' development in Bangladesh

Bangladesh has transformed through policy reforms from an agrarian to an industrialised economy. However, the interviews reveal that the policy reforms and infrastructure development that took place did not adequately assist the development of these firms. Understandably, being a weak state, most of the initiatives of industrial development were implemented in a non-transparent manner due to rampant corruption and negligence (Nawaz, 2012).

Chapter 2 confirms that the government implemented industrial policies while prioritising the booming sectors only. Out of all the industrial sectors, textiles, pharmaceuticals, and agro received the greatest attention from the government. More recently, the ICT sector was stressed in order to meet the goal of 'Digital Bangladesh'.²¹⁶

²¹⁵ East Pakistan was mostly agrarian, consisting of a 99 percent rural population. East Pakistan's share of central government development expenditure was as low as 20 percent from 1950-51 and from 1954-55, but peaked at 36 percent during the third Five Year Plan period, i.e., 1965-66 and 1969-70.

²¹⁶ Vision 2021 was the political manifesto of the Bangladesh Awami League party before winning the National Elections of 2008. It stands as a political vision of Bangladesh for the year 2021, as 'Digital Bangladesh', which envisions the use of IT in management, administration, and governance to ensure transparency, accountability, and answerability at all levels of society and state (*The Daily Star*: 28 March 2014).

The history of industrial development in Chapter 2 clearly shows that Bangladesh could not play the role of a strong state. Over the years, with the rapidly diminishing role of the public sector in the economy, the private sector has evolved as one of the principal sources of economic growth (Taslim, 2008). This is one of the principal reasons behind the extraordinary privileges that the family firms get for their massive contribution to the economy. Nurturing and maintaining a robust private sector has been one of the top priorities of all political regimes. This has strengthened the private sector's political bargaining power over the years.

As the state has been weak and incapable of implementing effective policies, this provided businesses with the opportunity to get control over the state through political and lobby groups. This capture of the state contributed to income inequalities with immense wealth concentration. Political patronage is seen in Bangladesh where politicians in power created and distributed to businessmen government rents in form of licenses, contracts, subsidies, and privatized projects, funded with loans at low interest rates by state-controlled banks. These loans were manageable with continued support from the financial institution and the state. In return when the businesses grow, they channel to these politicians monetary resources to help them during elections to consolidate their grip on power. The politician when staying in power can distribute more rents to its linked business associates. The growth strategies adopted by the businesses have been lightly conditioned by the public policies and heavily conditioned by state-business nexus, a matter that has a bearing on their longevity and sustainability.

The difference between Bangladesh and East Asian and other South Asian countries is that the fortune of the well-connected businesses in the latter cases depended on whether their patrons remained in power. However, in the case of Bangladesh's business groups, their fortune is not determined by whether their patrons stay in power.

This increasingly high presence and dominance of economic players like family firms in the political process has enabled them to wield a disproportionate influence in the relevant state institutions and policy processes. Rather, the state is dependent on them for economic growth. Political integration between the state and business provide family firms with increasing policy capture in relation to tax, regulation, and loan rescheduling policies (Hassan, 2001; Rashid, 2008; Taslim, 2008; Jahan and Amundsen, 2012; Hassan and Pritchard, 2012; Hassan, Pritchard and Raihan, 2012). These business groups have emerged as a serious threat to the power base of their patrons. The progressively concealed nature of state-business ties has made it increasingly challenging and quite impossible to track the movement of concessions and money between business people and politicians as big businesses have captured the ownership of the media as well.

Therefore, the role of the state in nurturing the development of family firms has been outlined by formulating two tables that highlight a) state support through policies (Table 6.5 state support through economic rents (Table 6.6). However, before analysing the benefits the family firms have received from the state in the form of policies and rents, it is essential to outline the forms of state nexuses created by each of the seven firms (see Table 6.4). This table describes the direct and indirect state nexuses of each family firm, developed over time to ensure their survival and growth under a weak state. As mentioned in Chapter 2, networking has been a common trend when doing business in Bangladesh. However, being a weak state, the dependency of big businesses on state nexuses has diminished over time.

6.3.1.1 State Nexuses of the Seven Family Firms

History and culture are two influential factors that explain a country's industrial development. Bangladesh's paternalistic²¹⁷ and high power distant²¹⁸ governance system was inherited from the British (Hofstede 1991). This style of governance suffers from transparency, accountability, and effectiveness (Kochanek 2000). This governance style is also why families with high political standing exercise considerable power and authority in Bangladeshi society. The patron-client relationship is not unique to Bangladesh; it is common in India, Pakistan, Sri Lanka, and Nepal, where obedience and trust to patrons are rewarded (Sarker, 2008; Jamil, Askvik & Dhakal, 2013).²¹⁹

In Bangladesh, political parties are heavily influenced by the rich who have accumulated abundant assets through state patronage (Khan 2006). However, political instability poses a threat to the propertied class in general, causing this class to attempt capturing political power as part of a process to consolidate economic gains (Hossain, 2000). This is a vital reason why political power in Bangladesh has gradually shifted to the nouveau riche business class (Kochanek, 1996, 1997, 2000; White, 1974). In order to survive in this situation, Bangladeshi businesses have concentrated on pursuing wealth and power by developing ties with the state.²²⁰

²¹⁷ Based on strong loyalties toward family, caste, and kinship.

²¹⁸ The authority pattern is hierarchic and top-down.

²¹⁹ The Nehru-Gandhi family in India, the Mujib and Zia families in Bangladesh, the Bhutto family in Pakistan, the Bandaranaike family in Sri Lanka, and the Koirala family in Nepal are examples where leading political parties have a strong family leadership base. This leads to unresponsive, corrupt, and inefficient political leaders and bureaucrats, who adjudicate rules and abuse their positions for personal gains.

²²⁰ This is when the government provides rents by 'showing favouritism' to one group in society, leading to an unequal distribution of income. Another feature of rent-seeking is when a company, organization, or individual uses their resources to obtain an economic gain from others without reciprocating benefits back to society through wealth creation.

According to Kochanek (2000), the number of businesses with political alliances has increased over time in order that the former can influence politicians into developing policies that favour them. In fact, the number of businesspersons in the parliament rose from 24 percent in 1973 to 56 percent in 2008, and further increased to 84 percent in 2012 (Barkat, 2013; Jahan & Amundsen, 2012). This state-business nexus is a prevailing trend in the region and has contributed not only to the growth of family businesses, but also to the country's economic progress.

The former president of FBCCI and SAARC Chamber of Commerce and Industry, Annisul Huq, echoed this view:

The society has become such a place where the business community has to buy their own protection. You've to pay ransom to the influential people if you want to be an influential person. This is an open secret now (The Daily Star, 28 April, 2012).

Bangladesh is a society regulated by bureaucrats, who are controlled by politicians. As a result, businessmen with state nexuses are given priority in the distribution of government rents.²²¹ Table 6.4 illustrates why these seven family firms could not solely depend on their entrepreneurial capabilities for development. It is evident that the Bangladeshi state was unable to provide adequate support to these businesses through policies, infrastructure, education, health, and technology. The only way for these businesses to obtain such support was through ties with the state.

Power distribution in this country was vastly asymmetrical and selective patronage practices were institutionalized. The broadcasting as well as newspaper and magazine publishing sectors are under the control of businessmen who keep strong ties with powerful political figures.

²²¹ Commented by the TIB Chairman in an interview conducted in Dhaka on 16 July 2013.

Involvement in politics increasingly came to be viewed as a quick means to obtain wealth and lucrative business opportunities and appointments. Further, privatization was promoted as the remedy for such inexperience and inefficiency; the policy, however, was exploited to transfer or sell lucrative state assets to well-connected businessmen and corporate groups. This has allowed them unequal access to rents for the expansion of their corporate holdings.

Table 6.4 indicates that all seven firms are affiliated with the state either in direct form (political involvement) or in an indirect form (through lobby groups, bank directorship, personal and marriage ties involving families of politicians and bureaucrats, as well as interlocking directorates). Among the seven firms, Anwar, A.K. Khan, Square, Akij, and BEXIMCO have both direct and indirect state ties, whereas PRAN and Rahimafrooz only have indirect state affiliations.

The founders of A.K. Khan and BEXIMCO were directly involved in politics right from the Pakistan era (see Chapter 5). Unlike these two business groups, the founders of Anwar, Akij, and Square were initially not involved in any state nexuses. However, when they expanded, their successors felt the need for state nexuses and became politically affiliated. For instance, third generation member of the Anwar Group, Anwar Hossain, became a parliament member through the Jatio party from 1988 to 1990. During his tenure, he received bank loans and permission to open the first private bank in Bangladesh, City Bank. In the Square Group, Samson's son, Tapan (third generation), was an advisor to the caretaker government. Meanwhile, Akij's son, Afil (second generation), served as a parliament member in 2009. Besides their political involvement, the 2nd and 3rd generation members have been involved in lobby groups too.

The connections of family firms with state officials have been critical in the formulation of policies. A significant role in this regard was played by the powerful

Bangladesh Garment Manufacturing and Exporter Association (BGMEA), which has a reputation for being less clientelistic than other business associations and is capable of pursuing collective interests more effectively than other elite collective actors (Quddus & Rashid, 2000). It is known as a powerful lobby organization in which many family business owners like Anwar, Zahir Khan, Samson and his sons, Salman, are involved in.

Table 6.4 Direct and Indirect State-Nexuses of Seven Family Business Groups

Group name	Direct Political Patronage	Indirect Political Patronage		
		Lobby groups/government organization	Marriage Ties	Interlocking Directorates
Anwar	Anwar became MP (1988-90)	Anwar is the founder of DCCI (Dhaka Chamber of Commerce & Industries) and founder of BCCI (Bangladesh Chamber of Commerce & Industries). His 1st son, Manwar, is the Chairman of BD Finance 2nd son, Hossain Mehmood, is the Director of BD Finance and Director of National Institute of Textile Engineering and Research 3 rd son, Khaled, was president of DCCI	Anwar's two daughters and one son are married to political families.	
A.K. Khan	A.K. Khan (1958-62) & his son, Zahir, was Minister (1991-95)	A.K. Khan was former Chairman of Eastern Mercantile Bank (now Pubali Bank) from 1962-68 Zahir was chairman of FBCCI in 1977, Chairman (Eastern Zone) of All Pakistan Textile Mills Association (1969-1971), founder director IFIC Bank; Chairman of Sonali Bank, FBCCI president Present Chairman Shamsuddin was president of Bangladesh Marine Fisheries Association (1999-2009), President of Bangladesh Plywood Manufacturers Association (1979-87); Executive committee member of MCCI and CCCI (1979-87) Managing Director Saluddin is the immediate president of Bangladesh-Malaysia Chamber of Commerce and Industry (BMCCI); former	A.K. Khan's two nieces married a minister and government secretary	

Table 6.4 (Continued)

Group name	Direct Political Patronage	Indirect Political Patronage		
		Lobby groups/government organization	Marriage Ties	Interlocking Directorates
Square	Samson's 2nd son, Tapan, was advisor to caretaker government (2007-09)	<p>Founder Samson H. Chowdhury was the President of the Metropolitan Chamber of Commerce and Industry (MCCI) in 1996-1997 period, Vice President of the International Chamber of Commerce, Bangladesh, Chairman of the Central Depository Bangladesh Ltd (CDBL), President and also an advisory committee member of the Bangladesh Association of Pharmaceutical Industries, Director of the Federation of Bangladesh Chamber of Commerce and Industry (FBCCI), Founding President of Bangladesh Association of Publicly Listed Companies, President of the Bangladesh Herbal Products Manufacturing Association, Executive Member of the French-Bangladesh Chamber of Commerce and Industry and Director of Credit Rating Agency of Bangladesh.</p> <p>Tapan was a President of Metropolitan Chamber of Commerce and Industry (MCCI), was a member of the executive committee of the Bangladesh Employers Association, and Bangladesh Textile Mills Association, is a director of Pioneer Insurance Ltd (where the current chairman is the member of parliament AKM Rahmatullah (1986-88, 1996-2002, 2008-2013) and Continental Hospital Ltd</p>		
Akij	Akij's son, Afil, got involved in politics in 1996 and became MP in 2009	<p>Sheikh Afil and Sheikh Nasir are members of the Bangladesh Jute Spinners Association.</p>		<p>The Independent Director, Sekander Ali, is a former Managing Director of the Bangladesh Shilpa Bank and Senior Advisor to the SEC, Bangladesh</p>

Table 6.4 (Continued)

Direct Political Patronage		Indirect Political Patronage		
Group name	Direct Political Patronage	Lobby groups/government organization	Marriage Ties	Interlocking Directorates
BEXIMO	Founder Fazlur Rahman got involved in politics in 1937. He became the Home minister (1947-50) and Education minister (1951-53) in Pakistan	Fazlur Rahman was the Chairman of IFIC bank, Director of AB Bank and Pubali Bank (government bank), Director of Investment Corporation Bangladesh. Salman is the director of Dhaka Stock Exchange; founder of Bangladesh Enterprise Institute; president of Metropolitan Chamber of Commerce and Industry, Bangladesh Textile Mills Association, The Federation of Bangladesh Chambers of Commerce and Industry (1994-1996) and SAARC Chambers of Commerce and Industry (1996-1998); personal advisor of Bangladesh Prime Minister Sheikh Hasina. President of Bangladesh Association of Pharmaceutical Industries.	Salman's son is married to a BNP minister's daughter	BEXIMCO Pharma's MD Nazmul Hassan is an MP. The independent Director Abdur Rahman was an Advisor to the Caretaker Government of Bangladesh
Rahimafroz	No direct link	Niaz Rahim was the president of FBCCI, Director of DCCI, Government Nominated Director- Bangladesh Development Bank Limited (BDBL), Government Nominated Director – Agrani Bank Limited, Member – Bangladesh Employers Federation, former president of Bangladesh Accumulator Battery Manufacturers Association (BABMA), President of Bangladesh Supermarket Owner's Association (BSOA)		
PRAN	No direct link	Founder was former army officer		

Sources: Interviews taken from 29 June 2013 till 20 July 2013; from 12 December 2013 till 20 December 2013; from 3 December 2014 till 23 December 2014; Humayun, 1991; www.akkhan.com; Osborne, 2008; Barua, 2012; Hassan, 2013; Rahman, 2012; Jony, 2012; www.pranflgroup.com; http://www.pranfoods.net/; Lall, 2011; www.beximco.com; Bdnews24.com (23 July 2005; 14 November 2008; 2 August 2011; 16 June 2010; 17 June 2009); Entrepreneur, 23 November 2012; The Daily Star 3 June 2012); Solaiman (2008);

The founders as well as successors of both Rahimafrooz and PRAN did not have any direct state ties through political involvement; in fact, they have very thin indirect ties with the state. Rahimafrooz's second generation member, Niaz Rahim, was a government nominated director for Agrani Bank (a local government bank) and is currently involved in two lobby groups (FBCCI & DCCI). Meanwhile, the founder of PRAN, Retd. General Amjad, enjoys familiarity among the bureaucrats due to his former army position. Perhaps one of the reasons why Rahimafrooz and PRAN did not invest in building links with the state is because they have been more focused on brand name development and stable growth.

Family members were connected with different political parties through direct political involvement, through marriage or personal relations, by owning the media as partners, and as directors of banks. This trend of partnering with rival political actors is growing as a strategy to cope with the uncertainty associated with regime change. Also, many political elites from the ruling party, who find themselves ineligible for certain contracts or procurements, influence the bidding process to ensure that a chosen eligible firm owned by a rival elite wins the bid and in return either demands a substantial commission from that firm or forms a partnership with it. Besides, ruling political elites, as well as party activists belonging to various ruling-party front organisations, share rents with rival political actors in order to avoid violence and to ensure continuing access to rents in the future, when they may be out of power; this depends on the bargaining power of the opposition political actors, which is typically based on their violence potential/capability and political capital.

Business elites can get access to government rents easily if they are affiliated with the ruling party. Business not affiliated with the ruling party can only access rents by paying commissions. Family firms also make sure that their presidents/chairman are

directly or indirectly aligned with the ruling party, while the composition of other elected directors shows a balance with links to the two major political parties. PRAN, BEXIMCO, and Anwar Group have done this.

Moreover, numerous large family firms have ownership and control of financial institutions (banks, as well as leasing and insurance companies) through family members who hold positions as directors, chairmen, and MD. This gives them better and easy access to bank loans with long term payback period, low interest rates, etc. In fact, family members from a single group have directorships in more than one bank. According to Table 6.4, family members from all seven firms have powerful positions and/or directorship in both local and private banks. However, there are family firms which are not involved in bank ownership but still can get loans on favourable terms, either using their personal contacts or by bribing bank officials.

Interestingly, Bangladeshi family business owners possess directorships in 23 out of the 30 local commercial banks.²²² This may be due to the fact that the Bangladesh Bank allows directors to have a maximum loan of 10 percent from their total capital amount in their own banks.²²³ Hence, family firms have adopted interlocking directorates through which they can procure these economic rents.²²⁴

Understandably, all seven family firms have some form of bank directorship. When asked how bank directorships assist in the business development of firms, a senior research fellow from TIB replied: *Bank directorship is the most lucrative option for becoming a quick billionaire in Third World countries like Bangladesh. That is why whenever a government comes into power, they open new banks (in the last seven years, around 15 new banks were established) and the owners of these banks are mostly their*

²²² As commented by Ahsannullah from the Bangladesh Bank.

²²³ As commented by A.F.M. Asaduzzaman, Chief Director, Governor's office.

²²⁴ Interlocking directorates refers to the practice of members of a corporate board of directors serving on the boards of multiple corporations (Teichman, 2001).

own people. This is the easiest way to whiten black money, as no one will dare ask the source of the capital used to open a bank. After opening the bank, the controlling owners can bring family members on board as directors, who are entitled to loans with low interest rates.

Another problem is the awarding of bank loans to influential businesspersons listed as bank loan defaulters. A senior officer at the National Board of Revenue commented on this phenomenon: *Bankers in Bangladesh commonly take commission when sanctioning loans to big businesspersons; therefore they do not take action even if these businessmen become loan defaulters. Either the bankers show it as bad debt or they reschedule loans for the defaulters.*

The president of FBCCI A.K. Azad said:

Most politicians feed on our money. We pay this money for our existence. We don't give it willingly, rather we are forced to pay a section of politicians for the sake of their lives and businesses. We cannot respect politicians as we see one face of them before their becoming lawmakers and ministers and another face afterwards. The country's GDP growth would have increased by 2 percentage points if the politicians were honest (The Daily Star, 28 April 2012).

Family capitalism can give rise to crony capitalism, where the wealthy employ political patronage to bypass regulatory frameworks and circumvent transparent financial practices (Uddin & Hopper, 2003). This is how BEXIMCO's Salman was awarded powerful positions in certain lobby groups, even after being listed as a top bank defaulter.

Further, realising the potential power to own media firms, political and business elites have started acquiring newspapers and TV channels (Mirza, 2013). For business elites, owning the media provides increased negotiating power within the ruling party. In fact, it is quite impossible to acquire a licence to open a TV station or launch a

newspaper without a direct or indirect partnership with ruling politicians (Mirza, 2013). Among the seven family firms, Square and BEXIMCO own TV channels, radio channels, newspapers, and magazines.

Regarding control of the media sector, Huq said:

There were two groups that run the country's media organisations. While one section runs media outlets for raising voices against sufferings of the common people, the other group does it only to protect its businesses (The Daily Star, 28 April 2012).

6.3.1.2 State Support through Policies and Related Challenges

Although Bangladesh is a weak state, aggressive government initiatives have been noticed to revive the economy since liberation war. As shown in Table 6.5, the 1960 Industrial Policy by the Ayub Khan government was the first policy that benefited the few existing Bengali businessmen of East Pakistan besides helping West Pakistani industries thrive, as it focused on boosting textile and jute sectors. Ayub favoured rich and politically affiliated businesses while a few wealthy Bengali businessmen like A.K. Khan and Fazlur (BEXIMCO) also enjoyed government rents. Besides, A.K. Khan's position as minister gave him greater opportunity to obtain multiple bank loans, business project approvals, and joint-ventures, while the founder of BEXIMCO, the former Commerce Minister Fazlur, was rapidly awarded a jute mill licence.²²⁵

In contrast, family firms without strong financial or political links like Akij, Anwar, Rahimafrooz, and Square had to show real entrepreneurship venturing into a potential lucrative sector, identifying an unfulfilled need, adapting to ongoing economic crises in order to survive. It took them several years to grow big and only then could they attain government privileges. The latter firms, in fact, started receiving government rents after 1976, when the Zia government implemented the privatization policy, aimed at trade liberalization and export stimulation (Humphrey, 1992).

²²⁵ There is no documented evidence for this. It is based on the information collected through interviews with private bank managers.

This resulted in the reduction of restrictions on investment, the de-nationalisation of public sector enterprises, and incentive packages for the emerging ready-made garments sector. After this de-nationalization, approximately 506 industrial establishments were returned to their original owners; however, the government sold some firms at a cheaper rate to rich business families. This again illustrates how business groups were not rewarded for entrepreneurial skills, but rather, for the level of state-nexuses they could attain.

When the Ershad government came into power, it further boosted industrialization by opening up the private sector through easy loans – verification of proper documentation was neglected – and providing more contracts and project approvals to big businesses. Through the 1982 New Industrial Policy, Ershad restricted production by foreign pharmaceuticals to protect local pharmaceuticals. As a result, BEXIMCO, Square, and other local firms had the opportunity to evolve into high-earning pharmaceutical companies. This is when the local pharmaceuticals flourished. However, interviews confirm that although policy implementation helped local pharmaceuticals to thrive, this sector still lacked skilled trainers and good infrastructure facilities for training and development. Although local pharmaceuticals like BEXIMCO and Square do provide necessary employee training and invest in R&D, they lack access to the international resources enjoyed by multinational pharmaceuticals.²²⁶

Additionally, Bangladesh pharmaceutical companies have entered mainly less regulated markets like Myanmar, Sri Lanka, Nepal, Kenya, Yemen, etc. However, to continue future growth in exports, Bangladesh will have to soon enter the moderate (Russia, Singapore) and highly regulated markets (USA, UK) that require various certifications and need huge investment in facilities (Habib & Alam, 2011; Anamul & Zahedul, 2011).

²²⁶ Based on comments obtained from family members and employees of Square and Beximco Pharma during the interview conducted in their Dhaka office.

Major companies like Square and BEXIMCO have already invested million dollars in their manufacturing and R&D facilities, and are going for certification in the highly regulated markets (Shawon, 2011). Moreover, the absence of effective competition policy allows local pharmaceuticals to adopt unpleasant ways of marketing their drugs. In a newspaper report, it was revealed by four representatives from different pharmaceutical companies, multi-national and local, told *The Daily Star* that bribing doctors in order to increase use of particular drugs was widespread (*The Daily Star*, 21 June 2003). ‘We are giving doctors almost everything, from paperweights to cash’, admitted one. Other ‘incentives’ include free air tickets for foreign trips, computers, mobile phones, air conditioners, table lights, telephones, towels, calendars, and pens. The representatives said that the value of gifts depended on the ‘quality’ of the doctor. It is not a one-way traffic: the medical representatives claimed that some physicians ask them for money in exchange for a promise to prescribe particular products. In the same report, a Dhaka Medical College professor was interviewed where he said that physicians who asked for money to prescribe products, or who advised patients to buy drugs merely because they had been paid to do so by pharmaceutical companies, were failing to live up to their social responsibilities. ‘The government should form strict laws to control the practice,’ he said (*The Daily Star*, 21 June, 2003).

Understandably, family firms like the PRAN Group that emerged after industrialization took place, got better policy benefits and enjoyed improved infrastructure facilities. Amjad (PRAN) received an agro-based loan from the bank through the EEF (Entrepreneur Enterprise Fund) and enjoyed incentives from the BNP and BAL governments for his flagship agro-based industry, as this is one of the most prominent sectors in Bangladesh.

However, family members of family firms shared their dissatisfaction regarding the country’s economic bottlenecks. One family member commented that the struggle for

survival has always been there for businessmen in Bangladesh, although its form has evolved from economic deprivation in the East Pakistan period to political chaos, leading to further deterioration of the country's investment climate.²²⁷ Besides, business groups are challenged by poor logistics, such as the limited use of containers on the Dhaka-Chittagong corridor,²²⁸ lack of customs and border management modernization,²²⁹ and poor air transport capacity and connectivity.²³⁰ Besides this, the country's political uncertainty (with frequent general strikes and violence during elections) and continuous energy and infrastructure deficits have further hindered the investment climate.

In 1990, the BNP government adopted the 'Pick the Winner Strategy' when and the textile sector (particularly the ready-made garment (RMG) sector) were given more incentives.²³¹ This is when business groups with textile enterprises like Anwar, BEXIMCO, and Square enjoyed the incentives and many other family firms diversified into textile sector to enjoy the benefits. Additionally, a number of innovative policies were introduced to make the RMG industry become globally competitive (Rashid, 2008).²³² The state also overlooked illegal activities by factory owners, such as selling in the local market fabrics which had been imported duty free (Quddus & Rashid, 2000).

²²⁷ Synthesis of three similar comments made by Niaz Rahim, MD of Rahimafrooz, Manwar Hossain, MD of the Anwar Group, and Samuel, Chairman of the Square Group on 15 July 2013, 29 June 2013 and 7 July 2013 respectively.

²²⁸ Container transport by road results in a high volume of traffic. Containers can be transported through rail and inland waterways if such infrastructure is developed. This will reduce time.

²²⁹ Requires capacity building of customs officers.

²³⁰ Informal payments are common to facilitate clearance of goods.

²³¹ An implemented policy to boost the highest growth potential sector of the country, which was textiles, or more specifically, the ready-made garment sector.

²³² For instance, a bonded warehouse scheme was introduced that exempted exporters from paying import duties and taxes, which substantially reduced input costs. The introduction of the provision of the back-to-back L/C (Letter of Credit) system minimised the amount of working capital to a significant level, the Value Added Tax (VAT) system introduced in 1990 exempted RMG sector from paying VAT on both imports of inputs and exports of products, and a prevailing anti-labour political settlement allowed RMG firms to enjoy the benefits of very low wages (see Rashid, 2008).

For this reason, the export basket of the country is highly dominated by the textile sector,²³³ even though exports of ships, jute products, leather goods,²³⁴ and frozen foods are also thriving. Another obvious reason for Bangladeshi firms' focus on labour intensive exports rather than knowledge intensive exports (machineries, electronics) is the country's under-developed technological state and preponderance of unskilled labour. For instance, although Vietnam, Malaysia, and Sri Lanka had the same level of cloth exports as Bangladesh in 1990, by investing highly in R&D, these countries developed technological capability and began exporting electronics, furniture, machineries, and chemical/medical instruments, alongside expanding their garments export (Kathuria & Malouche, 2015).

Moreover, Bangladesh concentrates heavily on the United States and European Union markets for export (50 percent of exports).²³⁵ Although other countries such as Australia, Canada, China, Japan, and Norway have given Bangladesh duty free access in general, the United States has provided special duty free access for certain products that qualify under the United States' Generalized System of Preferences (GSP). This is why the export basket of all seven firms is not diversified, although they have proven their strength in manufacturing many other products, other than textiles and pharmaceuticals.

The privatization policy increased business opportunities as it allowed the private sector to venture into areas previously monopolized by the government namely broadcasting, telecommunications and power generation. BEXIMCO and Square diversified into media sector; A.K. Khan acquired a telco licence; and Rahmafrooz further diversified with solar power and IPS.

²³³ Export of RMG increased from 74 percent in 2005 to 81.2 percent in 2014.

²³⁴ The total export of jute and leather goods was only 2.3 percent and 1.7 percent respectively in 2014.

²³⁵ Consequently, 96 percent of Bangladesh's exports to America consist of RMGs and textile products (knit and woven garments), which are bought by retail groups such as Wal-Mart, Gap, and Target.

However, this allegation of extensive political nepotism and patronage emerged due to an absence of independent and accountable monitoring body. In fact, the privatization policy did not involve the formality of an open tender system, many beneficiaries were chosen solely on the basis of political and personal connections. This is why family firms like Anwar, Square and Akij that were not affiliated with the state eventually created ties directly and indirectly through political involvement.

Table 6.5: Policy benefits received by Seven Family Firms

Group name	Industrial policy benefits
Anwar	The 1960 industrial policy was helpful for their textile business. Subsequently, the BNP government (and all successive regimes) started reforming policies in favour of the textile sector.
A. K. Khan	Ayub Khan's 1960 industrial policy helped in obtaining licencing.
Square	Primary business is pharmaceuticals, which was boosted by the Ershad government's 1982 drug policy.
Akij	Primary business is tobacco for which no particular policy was undertaken. Afterwards they got policy advantages for their food and beverage business which is dependent on agro products from BAL government through industrial policy 1999.
BEXIMCO	Ayub Khan's 1960 industrial policy gave the group the chance to establish a jute mill; the family also benefited from Ershad's 1982 drug policy.
Rahimafrooz	Rahimafrooz's domain covers automotive market products and renewable energy, for which no particular policy was undertaken.
PRAN	Their core business is agro, which benefited from Awami Leagues' 1999 industrial policy.

Sources: Interviews taken from 29 June 2013 till 20 July 2013; from 12 December 2013 till 20 December 2013; from 3 December 2014 till 23 December 2014; Humayun, 1991; *The Daily Naya Bangla*, 4 April 1991; www.akkhan.com; Osborne, 2008; Barua, 2012; Hassan, 2013; Rahman, 2012; Jony, 2012; www.pranrflgroup.com

After BAL came to power and focused more on expanding the agro sector through its 1999 industrial policy, this benefited agro-based firms like PRAN Group.²³⁶ However, the interviews with the family members and employees of family firms revealed that the logistical support for the agro sector has not improved to a satisfactory level.

²³⁶ Through Industrial Policy 1999, the government initiated a 10 percent cash incentive programme as well as VAT exemptions for agro-food. See Gregg & Uexkull (2011).

The country's poor cold chain infrastructure has limited the volume of perishable agricultural products delivered to the market or to agro-food processors.²³⁷ Besides this, further interventions are needed to ensure good design of production processes, effective and appropriate use of technology, and proper implementation of food safety methodologies. Moreover, the sector's reputation in quality and food safety within international markets is poor, as the Bangladesh government does not provide enough monitoring of companies' compliance to international standards for food safety.

Once Bangladesh was known as the country of 'golden fibre' because of the quality of the jute it produced. Jute and jute goods accounted for 90 percent of the country's total exports in 1972-73. Now, the contribution of this sector to export earnings has dropped to less than 5 percent, even though it has more than 95 percent local value addition (*The Daily Star*, 26 November 2013). This is due to the state's negligence in developing a proper R&D base in the country. This was a reason why BEXIMCO and Anwar Group could not concentrate only on their jute business and had to diversify.

6.3.1.3 State-support through rents and power gain

Ties with the state have been used by family firms to secure government rents and influence policy-making. Table 6.6 confirms the economic rents received by the seven family firms. Money politics is a common trend in Bangladesh where political parties get involved in business and businessmen get involved in politics. Since personal networks and associations with the state is critical to build a power base, this enhanced the tendency towards patron-client relations to garner political support. Through these ties, companies enjoy access to government rents, as well as direct government spending to areas beneficial to their business interests and even propose tax reliefs that work in their favour.

²³⁷ Comment by Uzma Chowdhury (PRAN) during an interview conducted in Dhaka on 17 December 2013.

Such state-business inspired interventions and the urge to gain greater corporate power can jeopardize long-term economic growth and divert attention away from genuine entrepreneurial concerns and objectives. For example, A.K. Khan had to shut down some of his ventures as they were not making profit. This is an example how politically motivated opportunities for obtaining wealth have resulted in non-productive and wasteful economic activity.

Further, since 1990, financial sector reforms have taken place in Bangladesh.²³⁸ Although these reforms were intended to improve the regulatory environment and enhance the capacities of bank owners, management, and regulators, little real improvement has been achieved. For example, although credit facilities were granted to priority sectors, there was a lack of appropriate loan classification and this led to deterioration in overall loan management quality. Besides, the law provides for the bank sponsor, although directors of a company to hold at least 2 percent individually and 30 percent collectively of paid-up capital shares; this law is not followed properly. This enabled almost all family firms to get more bank loans.

Loan defaulting is a universal phenomenon in both developed and developing countries. However, loan defaulting in Bangladesh is increasing rapidly due to bottlenecks in the financial sector (Parven, 2011). Multiple factors are contributing towards this situation: inexperienced borrowers, high rate of interest, non-availability of working capital, delayed loan processing, inefficient borrowers' screening mechanism, delay in project implementation, high debt and low equity, short loan repayment period, lack of equity capital, high cost of construction materials, low gross profit of borrowing firms, poor infrastructure, etc. (Hoque, 1999).

²³⁸ For instance, the general insurance premium gradually increased from only 2.5 percent in 2004 to 18 percent in 2010. However, from 2010 onwards the premium started falling and dropped to 6 percent in 2014, due to the year-long political unrest in 2013 (Siddiqui, 2014).

In fact, when rich businessmen and politicians default loans, they are not penalised or black listed, as the bankers serve politico-bureaucratic interests.²³⁹

This is how Salman Rahman of BEXIMCO obtained several bank loans although he was one of the top loan defaulters in the country.

Table 6.6: Economic rents received by Seven Family Firms

Group Name	Economic rents (contracts, project approval, bank loans)
Anwar	Anwar received bank loans from the Agrani Bank and IFIC Bank, two business projects, and one private bank approval while serving as the Jatio Party MP.
A.K. Khan	A.K. Khan received a construction contract, approval of eight businesses, import licenses, bank loan facilities, and even the approval to establish the country's very first private bank (Eastern Mercantile Bank) and insurance company during his tenure as minister His son, Zahir Khan, received a telecom license during his ministership.
Square	Since the Square Group ranks among the top five business groups of Bangladesh, it received many bank loans (from Agrani, Sonali, AB, Islami Banks) due to its business reputation as good payers. The group also has influence over the media (it owns a television channel and a media agency).
Akij	Akij's success as a businessman enabled him to receive bank loans after the 1970s. He also received an import license and managed to buy the Dhaka Tobacco factory at a cheaper rate through a bank officer's reference.
BEXIMCO	Founder Fazlur Rahman received an import license and approval to establish a jute mill while he was the Commerce Minister of Pakistan. His son, Salman, who had wide state linkages, managed to obtain several bank loans (from banks such as Sonali, Agrani, Prime, and City). However, the Corruption Commission accused him of loan defaults. He was also criticized for causing the stock market crash, for which he was sent to jail. His political contacts released him and then made him the director of the stock market. Salman also received approval for a television channel (Independent TV).
Rahimafrooz	Abdur Rahim received his first bank loan under Zia's regime from Solani Bank, when privatization took place and Zia reformed loan policies to speed up industrial development.
PRAN	The founder Amjad was known to bureaucrats through his military connections. This enabled him to arrange bank loans for his start-up capital and his agro-based business.

Sources: Interviews taken from 29 June 2013 till 20 July 2013; from 12 December 2013 till 20 December 2013; from 3 December 2014 till 23 December 2014; Humayun, 1991; *The Daily Naya Bangla*, 4 April 1991; www.akkhan.com; Osborne, 2008; Barua, 2012; Hassan, 2013; *Financial Express*, 17 May 2014; Rahman, 2012; Jony, 2012; www.pranflgroup.com; <http://www.pranfoods.net>

²³⁹ According to a research fellow from Transparency International Bangladesh, in an interview taken in Dhaka on 15 July 2013.

Table 6.6 confirms that all seven family firms have received government rents such as licences, contracts, and bank loans. However, the firms with greater state ties like A.K. Khan and BEXIMCO got more privileges. Family firms with very thin state ties had to pay bribes on several occasions to get their works done. According to interviews with family members from two of the seven firms, bribing in order to get things done on time is not seen as corruption, but rather as ‘speed money’ that helps firms operate within a weak state.²⁴⁰ Bangladeshi firms do not view bribery as a crime; they perceive it as a technique for surviving under state incapacity.

6.4 Entrepreneurship and state-business nexuses: Three patterns observed

From this comparison of the seven family firms, involving each of the sub-elements of entrepreneurship and state-nexuses, three patterns can be observed.

6.4.1 Three Patterns of Entrepreneurship

6.4.1.1 Highly entrepreneurial all through business development

The business groups belonging to the first type of entrepreneurship pattern, BEXIMCO, Square, PRAN, and Rahimafrooz, started their businesses by identifying a need in the market. They adopted a niche market strategy and/or first-mover advantage, and kept their entrepreneurial spirit alive by taking risks, adapting to competition and changing needs, innovating, focusing on their core business, and developing brand products.

6.4.1.2 Initially highly entrepreneurial who eventually lost focus

The second category of entrepreneurship patterns can be found in Anwar and Akij, which started off similarly by identifying opportunities and taking risks; but lost focus of their core business while diversifying, ending up with no brand products. They also have yet to professionalize their firms, and therefore cannot be considered as true entrepreneurs.

²⁴⁰ Interviews conducted in Dhaka on 29 and 30 June 2013. Names cannot be mentioned due to confidentiality reasons.

6.4.1.3. Low entrepreneurial, merely rent seeker

Only one firm demonstrates the third type of entrepreneurship pattern, A.K. Khan. This Group's entrepreneurial capacity is very thin all through their development as the Group expanded by relying mainly on state nexuses. It although established multiple businesses by diversifying widely, though without creating a single brand product. Furthermore, the group did not attempt to professionalise its board or secure publicly-listing despite having adequate financial growth.

6.4.2 Three Patterns of State-nexuses

6.4.2.1 High state-nexuses all through business development

The seven firms can be categorised according to three patterns of state nexuses. The first pattern of state nexuses can be observed in A.K. Khan and BEXIMCO, which enjoyed strong state-nexuses from the very beginning of their businesses and used these nexuses to nurture business growth. This category is an example of politicians becoming involved in business.

6.4.2.2 Initially having no state nexuses, however, eventually got into state nexuses

The second type of state nexus pattern can be found in Square, Anwar, and Akij, whose founders were businessmen with no state nexuses. However, when these groups became large and wealthy, the successors became involved in state nexuses in order to take advantage of government rents.

6.4.2.3 Very low state nexuses, mainly relied on entrepreneurial skills

The third type of state nexus pattern is illustrated by Rahimafrooz and PRAN, who started out in business relying only on strong entrepreneurial skills and did not create any direct state nexuses throughout their business development. Their growth can be credited to their entrepreneurial skills, although they did receive some privileges thanks to a bureaucratic background (PRAN) and financial institution linkages (Rahimafrooz).

6.5 Summary of the comparative analysis

This section shows (as in Table 6.7) the differences of applying entrepreneurship and state support by family firms and its implications on their business development. Table 6.7 shows that the degree of entrepreneurship and state support for each of the family firm is different. A.K. Khan and Anwar displayed less entrepreneurship compared to other firms. Because their main agenda was money-making, they diversified widely but not wisely while failing to

focus on their core business and brand development. Anwar Group eventually lost its entrepreneurial focus whereas A.K.Khan could not even establish a single flagship business while being too focused on business expansion by relying on state ties. Both groups did not spend adequately on R&D, did not follow apprenticeship while recruiting successors, and still maintain full family control over their businesses. However, both A.K.Khan and Anwar Group have got high state support. AK Khan got enormous economic rents and favourable policy advantages as he had strong state nexuses. Anwar group also got state nexuses as well as enjoyed policy advantage for their flagship business (textile) Again, Akij and Rahimafrooz Group have got high entrepreneurial skills and both the Groups relied mainly on entrepreneurial skills for business development. They kept focus, established various branded products. However, both the Groups got low state support as both have had little state nexuses, and both groups did not get any direct policy advantages for their flagship businesses as (tobacco and renewable energy respectively). On the other hand, BEXIMCO, Square and PRAN Group have got both high entrepreneurial skills and high state support. All three groups have established multiple brand products, came up with new technologies. Besides, all three groups have enjoyed direct policy advantages for their flagship businesses (BEXIMCO and Square got for Pharmaceutical business, and PRAN-RFL Group got for their agro business). Nevertheless, all the groups have high state nexuses through which

they could access economic rents to grow business.

This summarised comparison as shown in Table 6-7 indicates that family firms need both entrepreneurial skills and state support (policy support and state-nexuses) to survive and grow under a weak state like Bangladesh. This also indicates that firms low in entrepreneurship and state support perform poorly less financial dimension than the family firms high in both entrepreneurship and state support .

Table 6-7: Comparative Analysis among the Seven Case Studies

Group Name	Entrepreneurship (Identify opportunity, risk taking, innovation, adaptability and successor development)	State Support (from policy and nexuses)
A.K.Khan	LOW - well diversified but failed to establish a core business; no brand products; less aggressive in marketing; less Risk taker as not public listed	HIGH - bank loans, license, contracts, permission from BOI and JSC
Anwar	LOW - could not bid competition; lost focus from core business while wide diversification, less aggressive in marketing; less risk taker as only 1 public listed company.	HIGH - policy benefit for textile business; license, bank loans
Akij	HIGH - adopted niche market strategy and built a brand product, Aggressive marketing strategy, bringing in new technologies	LOW - no policy support for tobacco business; few bank loans initially
Rahimafrooz	HIGH - FMA in IPS, solar power, supermarket; aggressive in marketing; family council; less diversified and kept focus on core business and became a local brand	LOW - no policy support for renewable energy business; few bank loans
BEXIMCO	HIGH - highly diversified yet created multiple brand products; aggressive marketing, high spending on R&D; Highly adaptable as merged low performing units with high performing units; High risk taker as 4 public listed companies	HIGH -policy support for Jute and Pharmaceutical business; highest number of bank loans even after being listed as top defaulters, licenses, contracts
Square	HIGH -highly diversified yet created multiple brand products; Aggressive marketing; high spending on R&D; high risk taker as 4 public listed; professionalized board	HIGH - policy support for pharmaceutical business; many bank loans, licenses, contracts
PRAN-RFL	HIGH - Highly demanding Agro sector; Highly diversified yet kept focus on core business, high spending on R&D; highly adaptable for extensive overseas training; risk taker as 2 public listed companies; extremely aggressive marketing	HIGH - policy support and bank loans for Agro business, export incentives

Table 6.8: Comparison of Annual Turnovers of Seven Family Firms of Bangladesh

Name of Family Firm	Entrepreneurship	State Support	Annual Turnover (2015)
BEXIMCO	High	High	US\$ 2 billion
Square	High	High	US\$ 781 million
PRAN-RFL	High	High	US\$ 750 million
A.K.Khan	Low	High	US\$ 500 million
Rahimafrooz	Low	High	US\$ 300 million
Anwar	High	Low	US\$ 275 million
Akij	High	Low	US\$ 200 million

Sources: Interview

Table 6.8 thus clearly indicates the fact that family firms need state nexuses besides being entrepreneurial in order to do well financially. Otherwise, only entrepreneurship cannot help them to do well while dealing with a weak state. State ties work as a protective shield for their smooth survival and growth.

6.6 Impact of Development of Family Businesses

6.6.1 Positive Impact

Entrepreneurship is not only about profits, but is equally concerned with social welfare and non-economic well-being (Gries and Naudé, 2010). This is how entrepreneurship becomes a catalyst for structural change and institutional evolution. All seven family firms have contributed towards structural changes in the country, creating job opportunities, empowering women, providing extensive training to educate their employees and workers, and representing the country globally with new products or extensions of existing products at cheaper rates.

These family firms have also contributed towards making Bangladesh export-oriented, increasing the country's overall productivity and per capita income, and reducing over-dependence on imports. Moreover, their efforts in creating good quality new products and services with low prices have improved the standard of living. For example, Square established a modern equipped hospital, a plant tissue culture laboratory, a security organisation, and a helicopter service, all which benefited the

general population. Rahimafrooz had an impact on society by providing people and company's access to industrial batteries, IPSs, solar power, and retail super markets. BEXMICO developed local medicines; Akij produced preservative free milk and fly ash free cement, while Anwar founded the very first silk mill and printing textile mill in Bangladesh.

6.6.2 Negative Impact

The dominance of these family firms over Bangladesh's private sector has generated some drawbacks, such as a concentrated ownership structure and weak governance practices. Furthermore, their state-business nexuses protect them from investigations when they violate laws and regulations. In fact, the practice of non-competitive sales, overly generous sales terms, and reduced competition is a serious consequence of privatization for which economic power is concentrated in the hands of large diversified business groups in Bangladesh.

Corporate malpractices are also common in Bangladesh. The government has not been able to progress toward establishing strong corporate governance practices and ignores the misconduct of big family firms. An anonymous interviewee from the CPD commented that although the government is pressurising NBR to increase their revenue collection targets, businesses are taking advantage of this situation, even negotiating with this agency to fix a tax amount rather than pay the original charge. Furthermore, regulatory bodies insist that small businessmen and service holders pay on time but turn a blind eye to the misdeeds of bigger firms, including for tax evasions. This may be because the government is satisfied with the big firms' business performance, thus deciding to leave them alone even when laws are broken (Rahman, 2012).

The mode of conduct of business by big family firms such as A K. Khan, Rahimafrooz, and Akij has resulted in the avoidance of certain corporate best practices, such as securing public listing, appointing independent directors, professionalizing the

management, and practising transparency in financial statement disclosures.²⁴¹

Bangladeshi products have little impact in the global market as the quality of the products of these firms cannot match the international quality standards. This is why they export mainly to middle income and lower income countries. For instance, the PRAN group used to export ‘masala’ or cooking spices to America, but this was halted due to a high volume of lead found in the product. PRAN also exports mango juice to a few Asian and African countries, but not to any developed country.

Moreover, in some cases, the quality of products and services generated by these firms has also been found lacking on a domestic level. For example, Square Hospital was recently fined Tk265000 (US\$3396) for not having the DAR of medical/surgical devices and drug licences; not renewing the licences of its hospital, blood bank, and diagnostic centre for the last two years; not having the licences of Intensive Care Unit (ICU), Coronary Care Unit (CCU), Neonatal Care Unit (NICU), High Dependency Unit (HDU) and its Dialysis unit; running a 365 bed hospital despite only having approval of 300 beds; not offering 5 percent of the total beds free of cost as per direction; and producing food without the approval of BSTI. Earlier in 2012, the Department of Environment also fined the hospital Tk500000 (US\$6114) for causing sound pollution (*Dhaka Tribune*, 9 December 2015).²⁴²

²⁴¹ As shown in Table 5.2.2 (b) in Chapter 5.

²⁴² According to the Environment Act, the sound level in hospital areas should be 35 decibels. However, the Department of Environment reported that the hospital's 1000 KVA capacity generator was making sounds between 65 to 73 decibels, a range which is harmful for human health.

While collecting data, it was also discovered that none of the family firms stored financial data for more than five to six years, since there is no mandatory government rule concerning this. They were also very sensitive about sharing financial facts and figures. In an interview with a research fellow from the CPD and the Chairman of TIB, this was revealed: *These big family firms do tamper with their financial facts before they are published. In addition, they do not follow proper documentation when starting a business or while getting bank loans or property permission. Besides, they sometimes do tamper with product quality certification, for which some of their products were rejected by foreign countries. However, despite knowing the truth, no media can broadcast this news as the majority of print and electronic media in Bangladesh are owned by these large family firms. These extremely wealthy and powerful family firms can easily manage external auditors to act in their favor.*

As this comment illustrates, it is easy for media owners to manipulate the news to their benefit. So far, four television channels (Ekushe TV, CSB, Channel-1, and Digonto TV) and two newspapers (Amar Desh, Daily Inqilab) have been shut down by the ruling government (BAL and BNP) for attempting to discuss political realities (Mahmood, 2014). Due to this absence of media independence, the rampant corruption. Indeed, the dividing line between politics and journalism is ‘more blurred than ever’ in Bangladesh (Farhana, 2014). This study’s findings show that both BEXIMCO and Square own electronic and print media. Other conglomerates also own influential media; for instance, the Transcom Group owns the highest circulating Bengali paper in the country (*Prothom Alo*), the largest English newspaper in Bangladesh (*The Daily Star*), and a Radio FM channel (ABC Radio) (Farhana, 2014).

Unsurprisingly, Bangladesh is still in the global market black box due to lack of strong branding. Bangladesh’ export basket is not diversified (The Daily Star: March 10, 2015). RMGs contribute about 76 percent of its total export, while six other

products make up the remaining exports: woven garments (36.62 percent), knitwear (39.21 percent), frozen food (3.78 percent), jute goods (2.26 percent), and leather (2.02 percent) and fertilizer/chemical products (1.53 percent) (FY 2007-08). This tendency to concentrate on a few items is one of the basic weaknesses of Bangladesh's export sector. Prime Minister Sheikh Hasina has commented that the industrial export contribution is appreciable (total export in 2011 was US\$24 billion to 190 countries when pharmaceuticals performed incredibly well, exporting medicines to 92 countries), and that exports can greatly increase if businesses take responsibility in performing proper business branding to project a positive image of Bangladesh before the world (bdnews24.com: 5 December 2012).

6.7 Conclusion

This chapter analysed the major contributing factors behind the development of seven selected family firms and found that each of them showed great resilience in struggling with the economic and political trials of the country and successfully survived under a weak state. They have been survived and grown by adapting to internal (unskilled labour, shortage of capital) and external constrains (political chaos, poor technology and infrastructure). Besides, state-business nexuses have given these firms various opportunities to enjoy government rents and the power to circumvent government rules. Family firms emerged as small businesses and gradually became conglomerates through entrepreneurship as well as state-linkages. This mutual contribution of state nexuses and entrepreneurship helped the firms to develop their businesses despite state incapacity. This actually contradicts developmental state theory, which focuses on strong states where businesses receive enormous opportunities and incentives for their development; however, in return they are controlled by the state (Johnson, 1982; Woo-Cumming, 1999). The findings of this study reveal that family firms do not need a strong state for business development. All the firms examined here either utilized their

political links to access government rents (A.K. Khan), or employed entrepreneurial capacity in fulfilling unidentified demands in the market (Akij, Anwar, Square, and Rahimafrooz), or did both (BEXIMCO). Either way, state incapacity did not affect their development. Their success is also partly due to the fact that they entered sectors with huge local market demand, so state weakness did not hinder their survival.

CHAPTER 7: CONCLUSION

The primary focus of this study was to examine how highly entrepreneurial family firms can survive and grow in a weak state like Bangladesh. The findings of this study provide insight into the forms of development of large family firms such as Square, BEXIMCO, Anwar, PRAN, Rahimafrooz, Akij and AK Khan, where both entrepreneurship and state-business nexuses helped the firms survive and grow in a situation where state incapacity was a serious problem.

This study considered two bodies of literature, family business and developmental state, in order to better understand the fundamental concepts of entrepreneurial attributes and state-business nexuses while analysing how these highly entrepreneurial family firms have dealt with state incapacity. While these two bodies of literature talk about strong states, this study deals with a weak state. However, in order to secure insights to the impact of a weak state on policies to develop entrepreneurial firms, concepts and ideas from these two sets of literature were employed here.

This chapter is divided into four sections. The first two sections summarise the major theoretical and empirical contributions of this research. The third section outlines the recommendations pointed out from this study to owner-managers, practitioners and academics. The fourth section discusses the limitations of the study and offers suggestions for future research in the topic of sustaining family businesses.

7.1 Theoretical Contribution

7.1.1 Bangladesh stands as a unique example that firms do not necessarily need a strong state to survive and grow, which is very different to what developmental state talks about. The business history of the seven Bangladeshi family firms shows that they survived and grew primarily due to their entrepreneurial quality; however, this was not enough to ensure their growth while dealing with a weak state. They also had to create state ties to ensure that their entrepreneurial capacity could be deployed in a highly

productive manner so that their business would grow smoothly. Entrepreneurship by identifying opportunities, taking risks, being innovative, being adaptable to state bottlenecks and grooming successors assisted the family firms in developing profit-generating companies. Besides, state-nexuses through donation payments, political and lobby group involvement, building personal contacts, creating marriage ties and offering bank directorships gave the family firms the opportunity to attain access to government rents and the power to influence policies.

7.1.2 Family business literature does not pay sufficient attention to the nature of the state which this study is doing. This study is taking important conceptual tools from the developmental state literature while explaining the fundamental nature of a state and the implications of state-business nexuses on firms' development. However, the literature talks about strong states whereas this study focuses on a weak state, Bangladesh.

7.1.3 State can define the patterns of entrepreneurial development of firms in a country. As Bangladesh doesn't discipline the family firms, most of the firms focus on money making or business expansion rather on brand development. This is why some family firms that started business with high entrepreneurship like Anwar group eventually lost focus from brand development while diversifying widely as they could not bid the competition in textile sector. Again, A.K.Khan group became a conglomerates despite having low entrepreneurial attributes. They mainly used state-ties to expand business. They did not focus at all on flagship business or brand development, rather they focused mainly on business expansion through joint ventures. Besides, firms easily bypass governance rules as they know the state is flexible to overlook this matter as long as the firms contribute well into the economy.

7.1.4 This study is an example which is linking developmental state literature and family business literature to explain family firms' development under a weak state. This study considered family business literature for interpreting how entrepreneurship

and its core elements contributed to family business development. This literature highlights the entrepreneurial attributes of family businesses that are nurtured in strong states, an issue which raised the question of what entrepreneurial attributes family businesses should possess in a weak state. This study considered the developmental state literature to understand the fundamental role of a state in assisting the development of entrepreneurial firms. The developmental state literature discusses strong states like Japan, Taiwan, South Korea and Singapore, which were useful in determining what was missing in Bangladesh as a state. Among South Asian countries, India played a much stronger role as a state in building entrepreneurial capacity among the firms that made them competitive. By contrast, Pakistan and Bangladesh remained backward economically due to their structural weakness involving bureaucratic and political incapacity. Comparatively, Bangladesh is the weakest state among South Asian countries, and so, the nature of the state is fundamentally different. Even then, highly entrepreneurial family firms emerged as the main engine of growth in the country, making this a unique case. Additionally, the existing literature considers state-business nexuses as a productive element in achieving industrialisation. Understandably, Bangladesh is an exceptional case where entrepreneurial family firms survived and grew under poor institutions while maintaining state-business nexuses, whereas family firms in East Asian and other South Asian (India and Pakistan) countries had more productive state-business nexuses, which took place with the aid of strong state institutions.

7.2 Empirical Contribution

7.2.1 Filling a country gap

This study is the first to trace the development of Bangladeshi family firms, thereby contributing to the family business literature by filling a country gap. Furthermore, this research adds to the very limited literature on family businesses in South Asia.

The comparative analysis indicates four key features of the seven family firms. Firstly, highly entrepreneurial firms which survived and expanded keeping less state-nexuses like Rahimafrooz and Akij Group. Secondly, highly entrepreneurial firms eventually got involved into state-nexuses to access government rents like Square, PRAN-RFL and BEXIMCO Group. Thirdly, initially entrepreneurial firms eventually lost focus and got into state-nexuses to grow like Anwar Group. Fourthly, low entrepreneurial firms that relied mainly on state-nexuses to survive and grow like A.K.Khan Group.

7.2.2 A new mode of company development through entrepreneurship and state nexuses:

By using seven Bangladeshi family firms as case studies, this provided crucial insights into the development of such businesses. These family businesses utilized both entrepreneurship and state-nexuses to survive and grow under a weak state. Where entrepreneurial skills assisted the family firms to transform the state incapacity into business opportunities, state-nexuses gave them access into government rents, opportunity to influence policy making, firms could escape from the effects of economic and political turmoil and benefit and from governance loopholes (tax aversion, loan defaulting, public listing avoidance), and could gain power to get the control over the state.

When comparing the seven cases, the unique application of entrepreneurship and state nexuses by the seven family businesses are traced as below.

7.2.2.1 Entrepreneurship

All seven family firms in this study are undoubtedly entrepreneurial; however, the entrepreneurship level and experience is different. In fact, each family firm is unique in identifying opportunities, taking risk, innovativeness, adaptability and successor development.

i. Identifying Opportunities

The seven family firms in this study identified opportunities that have assisted them significantly in the survival and growth of their companies while exploiting the state's incapacity. For instance, the state's incapacity was an opportunity for family firms like A.K. Khan, Anwar, Square, BEXIMCO and Rahimafrooz because they secured first mover's advantage in the industries they ventured into. The founders of BEXIMCO, Rahimafrooz and Square identified business opportunities by capturing hitherto unidentified market demands and coming up with new products including locally-made drugs and renewable energy products. Additionally, Akij, PRAN and Anwar focused on a niche market strategy, by targeting adolescents and rural lower-income groups who had very specific types of demands. Selecting prominent sectors to start a business was another opportunity where BEXIMCO, Square and PRAN could enjoy government incentives, specifically in the pharmaceuticals and agro sectors. A.K. Khan, on the other hand, mainly used political power and joint-venture strategies to grow faster.

ii. Innovativeness

Bangladeshi family firms are focused mainly on the domestic market. These seven firms are similar in areas of their innovativeness because they create new products and services and introduce new concepts and technology for the local market. For instance, through joint ventures, A.K. Khan came up with technologies like water purification; Rahimafrooz produced local industrial batteries, IPS, solar power and retail supermarkets for the first time in the country; AKIJ brought in the first preservatives-free juice and beverages and fly ash free cement; PRAN produced the finest quality PVC products; Anwar came up with the re-rolling technology for construction materials and; BEXIMCO and Square were pioneers in the pharmaceutical industry.

Square also launched the very first tissue culture laboratory, came up with the first air ambulance/EMS service and the first modern and fully equipped hospital in the country.

BEXIMCO's ceramic units, Shinepukur Ceramics, is the very first Bone China business in Bangladesh, with new technology from the Japanese company, NIKKO. Additionally, BEXIMCO introduced the Direct-to-Home (DTH) television viewing technology to Bangladesh through a joint venture with the Russian GS Group. Moreover, these seven family firms distinguished themselves by their various product categories, aggressive marketing strategies, reasonable prices and better quality assurance, and thus were marked as major brand names in Bangladesh.

iii. Risk-taking

All seven family firms took a risk by investing personal savings and family assets in their business, being aware of the unstable economic and political environment of the country. Akij, Square, Rahimafrooz and Anwar are high-risk takers, compared to BEXIMCO and A.K. Khan, because they invested personal savings despite having a lower financial capacity.

All seven firms diversified their businesses widely to hedge the risk of business failure under an unstable political environment. However, considering their overall business development, Square and BEXIMCO are higher risk-takers among the seven firms because they diversified widely, exporting a large number of products and investing in the R&D of new product development.

Moreover, among the seven family firms, Square took fewer risks initially as compared to the other six firms because it adopted a partnership system, whereas the other six firms adopted a sole proprietorship system, which entailed greater risks.

Nevertheless, four of the seven family businesses studied including BEXIMCO (4 listed out of 35), Square (4 listed out of 28), Anwar (2 listed out of 25), and PRAN (2 listed out of 38) have taken more risks because they listed their companies in the stock market.

iv. Adaptability

All seven family firms in this study have been highly adaptable while dealing with inferior technology, poor credit facility, inadequate infrastructure and unskilled labour. The seven family firms employed different techniques to deal with their technological inadequacy. The Akij and Anwar groups initially relied only on domestically available technologies and eventually imported machinery from other countries. In contrast, A.K. Khan, BEXIMCO and PRAN imported machineries from an early stage in the business. Rahimafrooz relied on international distributorship, which enabled them to sell foreign branded batteries and tires. In addition, representatives from these family firms were also sent to learn about modern technologies by visiting many countries (Akij), hiring foreign technical personnel (Square), and embarking on joint-ventures (A.K. Khan) and foreign company affiliations (PRAN and Anwar), through which they obtained foreign technology along with technical expertise.

Furthermore, while dealing with scarce natural resources, Anwar, BEXIMCO, A.K. Khan and Akij had an advantage by choosing to enter into the traditional sector to produce products like comb & button, jute and tobacco, for which raw materials were available. Other firms have coped with this situation by diversifying horizontally to gain control over the production, processing and marketing of raw materials.

Additionally, due to the inadequacy of credit facilities in the country, the family members of these family firms often held ownership/directorships of public and private banks, which gave them better access to bank loans with low-interest rates.

v. Successor Development

A majority of the founders of the family firms in Bangladesh were less educated; however, the family focused on grooming successors with a good education, training and outside work experiences so that they could fill managerial roles and lead the firms into the new century with their acquired knowledge and skills. The successors of all

seven family businesses fall into this category. While some firms applied apprenticeships (PRAN, Square, Rahimafrooz) to groom successors, others appointed their heirs directly to top positions after their graduation (A.K. Khan, Akij Anwar, BEXIMCO); however, they were given on-the-job training by professional managers.

Among the seven family firms, successors can be credited for taking major initiatives that helped develop the business in companies like BEXIMCO, Square and Anwar, whereas the founders can be credited for A.K. Khan, Rahimafrooz, Akij and PRAN. The Anwar Group started growing under the leadership of the third generation member, Anwar Hossain, while Square and BEXIMCO's real journeys were initiated by their second generation members. Further, the successors encouraged modern technologies and professionalism which provided the businesses with a higher development pace.

7.2.2.2 State Support

Entrepreneurship alone cannot sustain the growth of family businesses in a weak state like Bangladesh. As mentioned in Chapter 3, state support comes through state policies and state nexuses. In the case of Bangladesh, state-nexuses were the major state support for the firms' survival and growth as the state failed to provide sufficient and effective policy reforms and infrastructures.

i. State Policies

The two stages of partitioning Bangladesh made the country weak bureaucratically and politically, for which the different regimes that came to power implemented several developmental policies to revive the economy. The privatisation in 1976, as well as tariff reductions, export incentives, bank loans and licensing facilities helped the firms grow; however, companies with state ties were extremely privileged in this regard. Additionally, policy reforms were implemented to boost certain sectors like textile, pharmaceuticals, agro and ICT while ignoring other potential sectors. Therefore, among the seven family firms in this study, some family businesses were lucky to receive

policy advantages for their core businesses. Square and BEXIMCO's success was marked by the drug policy implemented in 1982, which restricted foreign companies from manufacturing medicines that could be produced locally. Anwar received export incentives and machine import facilities with zero duty for its core textile business. PRAN received incentives for their core agro-business through the 1999 Industrial Policy that facilitated agro-based businesses. Rahimafrooz, Akij and A.K. Khan, on the other hand, did not receive any direct policy advantages for their core energy and tobacco business. Nevertheless, the infrastructure has not developed sufficiently for which the firms struggle for survival and growth.

ii. State Nexuses

Although the economy improved over time, weak institutional frameworks, bureaucratic corruption and poor leadership in politics remained, contributing to structural weaknesses. In the process of industrialisation, rent-seeking political parties nurtured a business trend where the state offered the family business government rents, and in return, they received funding for their elections and political prospects. Additionally, the regimes gave the family firms the freedom to attain power and privileges for growth. They then relied on them heavily while implementing policies and investment decisions as they knew that these family firms were the main engine of growth in the Bangladeshi economy. State nexuses through donations, personal and marriage ties and direct or indirect political and lobby group affiliations have helped family firms obtain economic rents to expand their businesses while escaping the effects of economic and political turmoil. Furthermore, state-business nexuses assisted the firms in gaining power with which they could freely practice governance loopholes like tax evasion and loan defaults.

Among the seven family firms, some family businesses (A.K. Khan and BEXIMCO) depended highly on state-nexuses through political and lobby group involvement as

well as marriage ties. A.K. Khan used his ties with the state to grow, mainly through joint-ventures. Joint-ventures were instrumental in bringing modern and foreign technology as well as expertise to the Bangladeshi economy. However, they were unable to establish any brand product or a flagship business. Unlike A.K. Khan, BEXIMCO relied heavily on both entrepreneurship and state nexuses. The 2nd generation utilised their state ties to attain government rents with which they established many branded products. However, exploiting the nexuses made Salman the top listed bank defaulter. Salman misused his position in the stock market and manipulated stock prices to increase profits. This caused the Bangladesh stock market to crash twice; however, they remained powerful and wealthy.

Although Square and Anwar initially did not have any ties with the state, they survived through their entrepreneurial skills; however, over time, the successors received state benefits through their involvement in lobby groups. Square used state ties more productively than Anwar by coming up with more brand products. On the other hand, Akij and Rahimarooz had state ties through the successors' bank directorships, for which they received bank loans. PRAN too has limited state ties, through the founder's former bureaucratic position, which gave them access to bank loans.

Although state ties assisted the family firms in growing their business, some like A.K. Khan did not establish brand products as the state did not discipline them and monitor their development. The state mainly motivated them to contribute to the national economy. This made the family firms remain focused on the domestic market; none of them have strong intentions to establish brand products that can compete internationally. Rather, a majority of family firms are concerned about business expansion through diversification. In fact, they export mainly to lower and middle-income countries where low prices are preferred over quality. Due to a weak governance, family businesses like Anwar, Akij and Rahimarooz can still avoid public

listing and professionalising their board structure despite good growth.

7.3 Lessons learnt

There are lessons to be learnt from this study on Bangladeshi family businesses. The developmental history of Bangladeshi's family businesses shows that they do not need a strong state to grow, which is in contrast with East Asian countries that have adopted developmental state models for industrialisation. They are the strong states that have nurtured the development of companies through proper policy planning, infrastructure development and selective patronage while maintaining control. This is where Bangladesh is a unique example of family businesses surviving and growing as conglomerates within a weak state.

The case studies indicate that the family firms got involved in state-business nexuses in spite of their entrepreneurial tributes to ensure their survival. The family businesses realised that to ensure growth, they had to satisfy the bureaucrats besides contributing to the national economy. This, in fact, also gave them the power to influence policy-making in their favour.

The findings of this study suggest that historical events do influence the state in nurturing businesses development. The country's double partitioning led to the creation of inexperienced and less educated bureaucrats and politicians who encouraged a rent-seeking trend. The state could not sufficiently facilitate family firm development as it could not deliver the right policies for reform and to create an effective institutional framework. In some cases, the state has hampered the firms' entrepreneurial capacity in Bangladesh by overly motivating them to diversify. The state encouraged a system of keeping state-business nexuses. As a result, some family firms like Anwar and Akij eventually lost focus from their core business while over-diversifying, others like A.K. Khan could not even establish a flagship business. State-business nexuses, however, assisted the family firms to become wealthy and powerful despite Bangladesh's slow

economic growth.

Moreover, there are some highly entrepreneurial family firms like BEXIMCO and Square, who can adapt well to the state bottlenecks and they have used both their entrepreneurial skills and state ties productively to become major local brand icons. This balance of depending on both entrepreneurial skills and state nexuses helped the family firms to sustain themselves despite regime changes. Additionally, the wide diversification helped the firms to gain control over all key sectors including finance and media.

Furthermore, the comparative analysis indicates that family businesses with strong entrepreneurship and high state support through policy advantages and state-nexuses (BEXIMCO, Square and PRAN) have a higher annual turnover compared to those that have less entrepreneurship or less state support or both (A.K. Khan, Anwar, Rahimafrooz, Akij). Firms with high state support enjoyed both policy advantages and government rents.

7.4 Recommendations

The findings of this study suggest that historical events determined the pattern of the role of the state in nurturing the firms' entrepreneurship. The more inefficient and corrupted the state, the more patronage it had to practice when planning and implementing policies for industrial development. Despite Bangladesh's economic progress, there is concern that this growth has benefited only a few rich business families, especially the urban elites. The study will therefore benefit policy-makers by reviewing the power imbalance between the state and key institutions. Selective patronage has contributed to inequalities effected society while a rent-seeking culture is now pervasive.

The study provides insights into the role of the state, one that politicizes the regulatory institutions, which then cannot act independently. The regulatory institutions should be

given autonomy to curb corruption and lobbying, and discipline businesses as well, if necessary.

Business groups are one vital source which can be used by the state to ensure long-term growth. However, over-dependence on them can result in state capture. Therefore, the state should have the monitoring power to discipline the family businesses in the right manner.

Bangladesh's wide-ranging trade policy reforms, which began in 1991, resulted in economic deregulation and trade liberalisation, but the government needs to advance other reforms targeting growth potential sectors. The government should take steps to improve the investment climate. For that, the government should promote branding of exportable goods other than RMG so that the export base can be diversified. This can increase foreign direct investment flows to create a better and more favourable business climate. Policy reforms should be undertaken in a balanced manner, by considering multiple sectors, which can enhance export diversification.

The family firms are gradually transforming their rigid traditional management style into more professional and modern systems by adopting new and advanced technologies and spending more on R&D. However, the government should be aware of the fact that the S&T system in Bangladesh has yet to catch up with that of its neighbours. The brain drain phenomenon, attraction for overseas jobs and lack of proper service conditions in R&D institutes have all contributed to the shortage of competent scientist, engineers, and skilled technicians.

An effective system of local government with clearly defined responsibilities, financial autonomy and accountability has yet to emerge in Bangladesh, which can assure a sound legal framework and proper guidelines of corporate governance. Therefore, a stable and efficient government with high political commitment is needed in Bangladesh to efficiently function the governance system so that firms under

operation will be required to follow the rules and can grow with quality and competitiveness. Additionally, a better corporate governance practice, if it can be ensured, will guarantee a more transparent manner of doing business and an efficient use of state-business nexuses towards socio-economic development of the country.

7.5 Suggestion for Future Research

Further research can be done on the following topics. A comparative research can be done between family firms in Bangladesh and other South Asian countries, to see the similarities and differences. Also, a comparison of the role of the state in nurturing firms can be traced among the South Asian countries (India, Pakistan and Bangladesh). Besides, a comparison study can be done between the performance of family and non-family firms of Bangladesh.

Research can be done on planning policies for improving the economic landscape of other developing countries based on the findings of this study. This study will be useful when doing research on the implications of an over-dependence on state-business nexuses. The empirical evidence of this study can be helpful when researching the risk of over-diversification. A broader study can be done using more family businesses in Bangladesh in order to have a deeper insight into the implications of state's incapacity on their development. This study can be useful for future research describing the implications of state incapacity on corporate sector development.

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APPENDIX: CONVENTIONS

BDT Bangladeshi Taka

PKR Pakistani Rupee

Between 1947 till 1970, one US\$ was equivalent in value to 4.76 PKR. BDT and PKR amounts have been converted into US\$ at the contemporary average exchange rate for each year as shown in the table below. For a range of years like 1975-1980, an average rate of US\$ within those years has been adopted.

The price of one US dollar to Pakistani Rupee (PKR) and Bangladeshi Taka (BDT)

Year	Rate
1947-71	PKR 4.76
1971	BDT 7.87
1977-80 (average)	BDT 15.07
1981	BDT 17.99
1982	BDT 25.2
1989	BDT 32.72
1990	BDT 33.98
1998	BDT 44.29
2001	BDT 56.05
2004	BDT 58.55
2009	BDT 68.89
2010	BDT 70.81
2012	BDT 81.1
2013	BDT 78.39
2014	BDT 77.58
2015	BDT 78.03

Source: <http://fxtop.com/en/currency-converter-past.php?>