

THE SHRIMP SEAL OF QUALITY PROGRAM¹

TEACHING NOTES

ABSTRACT

The shrimp industry is a key sector in the economy of Bangladesh because of its significant contributions to export earnings and employment. Given its vast natural water resources and the historic presence of this sector in its economy, Bangladesh has tremendous potential to excel in the area of aquaculture. The reality, however, is that between 2001 and 2003 Bangladesh's shrimp exports declined. This decline began with the outbreak of white spot disease among shrimp intended for export and the resulting rejection by overseas markets. One initiative undertaken to deal with these negative trends was the development of a Shrimp Seal of Quality (SSOQ) program. The objective of this program was to ensure the sustainable development of Bangladesh's shrimp sector by addressing four key issues: environmental and human rights, ethical business practices, food safety and traceability, and disease and poor farming practices. This case study examines the development of the SSOQ program and explores its next steps as a nationwide program.

SUGGESTED COURSES

This case fits very well in courses on International Business, International Development, Agribusiness, Production and Operations Management. It is also a valuable addition to courses on Quality Management and Business Ethics.

LESSONS OF THE CASE

The case describes how health and environmental problems in the shrimp industry in Bangladesh led to a major effort to create a new quality certification program involving all players in the industry. They are being brought together to improve their processing and their product and boost its reputation in international markets.

QUESTIONS FOR DISCUSSION

1. Who are the most important stakeholders in the shrimp industry in Bangladesh? Do their interests conflict? In what way are their interests aligned?
2. Was it necessary to propose a new '*seal of quality*' branding for Bangladesh shrimp and then motivate all industry participants to join the effort? Was this the most effective way of achieving the desired end – boosting Bangladesh shrimp exports?

¹ This case was written by Tara Kearney Gaillard of George Washington University with the assistance of Syeda Masarrat Quader of ATDP under the supervision of Professor Richard Linowes of the Kogod School of Business at American University in Washington, D.C. It was produced under the auspices of the Emerging Market Development Advisors Program funded by U.S. Agency of International Development (USAID) and administered by the Institute of International Education (IIE).

3. Why did it take an organization outside the industry, namely ATDP, to play the leadership role in creating certified quality branding program for Bangladesh shrimp?
4. Was ATDP effective in involving stakeholders in the SSOQ program? What else could have been done?
5. Are horizontal and vertical integration desirable in this industry? How would the shrimp industry in Bangladesh benefit from greater integration? How is the balance of power within the industry changing?
6. What factors will help the development of the Bangladesh Shrimp Development Alliance (BSDA)? What might hinder their progress?
7. What is the role of alliances and how effective are they in other industries that you have studied? Can they be successful in taking over the SSOQ program?
8. How effective was ATDP in addressing the concerns of international buyers and consumers? Why were shrimp processors and exporters not more in tune with their international customers?
9. What else could the shrimp industry have done to address the growing concerns of buyers in international markets to reverse the decline in exports?
10. Going forward, what are the critical factors and proposed action plan for the SSOQ program? What should Dawson do next?
11. What roles have international codes of conduct played in improving the product and process of shrimp production in Bangladesh? Can codes of conduct play a constructive role in boosting industry success by insisting on responsible conduct from all industry players?
12. Why are environmental and human rights issues important in this business? Why should business care about such broad issues?
13. Listed below are the Western experts who were key players with ATDP in the case. What do you think of their very varied international careers?
 - Dawson (US genetics-based animal breeding, Peace Corps India, 70 countries)
 - Rudd (experience in Thailand, Honduras, Dubai)
 - Bieber (10 years in India)
 - Land 'O Lakes professional (experience in Macedonia)How about their globe-spanning travel to promote the idea of a Bangladesh Seal of Quality (Sydney, Bangkok, Brussels, Boston)? What motivates them to undertake this work? What cross-cultural challenges did they likely encounter working in Bangladesh?

DISCUSSION POINTS

Responses to Questions

1. *Who are the most important stakeholders in the shrimp industry in Bangladesh? Do their interests conflict? In what way are their interests aligned?*

The most important stakeholders in the shrimp industry are:

- Hatchery Owners
- Shrimp Farmers
- Depot Owners and other Middle Men
- Processors

The exporters are at the end of the supply chain, with international and political connections. The Hatcheries also hold a lot of power as they control the supply. Both Hatcheries and Processors act as creditors to other members of the supply chain.

International Donors provide a lot of funding (relative to GDP) and as such their perspectives are almost always a factor. The problem is that the donors come from different countries with their own cultural biases as well as economic and political preferences. This requires much time at meetings to build donor collaboration and understanding.

The various stakeholders do have conflicting interests because of the level of fragmentation in the supply chain as well as the existing overcapacity. Each stakeholder purchases a product from the proceeding level, with the objective of trying to gain as much as they can without striving for a long term relationship. Sustained value creation requires that customers and suppliers continue to perceive greater benefit in dealing with the same partners rather than with the next best alternative. However, the shrimp industry in Bangladesh is operated by thousands of very small players with no defined long term relationships between customers and suppliers. Because of this industry structure, the notion of creating value in the industry does not exist and each player is looking out for his own short term advantages.

It will be difficult for the different stakeholders to find common interests because of the fundamental structure of the industry. Unless there is greater vertical integration in the supply chain, and the performance of one level of stakeholders is linked with that of others, it will be highly unlikely to resolve conflicting interests.

2. *Was it necessary to propose a new ‘seal of quality’ branding for Bangladesh shrimp and then motivate all industry participants to join the effort? Was this the most effective way of achieving the desired end – boosting Bangladesh shrimp exports?*

The author does not believe that ATDP’s intervention was the most effective way to react to shifts in shrimp exports. Despite both horizontal and vertical fragmentation in

the industry, the threat of losing business should have been a significant enough concern for industry players to provoke change. Much of the SSOQ Program's initial efforts were focused on winning stakeholder alignment and this shifted focus away from direct shrimp improvement activities.

Despite continued efforts, co-operation from the BFFEA has been limited and this has made program success more challenging. The author believes that the best way to grow shrimp exports would be for shrimp exporters through the BFFEA association to introduce systems and procedures to ensure consistent high quality and safety of their product. Other domestic players need a clean operation to sell their product to processors. That requires a focus on hatching and farming technology. Thus the efforts of extension agents to teach better methods are critical. The SSOQ initiative had the further benefit of speaking quickly to the outside world, informing them that the product is safe to eat.

3. *Why did it take an organization outside the industry, namely ATDP, to play the leadership role in creating certified quality branding program for Bangladesh shrimp?*

The dynamics of the sector required that an external stakeholder get involved in the shrimp supply chain. This was required because of the low level of integration in the industry, the balance of power issues that had surfaced between firms in the industry, and the need for a unified and comprehensive response to the problems of disease and damaged reputation.

The industry is very political and each party attempts to retain whatever power they have. That means denying even blatant and known abuses. People often "take whatever they can get," a pattern that stems from living in a society where they see the have-nots and the have-less every day.

With excess competition, processors are concerned about getting their hands on whatever shrimp they can and are not focused on making long term improvements. Each one wants someone else to pay for it. Corruption is a real cost of doing business, and processors do not want to risk investing in the industry where their efforts might be stolen or corrupted at any time.

Most sectors in Bangladesh are uniquely dependent on non-government organizations, projects and associations. These bodies provide a tremendous amount of resources and therefore hold much influence. "Total foreign aid received by Bangladesh since it was founded in 1972 stands at \$406.72 billion. Financial assistance received from the international community and donor agencies has come under the three categories of food, commodity and project aid. Of the total amount, 25 percent has been paid to foreign consultants and suppliers while the bureaucracy and administration have misappropriated 50 percent. Only 25 percent or \$162.7 billion has trickled down. The systematic plunder of foreign aid has given rise to a parallel or

black economy.”² With both resources and influence as well as a mandate to promote the agribusiness sector in Bangladesh, it was logical for ATDP to become involved in the shrimp sector.

4. *Was ATDP effective in involving stakeholders in the SSOQ program? What else could have been done?*

ATDP was partially successful in involving stakeholders in the SSOQ Program. ATDP's lack of strong support from the BFFEA despite their continued efforts to bring them on board has been a definite weakness of the program. However, ATDP's ability to integrate and empower other weaker segments of the supply chain has been a success.

The SSOQ Program was particularly insightful and forward looking in its inclusion of all major elements in the supply chain. Doing this has given them a significant advantage and lead against international competitors who have just started working on their supply chain because of U.S. government requirements for traceability. This advantage may induce greater support from BFFEA in the future since exports to the U.S. may depend largely on availability of supply chain information required to meet FDA requirements.

5. *Are horizontal and vertical integration desirable in this industry? How would the shrimp industry in Bangladesh benefit from greater integration? How is the balance of power within the industry changing?*

The shrimp industry could benefit tremendously from greater integration, on both a vertical and horizontal level.

Vertical integration over the entire supply chain and the elimination of the middle men could add a great deal of value. The role of the middle men is multi-tiered. Those who work in between the hatcheries and farmers provide the important service of supplying credit to the farmers, many of whom are at subsistence level and unable to make the necessary investments and purchases on their own. The middle men between the farmers and processors play the important role consolidating the shrimp from remote and distant areas, transporting them and then making a marketing linkage with processors. Vertical integration will only be feasible if these functions can be taken over by other stakeholders such as the hatchery owners or processors. As a general rule, farmers have the least amount of resources and influence in the shrimp system, so integration efforts will have to be made by those with resources, the hatcheries and processors. Greater vertical integration will be beneficial because it will lead to a reduction in costs, processing time and exposure to contaminants. Because food safety is the most critical issue at hand, efforts must focus on ensuring that harvested shrimp get processed and shipped out with as little handling and exposure as possible.

² http://www.dailytimes.com.pk/default.asp?page=story_1-7-2002_pg7_27

Additionally, traceability requirements will be easier to fulfill with a shortened supply chain.

The shrimp industry can benefit from horizontal integration as well on a number of levels. Both the Hatcheries and Processing plants are plagued with extreme underutilization. The historic sustainability of these units was based on a number of external factors including government subsidies, malpractice, corruption, channeling of funds from other illegal businesses, illegal importation from neighboring Burma as well as other reasons. Given these elements at play, it is unlikely that horizontal integration will occur on these levels because in some cases people engage in these businesses not to earn an operating profit, but for these other kinds of reasons. However, at the farmer level, integration may lead to greater production efficiencies and outputs.

6. *What factors will help the development of the Bangladesh Shrimp Development Alliance (BSDA)? What might hinder their progress?*

The Bangladesh Shrimp Development Alliance (BSDA) must unite the efforts of all industry players. Further credibility was given to the SSOQ program with The Economist magazine's timely coverage of aquaculture issues. In the August 9, 2003 print issue, the following recommendation was made: "An internationally recognized certification scheme, along the lines of dolphin-friendly tuna, is urgently needed to alert consumers to the sustainability (or otherwise) of the farmed fish that they are eating."³ This was a clear call to action to all participants in the alliance.

7. *What is the role of alliances and how effective are they in other industries you have studied? Can they be successful in taking over the SSOQ program?*

Associations in Bangladesh have historically proved to be ineffective and plagued with political and corruption issues. Although the BSDA has representatives from different parts of the industry, there is a serious question as to how effective they can be in leading a program such as SSOQ. Another factor to consider in evaluating BSDA's ability to take over the SSOQ program is the perception of conflict of interest. In order to ensure the integrity of the certification program, it is essential that an unbiased party with no vested interest be commissioned to perform the audits. International buyers will have greater confidence in the SSOQ Program if certification is obviously separated from exporters.

There are other industry initiatives, both inside and outside Bangladesh, that introduce an on-going program of international certifications. Beyond the cattle breeding industry in the U.S. mentioned in the case and the tuna industry mentioned above, there is the Kimberley Process certifying diamonds and the Forest Stewardship Council certifying wood and paper products, etc.

³ "A New Way to Feed the World: Fish Farming is a Good and Promising Thing, Despite the Environmental Worries," The Economist, August 9, 2003, p. 9.

8. *How effective was ATDP in addressing the concerns of international buyers and consumers? Why were shrimp processors and exporters not more in tune with their international customers?*

ATDP was very comprehensive in including in the SSOQ Program some Codes of Conduct related to food safety, human rights and the environment. Different international buyers had different requirements, but generally through these codes, the SSOQ Program met the concerns of higher end buyers.

Shrimp processors in Bangladesh can be broken down into various categories. Some maintain very strict processes which ensure long term relationships with their customers. Others undertake illegal, unethical practices such as painting the raw shrimp to make them look more fresh, or injecting them with substances to make them heavier. Generally there is also a problem with hygiene with many containers rejected because of the discovery of filth. In part such underhanded and negligent exporters continue such practices because of the depth and breadth of the international market. There are numerous low end markets where buyers seek low priced goods and are willing to take risks with unknown exporters. As such, some exporters have continued their bad practices because markets have allowed them to do so. Also, there is no process through which exporters are held accountable at a national level. The government could begin issuing export licenses to exporters which could be revoked if the organization got involved in malpractice.

The processors knew their products were being rejected by European markets, but they placed blame anywhere they could. Maybe they all cheated but just one got caught. Maybe it is easier and less expensive to cheat (at least in the short term). Some processors had little history in the shrimp industry and some saw shrimp production as a get rich quick scheme with government support. To this day, processors call upon the government to intervene and pay for the needed industry improvements.

9. *What else could the shrimp industry have done to address the growing concerns of buyers in international markets to reverse the decline in exports?*

The shrimp industry could have taken a more proactive and aggressive position in dealing with the concerns of international buyers and declining exports. Shrimp processors and exporters are the main players in the export markets, so the onus was on them to take initiative. They could have provided some downstream training to other players in the supply chain. The industry was disorganized due to the combination of serious under investment in infrastructure, excessive competition, lack of training in pond management knowledge and the “dangling carrot” of US dollars at the top of the supply chain, leading to an industry rife with corruption.

Possible reactions from the shrimp exporters were:

- Creating and implementing a quality control system that ensured food safety thereby improving the quality and consistency of the product

- Introducing systems and procedures (including websites) that highlight exporters who have been involved in bad practices to provide buyers with a legitimate and reliable source of information on the track record of exporting companies
- Creating stronger backward linkages with farmers to ensure traceability of products
- Making efforts to brand Bangladeshi shrimp through a proactive branding and marketing plan including market research, participation in trade shows, foreign customer visits, advertising, etc

10. *Going forward, what are the critical factors and proposed action plan for the SSOQ program? What should Dawson do next?*

The most critical factor for the success of the SSOQ Program is the program's ability to establish, operate and spin off a certification body which has processes and systems in place to ensure integrity and validity. Another critical factor is the development of a stable and sustainable relationship with the BFFEA which is the powerhouse within the sector. The ATDP project's time limitation till December 2005 is also a factor for the SSOQ Program. It has achieved so much, but it still has many tasks ahead to ensure the program is established, operational and sustainable and can be taken over by another enduring body.

The focus of the project shifted significantly following Dawson's death in December 2003. The new Chief of Party, Ron Gillespie, is focused on extension services (pond management training), placing an international shrimp expert in the field to develop environmentally safe and cost-effective techniques to manage production more efficiently. He has also worked with the Hatcheries to help them test and provide disease-free post larvae to farmers. The tested post larvae are more expensive for the farmer, but coupled with good pond management practices, the increased yield has been astounding (in the range of 10-50 times higher). USAID decided to provide continued funding for the Lab and limited extension services after the project end in December 2005.

There are many donors who are interested in the program, but even the donors cannot agree on how things should be done. USAID plans to launch a follow-up project in Export promotion in the coming year. They anticipate that shrimp will be a major focus. That is why they agreed to provide bridge funding for the lab and extension services.

11. *What roles have international codes of conduct played in improving the product and process of shrimp production in Bangladesh? Can codes of conduct play a constructive role in boosting industry success by insisting on responsible conduct from all industry players?*

International codes of conduct developed by the aquaculture industry and NGOs played a critical role in the development of SSOQ's quality standards. They emphasize

food safety, environmental protection and human rights, protecting labor and human rights and sustainable environmental stewardship.

Though codes of conduct may be important, the biggest improvements were due to several interlinked factors: technological improvement (introducing post-larvae testing and pond management expertise), education (working directly to the farmers) and improved infrastructure. Ron Gillespie, the new ATP director, is focusing on the technology and production right now, but the issue of international standards is NOT going away.

12. *Why are environmental and human rights issues important in this business? Why should business care about such broad issues?*

It may be surprising that human and labor rights and environmental protection figures prominently in the industry's comeback. What do these issues have to do with growing fresh, edible, disease-free shrimp?

External groups outspoken about food safety look to evidence of other admirable initiatives by company management. There is a growing movement insisting that companies meet their business responsibilities, as articulated in codes of conduct. Many companies have signed on to them, to the enthusiastic response of the marketplace. Often companies pledge to pursue sustainable businesses. Their reputation is at stake. The Bangladesh shrimp industry as a whole has a shared reputation overseas. If managed well, there is the possibility of branding, offering a promise to the public in overseas markets that their products are high quality.

The issues extend beyond food safety. Food safety was comparatively easy to address. To make the program effective and sustainable, SSOQ also must place heavy emphasis on human rights and environmental issues. ATDP could not do all this alone. Dawson was committed to getting all stakeholders – the industry, the government, donors, buyers and interest groups – to work together to reform the industry.

Human Rights and Environmental standards were very controversial, however. Within the ATDP team itself, there were disagreements about “appropriate” standards of conduct in these two areas of concern. Another American advisor working with ATP spent much of her time writing codes of conduct but, as of today, these hold little weight with SSOQ participants. The fact that the industry is very lucrative and controls are very low means that the environment is ripe for abuse. SSOQ monitors Human Rights and Environmental issues by partnering with associations working in the field. Essentially they hope to use more monitoring and documentation to discourage abuse of the system.

13. *Listed below are the Western experts who were key ATDP players in the case. What do you think of their very varied international careers?*

Dawson (US genetics animal breeding, Peace Corps India, worked in 70 countries)
Rudd (experience in Thailand, Honduras, Dubai)

Bieber (10 years in India)

Land 'O Lakes professional (experience in Macedonia)

How about their globe-spanning travel to promote the idea of a Bangladesh Seal of Quality (Sydney, Bangkok, Brussels, Boston)? What motivates them to undertake this work? What cross-cultural challenges did they likely encounter working in Bangladesh?

The people profiled in this case have all lead fascinating careers built on sharing their expertise cultivated in one setting and bringing it to other locations around the world where it was sorely needed.

Hofstede's dimensions of culture highlight differences between Bangladesh and North American ways (Geert Hofstede, Cultures Consequences, Thousand Oaks, CA: Sage, 1980; Culture and Organizations: Software of the Mind, New York: McGraw Hill, 1996).

	Bangladesh	North Americans (US / Canada)
<i>Power Distance</i>	80	40 / 39
<i>Individualism-Collectivism</i>	20	91 / 80
<i>Masculinity</i>	55	62 / 52
<i>Uncertainty Avoidance</i>	60	46 / 48
<i>Long Term Orientation</i>	40	29 / 23

Since all four characters above lived through multiple cross-cultural adjustments in their careers, their adjustment to Bangladesh was probably not too taxing. But the contrast between Bangladesh and North American dimensions of culture is still very revealing. The figures above tell that Bangladeshi organizations are more authoritarian in nature, with a stronger collective orientation, a preference for specific guidelines for action, and a stronger long term orientation. Dawson and his team need be mindful of collective tendencies and reverence for hierarchy in their dealings with local institutions. Encounters in the case storyline illustrate these dimensional differences.

Networks are everything in Bangladesh. This facilitates and reinforces corruption in the industry. For example, colleagues in Bangladesh told the author about universities where students must pay off someone to receive their diploma after finishing their studies. Hierarchy plays a huge role in the country as well, and in initial meetings farmers were embarrassed and processors were offended to be sharing the same room. The political turmoil impacting the nation trickles down into even the smallest of organizations, and power struggles are a real factor/hinderer to doing business. Whether rooted in South Asian culture or Islamic culture, gossiping is a national pastime. This may not be so different from most other places, but what is different here is that an unconfirmed rumor can ruin someone for life.