



Pratidhwani the Echo

A Peer-Reviewed International Journal of Humanities & Social Science

ISSN: 2278-5264 (Online) 2321-9319 (Print)

Impact Factor: 6.28 (Index Copernicus International)

Volume-X, Issue-I, October 2021, Page No.123-129

Published by Dept. of Bengali, Karimganj College, Karimganj, Assam, India

Website: <http://www.thecho.in>

Training & Development in Post-Pandemic Times as a Tool of Risk Management: A Study on Food & Beverages Industry in Bangladesh

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Abstract

The food and beverages industry is a key component of the national economy of Bangladesh as it is a significant contributor to the national GDP besides having a significant employment generation potential. Moreover this industry has contribution towards foreign exchange earnings of the nation as well as towards removal regional imbalances in industrialization. The Covid-19 pandemic situation has affected the industries in Bangladesh including the food and beverages industry as the key success factors (KSFs) of the industries were affected adversely. The sales and the supply chain in this industry were affected which resulted in loss of jobs, return on investment and souring of relation with the dealers and retailers. The pandemic was a risk factor which was beyond the usual risk horizon of the entire economy including this sector. This industry, because of its importance in the national economy, must adopt pro-active risk management techniques to adapt to a similar unforeseen shock in a better manner. The traditional risk management approach adopted by industries envisages application of advanced and complex quantitative techniques which is usually possessed by firms specialized in this field or by large corporations only and beyond the capacity of most of the firms. This paper aims to suggest a method to equip the firms in this industry through specialized training and development of the managers which hinges on a qualitative approach towards implementing Enterprise Risk Management (ERM) for sustainable development of the firms in the food and beverages industry in Bangladesh.

Key Words: Food & Beverages Industry, Bangladesh, Risk, Training & development; ERM

Introduction: The food and beverage industry in Bangladesh grew at an average annual rate of 7.70 %. There were about 246 medium-sized food and beverage companies in Bangladesh as per the Economic Census of 2016 from Bangladesh Bureau of Statistics which provided employment to about 19% of the mechanical assembling workforce and about 8% of the total workforce. The contribution of food and beverages industry to the

national GDP of Bangladesh was about 2.01% in 2017. This industry has considerable link-up with many small and local units occupied with food and beverages in Bangladesh. The food and beverage industry in Bangladesh was a USD 4.50 billion industry in 2017. In 2017, exports of food and beverages products by Bangladesh were to the tune of USD700 million, about 60% of which were shrimp and fish items (Akter 2018)¹. The Covid-19 pandemic affected the food and beverages industry considerably. The short term effects included sharp drop in sales, high level of expired products, crunch in working capital resulting in difficulty in carrying out routine business operations, delay in getting institutional finance and export documentation and closures of distributors' operations. These adverse effects culminated into fall in return on investments, loss of jobs, strained relationships with channel partners, a restructuring of supply chains focusing on online trade, and an overall decrease of the industry's contribution to GDP, employment potential and export earnings.

Methodology of the study: Studies by scholars on ways forward to counter the adverse effects of the Covid-19 pandemic on the food and beverages industry in Bangladesh hovered around developing infrastructure to boost online sales, a partial reduction of remuneration agreed to by both employees and employers, product rotation within and across retail stores, extended office hours and a partial opening of operations on weekends and holidays in the post-pandemic times, short-term incentives for distributors etc. (Chowdhury et al, 2020)³. However, these methods are predominantly reactive measures aimed at enhancing sales and economization of operating costs. For a sustainable development of the food and beverages industry, what is needed, is a pro-active measure to minimize the adverse effect of a similar shock in future in case it happens. This paper attempts to conceptualize aligning of training and development of the managers of firms in the food and beverages industry in Bangladesh with an objective of implementing Enterprise Risk Management (ERM) through a qualitative assessment of risk factors.

The concept of ERM: Every business organization exists to provide value for its stakeholders. All business entities are confronted with uncertainties. These uncertainties include probability of unforeseen and undesired events in the future which might have an adverse effect on its objectives. These uncertainties are referred to as risk (ISO 31000 (2009)/ISO Guide 73)⁵. Thus risks are possibilities of an undesired outcome or absence of a desired outcome (Smith & Merritt, 2002)⁹. KPMG (2001)⁶, identified the following types of generic risks usually confronted by any business organization:

- Compliance risks;
- Governance risks;
- Integrity risks;
- Operational risks;
- Human resource risks;
- Finance risks; and
- Information risks

The process adopted by an organization to analyze its exposure to various types of unforeseen adverse events in the future, assessing the probable impact of such events on the business and determining the best feasible way to counter such exposure and impact, is known as risk management. Risk management stresses upon the fact that survival of an enterprise depends heavily on its capabilities to anticipate and prepare for the possible future adverse situations rather than to wait for such situations to actually happen and then to act to counter it (Raghavan, 2005)⁸. Thus risk management is essentially proactive and not reactive.

When risk management is done at an organizational level or enterprise level, such practice is termed as ERM. Accordingly Committee of Sponsoring Organizations of the Treadway Commission (COSO, 2004)⁴ defines ERM as : “Enterprise risk management is a process, effected by an entity’s board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives.” ERM has also been defined as a discipline i.e. an orderly or prescribed conduct or pattern of behavior of an enterprise, by which an enterprise, in any industry, assesses, controls, exploits, finances and monitors risks from all sources for the purpose of increasing the organization’s short-term as well as long-term values to its stakeholders (Casualty Actuarial Society, 2003)². The challenge for the management of every business organization is to determine the extent of uncertainty it can accept in order to maximize value to its stakeholders. Uncertainty presents both risk and opportunity. Efficient ERM enables the management to effectively tackle and harness the risk and opportunity associated with the uncertainty and thereby to enhancing value to its shareholders.

Training & Development as a tool for implementing ERM in the food and beverage industry in Bangladesh:

The approach of the food and beverages industry units in implementing training and development to embrace ERM should be a simple, easy-to-understand-and-implement approach.

The managers of the food and beverages units in Bangladesh can take the following simple five-step sequential approach to implement ERM as a part of business strategy (Smith & Merritt, 2002)⁹.

- Scanning the internal as well as the external environments relating to the business and identifying the potential risk factors;
- Analyzing the risk factors to determine the driving force(s) behind them, how severe their impact might be on the business and how likely they are;
- Prioritizing i.e. ranking the risks so that the entrepreneur can chose the most important among them to resolve;
- Planning as to what action(s) need be taken and how, to counter the risks in the rank list; The actions include four basic alternatives, to avoid a risk, to transfer a risk (take insurance coverage), to control i.e. mitigate the risk and finally to absorb the risks;

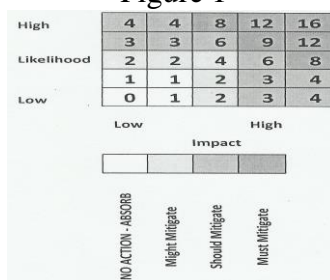
- Monitoring the progress on the action plans, discontinuing the action plans those have been satisfactorily resolved and looking out for new risk factors.

A simple four-level methodology may be adopted for training up the managers in the food and beverages industry in Bangladesh, both existing and potential, so that they can implement the basic ERM process based on pro-active decisions, in their business units. It is imperative that a pro-active risk management system is best suited for such units as it reduces the reaction time.

Level 1 : As proposed by Smith & Merritt, the first step is identification of potential risk factors. This may be done by identifying the Key Success Factors (KSFs) for survival and development of the organization and continuous & careful monitoring of the environment, both internal and external, capturing the relevant information and correctly interpreting them for their likelihood and severity of affecting the KSFs. The managers of the food and beverages units should be trained in and be motivated to make greater use of the internet and knowledge portals. It is particularly important that the entrepreneurs correctly identify the KSFs and the risk factors. The authorities in Bangladesh responsible for the development of the food & beverages industry may maintain updated information database which may be accessed online by the managers of the food and beverages units. Any mismatch between the actual KSFs & risk factors and those perceived by the managers will render the ERM process ineffective. The managers should be properly trained, should there be the need for it, in this matter.

Level 2 : If the managers are able to correctly identify the KSFs and the potential risk factors, they should carry out an impact analysis which is a critical study about the likelihood training should be imparted to the entrepreneurs regarding this exercise, should they be lacking in it. They should be trained in constructing a simple matrix having the likelihood of a risk factor and its associated severity of impact on the two axes of coordinates as shown in Figure 1 below (Osborne 2012)⁷.

Figure 1



If the severity of impact and likelihood of the risk factor are graded from 0 (negligible) to 4 (very high), then the product of the two scores along the two axes of coordinates would provide an overall score for the risk factor. A higher score would indicate a greater risk. This matrix would help the managers to assess the risk factors on the two parameters of likelihood and severity of impact.

Level 3 : The next step is to prioritize the risk factors based on the outcome of the impact analysis. Risk factors having higher scores should be given priority over those with low scores.

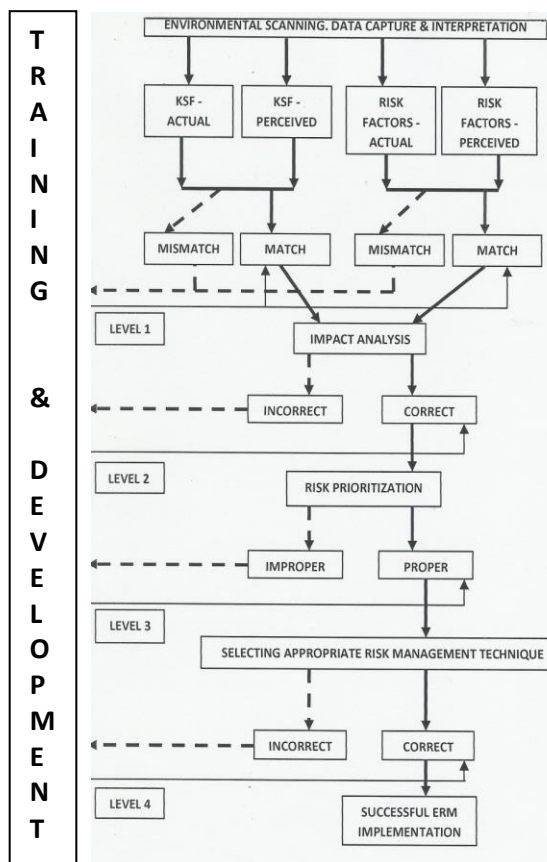
Level 4 : The final step is to train up the managers to adopt proper risk management strategies for the prioritized potential risk factors. They should be trained to decide:

- which of the risks are to be avoided;
- which ones to be controlled;
- which ones to be shifted through insurance etc. and
- which ones to be absorbed.

The matrix as shown in Figure 1 above can be taken to be a generic guide to the entrepreneurs in the matter (Osborne 2012)⁷.

The managers should be also be trained to draw up a risk management plan which would guide them to take pre-decided actions to be taken on the happening of an adverse eventuality. The quicker they take an appropriate measure, the more chance they have to survive such adversity in business situations.

The schematic diagram for the four-level pro-active decision-based ERM implementation process for the MSME units in India is given in Figure 2 below.



However the real challenge is to inculcate the mentality among the managers of the food and beverages units in Bangladesh to consider ERM as a responsibility and not as an ad hoc exercise.

Risks for the food and beverages units arise from two sources i.e. from the external environment and the internal environment. The food and beverages units might not be in a position to scan and monitor the external environment, capture the relevant information and correctly interpret them. It is here that a central agency can come to their assistance. Some risks arising out of the external environment are generic while some are specific. The specific ones can be region-specific or industry specific. Thus such an agency may operate in a three-tier mode. At the bottom level there will be district level institutions which will be under a division-level authority. The division-level authorities will be governed by a central / national authority.

Such a central agency should perform the following activities.

- Continuous monitoring of the external environments and maintaining a updated database for actual and potential risk factors, both generic and specific;
- Continuous interaction with the food and beverages units regarding such risk factors, the preventive measures for them, any change in the environments and proper guidance in the matter;
- Proper training to the managers of the food and beverages units to enable them to take pro-active preventive decisions regarding the risk factors, specially the internal ones.

Such an agency should educate the managers of the food and beverages industry in such a way so that they consider ERM as a business philosophy rather than a mere process.

Conclusion: Food and beverages industry has a prominent presence in the national economy of Bangladesh and has significant potential to contribute to the economic development of the nation. Apart from contribution to GDP, employment generation and export earning, food and beverages units can mitigate income inequality and regional imbalances in industrialization. In order to be better equipped to counter the risk factors and stand a better chance of surviving an adverse situation, food and beverages units need ERM to be tied inseparably with their business strategies. ERM should thus be a strategic tool in the hands of the managers of the food and beverages units in Bangladesh to gain competitive advantage which is essential for survival and progress in the present hyper-competitive and highly dynamic business scenario and thus for adding value for its stakeholders.

Thus there is future scope of carrying out empirical research for assessing the indispensability of ERM as a tool in the hands of the managers of food and beverages units in Bangladesh for sustainable development of such units.

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