

[N.B. - The figures in the margin indicate full marks. Questions must be answered in English. Examiner will take account of the quality of language and of the manner in which the answers are presented. Different parts, if any, of the same question must be answered in one place in order of sequence.]

Marks

1. In 2013, two childhood friends- Nabil Samad, a Paris University graduate, and Abrar Chowdhury, a Dhaka University graduate, having a common interest in Bangladeshi history and culture, founded a tourism company in Bangladesh- Voyage Limited. The business model is to organize excursions for tourists from Europe to Bangladesh. The company has dedicated tour attendants who lead tour groups across Bangladesh. The excursions are expensive, but the purpose is to provide all customers with high-quality luxury holidays. Voyage attracts customers by taking commission-based services from tour booking companies in Europe.

The tourism industry of Bangladesh

The tourism business of Bangladesh has grown significantly in recent years. With the natural beauty of the Sundarbans, Cox's Bazar Sea Beach and peak districts, the tourism industry of Bangladesh has enormous potential. Even though there have been significant ups and downs, the sector had been steadily growing until the Covid-19 pandemic struck. It contributed 4.4% to the national GDP in 2019 and now employs nearly 1.7 million people. However, 97% of the contributors are local, suggesting that Bangladesh is not an attractive destination for foreigners.

The tourism industry of Bangladesh is underdeveloped compared with the tourism industry of its neighbouring countries, e.g. Sri Lanka, Nepal, and India. With many small companies operating hotels, travel services, and catering, the industry is highly fragmented. Despite having a moderate level of natural resources and local demand, the industry has been unsuccessful to attract foreign tourists. Analysts suggest that not having a strong support industry, structure and strategy within the industry and the non-favourable climate, shortage of skills, insufficient branding of the country, safety risk of foreign tourists, and poor transportations and information system have resulted in the underperformance.

However, the government has initiated a tourism master plan. It has been supporting the industry by funding infrastructure projects and other initiatives. Moreover, the current Europe and North America-dominated tourism is expected to change. According to the World Economic Forum, a paradigm shift is imminent, and the industry growth will be coming from Asia and the Middle East.

The company and its operation

The voyage has been successful from the beginning because Nabil and Abrar are talented and ambitious individuals. They have extensive knowledge about Bangladesh and its tourist attractions and the ability to communicate effectively with their foreign clientele. Initially, they worked as tour guides. However, later the company recruited a small number of tour guides who studied in Europe and are interested in the history and culture of Bangladesh.

The company has a code of conduct for its employees regarding personal security, criminality, and service quality. Despite this, there have been instances when service standards were subpar. A tour guide leading a group of 30 people has just submitted a report about the members being robbed on the street, and the police have so far been unsuccessful in apprehending the culprit. There have also been reports of tour guides being unavailable in need, starting daily excursions late, mishandling luggage and suitcases, failing to respond to consumer pleas for assistance or neglecting to do something for their group. The directors are concerned by these reports and think that the tour guides are not following the code of conduct, which puts customer care and ethical business practice at the forefront. The company's marketing boasts that customers receive five-star service and complete protection during their holiday. Nabil wonders whether the company is being entirely ethical and whether tour guides are sufficiently competent.

The company operates from its office in Dhaka. By 2019, the company was arranging over a hundred yearly tours. It also started themed tours to the Fakir Lalol festival in Kushtia and Hazrat Shahjalal' Dargah Sharif in Sylhet. Despite losses initially, the revenue growth was satisfactory, which reached BDT 180 million in 2019. The Covid-19 pandemic, however, shattered the streak, causing the company to make losses in 2020 and 2021 and reducing the retained earnings to BDT 76 million in 2021. To ensure the liquidity position of the company, Nabil and Abrar have not taken any dividends since its incorporation.

Nonetheless, the business is still at its early stage of development, and the directors understand that it lacks unique features that may protect it from competitors delivering more successful product differentiation in the high-end market. As a result, the company must innovate and ensure quality and efficiency to compete. Until now, the directors have not made any formal budget. However, they believe the organization is approaching a point when more formality in target setting and performance monitoring is necessary.

Growth strategies

The directors want the company to grow and lead the development of the tourism industry in Bangladesh. Accordingly, they have considered several strategic options, including increasing the number of tours, developing new bespoke high-end luxury tours, seeking strategy tie-ups with other businesses such as hotels and merging with other tour companies.

Abrar contemplates the growth estimation of the Bangladesh tourism industry over the next few years is too optimistic. He is not convinced that South Asia, and Bangladesh in particular, is necessarily in a position to compete for tourists with other regions of the world. He reflects that the prospect is limited, although decent. Therefore, suggested exploring opportunities to expand the business into other parts of the Asian continent. He has also advised that since Voyage has positioned itself in the high-end market, it should consider moving into the conferencing business, for example, managing international business conferences in Dhaka. However, Nabil responded that the strategies should be suitable, feasible and acceptable. He is optimistic about tourism in Bangladesh and believes the concentration should be Bangladesh and tourism centric.

Governance

Nabil and Abrar are the only directors of the company, each owning 50% of the shares. Although there is no legal requirement to hire non-executive directors for the company, Nabil believes that having a more diverse board will help formulate better strategies. He has considered two individuals- one is a Cox's Bazar-based politician with strong influence, and the other is an owner of a big hotel chain in Bangladesh who has vast knowledge about the tourism industry of Bangladesh. Abrar disagrees and suggests if there is an advantage to raising the board size, then an executive director should be picked from the current employees, demonstrating the commitment of Voyage to the employees.

The directors are reluctant to delegate authority to the employees. Each tour has a budget, and the head office manages most of the expenditures, while a small amount is allocated to the tour guides for discretionary spending. The tour guides initially address customers' problems. However, if there is something beyond their control, they report them to the head office. However, the directors are eager to encourage employees in decision-making. They meet with senior employees quarterly to address challenges and discuss future actions.

Requirements:

- a) Discuss, using Porter's diamond, the view that the tourism industry in Bangladesh is underdeveloped compared with other countries, and outline the key competitive advantage of Voyage in the industry. 8
- b) Examine the two proposals about expanding Voyage outside Bangladesh and into conferencing business, from the standpoint that strategy should be suitable, feasible and acceptable. 4
- c) Identify the governance issues and recommend any modification to the governance of the company. 5
- d) Examine whether the company is operating ethically. 3

2. a) Xora Engineering Limited is one of the fastest-growing engineering, procurement and construction companies in Bangladesh. It began its operations in 1999 by importing and trading generators and accessories. Later, it expanded into the substation, panel production and after-sale maintenance services. With its state-of-the-art research and development facilities, the company has pushed the frontiers of technical excellence to bring high-quality goods and services to the local market. The board of directors has engaged Zilux Consulting Limited to assist in evaluating different strategic options and advising on decisions. The following exhibits provide relevant information.

Exhibit 1: Extract from the transcript of the directors' meeting regarding the evaluation of strategic options	
Chief Executive Officer	Thanks for joining. Developed on the previous meetings, we have now two expansion options; manufacturing solar panels and working in the government sector.
Production Director	The expansion into the manufacturing of solar panels will be a timely and prudent decision. We will be able to achieve a new market share and increase the sale of related products and services. I would be ecstatic about us developing expertise relating to solar panels, while the innovation aspect of work in the government sector may be limited. The public sector work is high profile; hence the risk of losing reputation is significant. Moreover, the government may use some rigorous indicators. Therefore, meeting the expectations of different stakeholders may make the engagement complex.
Service Director	Pursuing government contracts is a form of market development. Because the contracts gained before had been one-off, obtaining contracts in a systematic manner would be a cohesive strategy. Many opportunities will become available soon in the government sector. Becoming successful at fulfilling small contracts will place us for large contracts well. Contrarily, the operational risk in the solar energy project is high for us. Without any guaranteed success, we need to modify our existing operation significantly.
Finance Director	Well, we have a healthy financial position. Our strong liquidity position and the low debt-to-equity ratio will help us finance capital investments. My team has determined a 21% IRR from the solar panel project. The payback period looks to be seven years, three years less than our target. Although government projects have a lower profit margin than commercial ones, they are less risky. These contracts will guarantee a cash stream for several years. Currently, our weighted average cost of capital is 9%. Since we are a highly import-dependent company, the ongoing depreciation of BDT against the USD, due to Ukraine war, is a serious concern for us. To reduce the risk, the most suitable method appears to be entering into derivative contracts, particularly the forward exchange contract. I have already contacted a few banks, and the credit charge and operation costs seem to be .3% of the contract value.
Marketing Director	I am not sure why should we have to give money to the banks when we are not taking any loans from them? I don't understand the forward contract thing!
Sustainability Director	The non-government organizations have always raised their concern about our business for failing to promote sustainability, particularly the environmental aspects. We should concentrate on sustainability.

Exhibit 2: Extract from a recently published article:
Owing to the favorable geographical location, Bangladesh captures a good amount of solar radiation per day. The proper utilization of this solar energy may reduce the country's energy demand to a great extent. Bangladesh government has already made a master plan to utilize the abundant solar energy in different ways with a capacity development target of 800 MW by the end of 2025. Until 2018 a total capacity of 220 MW of solar power could be achieved by installing 6.9 million solar home systems (SHSs). On the other way, rooftop solar and solar mini-grid projects facilitated the capacity of 3.07 MW and 5 MW, respectively. A capacity of 32 MW could also be touched by solar irrigation projects with more than 1300 pumps for serving country's rural people, and solar-diesel hybrid solution program (by installing 138 small power stations) has been supporting the telecom operators. Bangladesh Power Development Board (BPDB), and Infrastructure Development Company Limited (IDCOL) have been promoting numerous research-development solar projects to many governments and private universities to build sustainable energy equipped country.

On 31 December 2021, the company has a US dollar-dominated liability of BDT 470 million.

Exhibit 3: Historical and forecasted exchange rate	
Date	Exchange rate (USD to BDT)
31 December 2021	85.60
31 March 2022	86.20
30 June 2022	99.45
31 August 2022	94.25
31 December 2022	95.50

Requirements: You are the leader of the Zilux team. Draft a report to the board that addresses the following issues:

- i) Evaluate the strategic options identified by Xora, and provide appropriate recommendations. 10
 - ii) Demonstrate how a currency forward contract could reduce the foreign exchange risk of Xora. 6
 - iii) Advise why sustainability in business is important and how could Xora improve sustainability through the proposed expansions. 4
- b) “In the ‘maturity stage’ of Product life cycle the market becomes saturated, price competition intensifies, and the rate of sales growth slows down’. Suggest strategic choices in such a stage of the Company.” 6
- c) Discuss the buying process and its stages. 6
3. Sky Fashion Limited is a Dhaka-based fashion clothing retailer for women. The company sources its products from domestic manufacturers. A small in-house design team provides product specifications to the manufacturers who remain responsible for ensuring quality. Since its incorporation in 1998 by Mr Montasir Kabir, the company had been operating with only one large showroom (Sky-Dhaka megamall) in Dhaka and had been profitable. However, when the company opened three more malls in Chattogram (Sky- Chattogram), Sylhet (Sky-Sylhet) and Barisal (Sky-Barisal), the profit margin began to decline. “The expansion is the right decision, but managing a large operation seems exhausting”- Montasir Kabir.

Montasir Kabir owns 60% shares of the company, and serves as the Chief Executive Officer. In his early years, he served in Bangladesh Military. His wife (Mrs Rushna Kabir), a pharmacist by education, holds 30% shares and works as head of finance. The rest 10% is owned by Montasir's daughter (Miss Rehana Kabir), who was brought up in the USA and studied Medicine. Although she wanted to settle there, respecting her father’s wish, she is heading the design team.

Because of the recent decline in performance, one of Montasir’s friends advised him to appoint a consultant to assist him in developing the company. Accordingly, your firm (PLTZ Consultants) has been appointed as the consultants. Your subordinates have conducted several interviews. Transcripts of some of the interviews are below.

Finance manager- Montasir Kabir is a tireless individual, although much of his job appears to be irrelevant and overburdening. He makes every decision with ease. However, he sometimes forgets the decisions he made and still ignores any input from the team. Rushna Kabir is a great human being with a kind heart. However, she does not understand the finance functions well. I am a qualified accountant but sometimes find myself under-occupied. Mrs Rushna regularly bypasses me to obtain information from my subordinates, resulting in poor decision-making.

Operations Manager- I am swamped with increasing operational activities. Therefore, I proposed to the CEO for promoting someone from each outlet as a manager and delegate decision-making authority to them, but he appeared hesitant. Decentralized decision-making would increase employee motivation and help cut costs, such as inventory holding costs. Moreover, the newly imposed sales target, which holds all employees at the outlets equally accountable, appears to be demotivating for them. The target is unrealistic; even the CEO knows it. “Everyone, including the cleaner, should be aware of his responsibilities. They are not being paid for using social media during office times”- the CEO replied to me.

Design manager- She (Miss Rehana Kabir) has a good fashion sense. However, because she was brought up in the USA, she does not seem to understand the culture of Bangladesh. For example, during last eid, despite my request not to, she ordered 50,000 plaid shirts, resulting in 78% of them stuck in stock.

Requirements:

- a) Suggest a suitable organizational structure for Sky Fashion and state the advantages of that structure. 4
 - b) Discuss the management style of Mr Montasir Kabir and the effect of his style. 4
 - c) Identify the ethical issues, if any, in the operation of Sky Fashion and recommend appropriate actions. 4
4. a) Showdesh Limited is a specialist fishing company but lacks logistics. It has just discovered a suitable frozen products logistics company. The board is considering acquiring the logistics firm, but the asking price appears excessive. Define Synergy and suggest how could an acquisition synergy can compensate for the premium. 4
- b) The BCG (Growth-Share) Matrix is old but has stood the test of time. How significant and practicably usable is it today, in the light of vast developments in management tools that help assess market conditions? 4
- c) How successful is franchising as a means of corporate growth? 4
5. Dream Night Co operates a chain of 30 hotels across Chattogram belt. It prides itself on the comfort of the rooms in its hotels and the quality of service it offers to guests. Dream Night Co's most of the hotels are located in major tourist spots in Chattogram and Chittagong Hill Tracts and have previously been successful in attracting tourist customers. In recent years, however, the number of tourist customers has started to decline as a result of tough economic conditions in the country. Dream Night Co's policy is to set standard prices for the rooms in each of its hotels, based on the hotel's location and also taking account of competitors' prices. However, hotel managers have the authority to offer discounts to regular customers, and to reduce prices when occupancy rates in their hotel are expected to be low. The average standard price per night, across all the hotels, was BDT 11,900 in 2021, compared to BDT 11,475 in 2020. In addition to room bookings, the hotels also generate revenue from the additional services available to customers, such as restaurants and bars.

Summary from Dream Night Co's management accounts:

	Year ended 30 June 2021 BDT Mn	Year ended 30 June 2020 BDT Mn
Revenue – rooms at standard price per night	9,511	8,923
Room discounts or rate reductions given	(1,427)	(981)
Other revenue: food, drink etc.	<u>2,063</u>	<u>1,971</u>
Total revenue	10,147	9,913
Operating costs	<u>(8,114)</u>	<u>(7,852)</u>
Operating profit	<u>2,033</u>	<u>2,061</u>

Other performance information:

	Year ended <u>30 June 2021</u> BDT 3,357m	Year ended <u>30 June 2020</u> BDT 3,323m
Capital employed (Note 1)		
Average occupancy rates (Note 2)	74%	72%
Average customer satisfaction score (Note 3)	4.2	4.5

Note 1: Capital employed is calculated using the depreciated cost of non-current assets at all Dream Night Co's hotels.

Note 2: Occupancy rates for the year ended 30 June 2021 were budgeted to be 72%.

Note 3: Customer satisfaction scores are graded on a scale of 1–5 where '5' represents 'Excellent'. On average, in any given spots in Chattogram, the top 10% of hotels earn a score of 4.5 or above and the top 25% of hotels earn a score of 4.2 or above.

Two themes are becoming increasingly frequent in the comments Dream Night Co's customers make alongside the scores:

- (1) Repeat customers have said that the standard of service in recent visits has not been as good as in previous visits.
- (2) The rooms need redecorating, and the fixtures and fittings need replacing. For example, the beds need new mattresses to improve the level of comfort they provide.

Dreamt Night Co had planned a two-year refurbishment programme beginning in 2021 of all the rooms in each hotel. However, this programme has been put on hold, due to the current economic conditions, and in order to reduce expenditure.

Requirement:

Using the information provided, discuss Dream Night Co's financial and non-financial performances for the year ended 30 June 2021.

15

6. Phoenix Builders Limited is one of the pioneers of the real estate sector in Bangladesh. Having designed, built, and delivered residential and commercial addresses for almost four decades, the company is a well-known and highly reputed real estate company in Bangladesh. The company has completed and handed over more than 350 projects across Dhaka and Chattogram.

Because of the recent tight economic conditions, the working capital of Phoenix has dwindled. To overcome the situation, it is considering, among other measures, converting the overdrafts into long-term loans and instituting share-based payment for employees. However, the board of directors are hesitant about the implications of these modifications. The company currently has 60 million issued shares, each with a face value of BDT 10. Cash flows from operations for 2021 and 2020 was negative by BDT 240 million and 180 million, respectively.

Moreover, the Chief Financial Officer has suggested that the large site-based permanent employees be converted to contract workers to reduce various expenditures such as bonuses. Although the firm has never practiced such a policy and has never discussed such prospective modifications, the associated workers are concerned since their contracts have a modification clause at the employer's discretion.

Exhibit 1: Extract from the balance sheet

Particulars	2021 (BDT in million)	2020 (BDT in million)
Total non-current assets	1,880	1,920
Current assets	1,584	1,851
Cash and cash equivalents	612	798
Other current assets	972	1,053
Total assets	3,464	3,771
Total equity	1,420	1,641
Non-current liabilities	824	894
Bank loan	104	122
Other non-current liabilities	720	772
Current liabilities	1,220	1,236
Bank overdraft	804	709
Other current liabilities	416	527
Total liabilities and equities	3,464	3,771
Net asset value per share	23.67	27.35

Exhibit 2: Extract from the profit or loss statement

Particulars	2021 (BDT in million)	2020 (BDT in million)
Profit from operations	714	905
Interest expense	64	72
Profit before tax	650	833

Requirements:

- a) Discuss the issues associated with the proposals to consider conversion of the short-term borrowings into long-term loans and introduce share-based payment in the employee benefits packages. 5
- b) Identify the ethical issues relevant to the proposals and suggest modifications, if any. 4

---The End---