STRATEGIC BUSINESS MANAGEMENT AND LEADERSHIP

Time allowed- 3:30 hours **March-April 2025**
Total marks- 100

[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. Hyper Wanda (HW) is an UAE retail giant with a presence in many Middle Eastern countries, and it is now looking to expand into Bangladesh. The company is currently active in several ME countries and offers a diverse range of consumer products such as apparel, electronics, footwear, and health and beauty supplements. HW think that Bangladesh's close ties with Arab countries along with different bilateral and multilateral arrangement with those countries can give advantage to UAE company in Bangladesh. Yousuf Ali, the CEO of HW., while talking to the UAE media about the strategic expansion project amid the ongoing Bangladesh economic crisis and political uncertainty. He told the media, "The current crisis has opened opportunities for us to try new ideas which was not possible under normal circumstances. Large number of Bangladeshi citizens are already exposed to HW, and they will become our ambassadors. Moreover, we are aware of the risks associated with the legal, economic or cultural issues." This coincides with Bangladesh current interim government's effort to invite foreign investors in Bangladesh allowing the economy to expand with creating job opportunities in Bangladesh. The interest expressed by HW is a perfect match under the current situation.

   HW on the other hand is considering various approaches to effectively reach Bangladeshi consumers. In other markets it has successfully used various B2C e-commerce models. Bangladesh being a growing market in the backdrop of the new expectation with a growing middle class and rising internet penetration. According to a research study conducted there were 131million internet users in Bangladesh as of December 2023.

   You are a strategic consultant for HW.

   Requirements:

   a) Analyze the various categories of risk/challenges associated with this proposed expansion into the Bangladesh market. 5

   b) Discuss any four (04) types of B2C e-commerce models with their suitability for using in the Bangladesh market and advise on the most suitable model/s for HW. 8

   c) Explain why the decision of expanding business into another country should be considered as a strategic decision. 3

2. a) The Volkswagen Emissions scandal was a critical study in corporate governance area.

   A Detailed Analysis

   In 2015, Volkswagen (VW) became embroiled in a significant scandal known as "Dieselgate," which revealed the company's use of illicit software to manipulate emissions tests on its diesel vehicles. This software, designed to deceive emissions testing protocols, allowed VW to present its diesel cars as more environmentally friendly than they were. The scandal had profound consequences, including extensive vehicle recalls, substantial financial penalties, and significant damage to the company's reputation.

   Discovery and Mechanism

   The deception came to light through research conducted by West Virginia University and the International Council on Clean Transportation (ICCT). Their findings demonstrated that VW's diesel vehicles emitted nitrogen oxides (NOx) far exceeding U.S. regulatory limits. The California Air Resources Board (CARB) and the U.S. Environmental Protection Agency (EPA) subsequently discovered that VW had installed "defeat devices" in its vehicles. These devices were engineered to detect when the cars were undergoing emissions tests and temporarily reduce emissions during testing, only to revert to higher levels during regular driving conditions.

   Motivations and Consequences

   The primary motivation behind the fraud was to gain a competitive advantage in the highly competitive automotive market. By falsely portraying its diesel vehicles as environmentally friendly and meeting stringent emissions standards, VW was able to attract customers and enhance market share. However, the scandal led to extensive repercussions, including:

- Global Recalls: Millions of vehicles were recalled worldwide.
- Financial Penalties: VW faced multi-billion-dollar fines and settlements.
- Reputational Damage: The scandal severely harmed VW's brand and market position.

Leadership and Accountability

Martin Winterkorn, Volkswagen's CEO at the time, was implicated in the scandal. Although Winterkorn announced his resignation shortly after the scandal became public and faced legal charges, including accusations of fraud and violations of environmental regulations, he denied personal involvement in the fraudulent activities. The scandal led to significant changes in Volkswagen's corporate governance and management, including legal actions against several executives involved in the fraud.

Reforms and Long-Term Impact

In response to the scandal, Volkswagen undertook several corrective measures, including:

1. Customer Compensation: VW paid compensation to affected customers.
2. Vehicle Fixes: The company recalled and repaired the impacted vehicles.
3. Investment in Green Technology: VW invested in electric and hybrid vehicles to transition towards greener technology.

Requirements:

i) What are the lessons learned from the case from the point of sound corporate governance? 5

ii) What are the after effects of the scandal? 2

b) A global trade war arises when countries impose tariffs or other trade barriers on each other, often in retaliation for perceived unfair trade practices. The imposition of tariffs leads to increased costs for businesses and consumers, disrupting global supply chains, increasing the price of imported goods, and reducing international trade volumes.

Countries involved in the trade war may face slower economic growth, higher inflation and job losses in industries reliant on international trade. However, certain sectors may benefit from tariffs if domestic production is substituted for imports. For businesses, the uncertainty created by trade wars can hinder long-term planning and investment decisions, as they must adjust to fluctuating tariffs and market access restrictions.

Ultimately, while tariffs may protect domestic industries in the short term, trade wars can harm global economic stability, leading to higher costs, decreased global cooperation, and potential retaliation, affecting global markets and economies.

Requirement:

What steps can businesses take to mitigate the risks associated with trade war discussing the effect on global supply chains, tariffs, and economic growth? 4

c) Corporate failures often link to significant corporate governance issues of the Company. Key weaknesses include domination by a single individual, where one senior executive, such as the CEO, controls the board and bypasses it for personal interests, or a small group making decisions based on personal recommendations rather than objective processes. Another issue is the lack of board involvement, with irregular meetings and insufficient oversight of company activities and risks, sometimes due to inadequate information or directors lacking the necessary skills. Additionally, a lack of supervision of employees can result in incompetence, negligence, or fraud, leading to major losses, even though the board’s responsibility lies in ensuring effective internal controls are in place.

Requirement:

What are the roles of non-executive directors and how may they contribute to the overall effectiveness of the corporate governance? 4

d) Artificial Intelligence (AI) refers to the simulation of human intelligence processes by machines, particularly computer systems. These processes include learning (the acquisition of information and rules for using it), reasoning (using rules to reach conclusions), problem-solving, perception (interpreting sensory data), and language understanding. AI can range from simple tasks like automating repetitive processes to more complex systems like machine learning, natural language processing, and deep learning.

Requirement:

How can AI be implemented responsibly and ethically to maximize its benefits while minimizing risks such as bias, job displacement, and privacy concerns in strategic business management? 4

3. a) A private equity firm (investor) has acquired "Tech solutions BD," (the Company) a technology services company, through a Leveraged Buyout (LBO) 5 years ago for BDT 500 million, with a debt-to-equity ratio of 80:20. Over the last five years, the Company has shown significant growth due to the strategic restructuring implemented by private equity firm, including cost optimization, expansion into new markets, and a strong customer acquisition strategy etc.

As the 5-year investment horizon nears its end, the investor is considering available exit strategies to maximize their returns.

Requirement:
Discuss the exit strategies available in LBO and suitability based on the given scenario. 3

b) ABC Ltd. in Bangladesh is importing raw materials from Supplier X in China, valued at BDT 5,000,000. They agree on a UPAS (Usance Payment Against Acceptance) Letter of Credit (LC), where ABC Ltd. will pay Supplier X, 60 days after shipment. The National Bank of Bangladesh (NBB) issues the LC, guaranteeing payment to Supplier X through ICBC (the advising bank in China). The transaction involves submitting documents such as a commercial invoice and bill of lading etc. ABC Ltd. accepts the time draft, committing to pay after 60 days, while Supplier X gets security from the bank's guarantee of payment.

The Company shall bear an interest expense of BDT 450,000 for the UPAS LC. The reporting teams have charged and shown interest expense amount under financing expense, but auditors are of the view that it should be capitalized with inventory amount as directly attributable cost, which upon consumption to be charged to Cost of Sales of the Company.

Requirement:
What are the benefits of UPAS LC in business? What is the appropriate accounting recognition of the interest expense paid on account of the above LC? 4

c) What is green financing? What role does third-party verification and independent audits play in green financing reporting to avoid ‘greenwashing’? 3

4. a) Kamal WholeSalers Ltd currently has income of TK30 million per year, of which 80% is from credit sales. It has a net profit margin of 10%. Due to fierce competition, Kamal WholeSalers Ltd has lost market share and is looking for ways to win back former customers and to keep the loyalty of existing customers. The sales director has pointed out that a major competitor of Kamal WholeSalers Ltd currently offers an early settlement discount of 0.5% for settlement within 30 days, while Kamal WholeSalers Ltd itself does not offer an early settlement discount. He suggests that if Kamal WholeSalers Ltd could match this early settlement discount, annual income from credit sales would increase by 20%.

Credit customers of Kamal WholeSalers Ltd take an average of 51 days to settle invoices. Approximately 0.5% of the company’s credit sales have historically become bad debts each year and written off as irrecoverable. The Finance Director has been advised that offering an early settlement discount of 0.5% for payment within 30 days would increase administration costs by TK35,000 per year, while 75% of credit customers would be likely to take the discount. The credit controller believes that bad debts would fall to 0.375% of credit sales if the early settlement discount were introduced.

Kamal WholeSalers Ltd has an average short-term cost of finance of 4% per year. Assume that there are 360 days in each year.

Requirements:

i) Evaluate whether Kamal WholeSalers Ltd should introduce the early settlement discount. You are required to exhibit the net profit increase, reductions in bad debts, receivables, financing cost and discount cost. 4

ii) Discuss two ways in which the company could reduce the risk associated with foreign accounts receivable. 4

iii) Discuss the reasons why investment finance may be limited, even when a company has attractive investment opportunities available to it. 4

b) The Chairman of Bangladesh Securities and Exchange Commission encouraged local companies to consider listing either through the alternative market or the main market accordingly. The directors of MBBS Limited, who are also shareholders of the company, are keen to explore this option of listing. MBBS Limited is a family owned business that is at the growth stage. The company has experienced rapid growth in recent years and as summarised below:

Year	Profit (Tk in million)	Investments (Tk in m)	Dividend Paid (Tk in million)
2019	60	-	30
2020	70	100	20
2021	100	-	50
2022	110	150	20
2023	160	-	80

In recent years, investment has been funded by cash generated by the business; however, the company now requires additional funds to finance significant expansion. The Directors have considered additional bank loans, but their preference is for an initial public offering (IPO), that is, an offer for sale of shares to the public. However, the Directors are concerned about the implications of an IPO on the company capital structure in the areas of dividend, financing and investment policy.

Requirements:

i) Advise on the potential risks with an IPO and what action can be taken to minimise such risks. 4

ii) Discuss the concerns of the Directors regarding the possible implications of becoming a listed company on dividend, financing and investment strategies and the interrelationship between them. 4

5. Mac Plc was incorporated thirty (30) years ago Luanshya, with a mission to manufacture high quality blocks for the Zambian market. The company has grown to profitability levels whereby its shares have become highly marketable. Its Board of Directors have come up with a number of remuneration schemes aimed at improving goal congruency between the company's corporate goals and the personal goals of its directors.

In preparing financial statements for the year ended 31 December 2025, directors are seeking advice on how the following transactions must be treated:

Case 1: Share options arrangement

On 1 October 2024, Mac granted each of its four Directors options on 600,000 Mac Plc equity shares exercisable at a price of K4.5 per share on 30 June 2028. The rights under the options will only vest with the directors after they remain in service with Mac over a three (3) year performance period commencing 1 January 2025. Mac Plc had initially expected three (3) Directors to leave before end of the performance period. However, as at 31 December 2025, though one director left during the year to 31 December 2025, the company does not expect any further departures over the next two (2) years.

Case 2: Share Appreciation Rights (SARs) arrangement

Mac Plc entered an agreement with its senior managers under which it agreed to reward them with a cash bonus based on an increase in the price of its equity shares, Share Appreciation Rights (SARs). Under the arrangement, entered into on 1 October 2024, Mac has promised to pay each of its Six (6) senior managers a cash bonus equal to the increase in the market price of 200,000 Mac Plc equity shares over a period of at least three (3) years beginning 1 January 2025.

The Senior Managers must remain in service with Mac Plc throughout the three year period up to 31 December 2027 for them to qualify for the bonus. However, Managers can exercise the rights at any time after the three (3) years' performance period but not later than 31 December 2028. The bonus for each manager will be computed as 'increase in the fair value of each share between 1January 2025 and the exercise date multiplied by 200,000 shares'. At the time the arrangement was being entered, Mac Plc had expected that all the six (6) Managers would qualify for the bonus. However, although none of the Managers left employment with Mac during the year to 31 December 2025, the company expects that two (2) Managers will leave the company over the next two (2) years. Costs relating to employee remuneration are generally tax deductible in the period when they fall due for payment to employees.

Additional information (for both transactions)

1. Mac Plc is liable to income tax on its profits at a tax rate of 40%.
2. The fair value of each Mac Plc's equity share has been as follows:

Date	Fair value per share (TK)
1 October 2024	4.5
1 January 2025	4.6
31 December 2025	5.1

3. The fair value of each option on Mac's equity shares has been as follows:

Date	Fair value per option (TK)
1 October 2024	0.5
1 January 2025	0.7
31 December 2025	0.8

Requirements:

Mac plc is seeking advice on, in accordance with IFRS 2 framework:

a) How to account for the share options arrangement including the deferred tax implications of the arrangement in its financial statements for the year to 31 December 2025. 8

b) How to account for the SARs arrangement including the deferred tax implications of the arrangement in its financial statements for the year to 31 December 2025. 7

6. a) Nurke Chartered Accountants is appointed for statutory audit of Multiple Limited, a real estate development company. During the audit, the engagement team discovers suspicious transactions, including high-value property deals and unverified offshore accounts, which are indicative of money laundering. The engagement team is aware that anti-money laundering regulations may require them to report such suspicious transactions, but they also have an obligation to maintain client confidentiality.

Later, it appears to the engagement team that senior management may have been involved in these suspicious transactions, but the board remains unaware. The audit manager, a chartered accountant, approached ICAB directly for discussing these suspicious transactions of the client.

Requirements:

i) Evaluate whether it was appropriate for the audit manager to directly communicate with ICAB regarding their suspicions. 2

ii) In the above situation, if auditors believe that certain persons or groups are involved in suspected non-compliance, what is the communication hierarchy to be followed as per ISA 250? Is communicating the matters to regulatory authorities permissible under the confidentiality principle? 4

iii) What is the reporting hierarchy of suspecting significant non-compliance as per FRC Act 2015? 2

b) What is misappropriation of assets as per ISA 240? What are the various ways in which misappropriation can be committed in a company? 2

7. The Engineers Ltd is a Bangladeshi civil engineering firm that has been in business for over 50 years and has grown to have over 2,500 employees. It has developed considerable experience, particularly in the areas of major road construction and airport runway and terminal construction. While the firm always had some international activities, since 2018 it has aggressively expanded internationally. The international focus has primarily been on neighboring countries like Nepal, Bhutan and Sri Lanka, in 2020, over 90% of Engineers Ltd.'s revenues derived from its international operations.

In the past number of years, rumors have circulated about the possibility that Engineers Ltd may have used 'facilitation payments' to win contracts and influence government officials and union representatives in these countries. These rumors culminated in a business magazine investigation and 'exposé' last year. there has been no criminal investigation, either in Bangladesh or in the countries where the payments were allegedly made.

Engineers Ltd completely denies any wrongdoing, stating that there was no evidence of such payments and that the firm won contracts based only on their contract tender and reputation. Despite this, the share price of Engineers has fallen by 20% in the past year, although the firm posted good financial results. While there was no suggestion of the then CEO being involved directly, he resigned "in the interests of the reputation of the company". In fact, privately, the Chairman of Engineers Ltd is surprised at the share price fall. He has commented in board meetings that people need to be realistic and that these types of payments are "merely the cost of doing business in some countries". The comments were not minuted, and after a lengthy search process, Kamal Ahmed has been appointed as the new CEO of The Engineers Ltd. Kamal is originally from Sri Lanka but has worked for several large international civil engineering firms. Immediately prior to his appointment, he was employed by a major Turkish civil engineering firm, Build Turk, which enjoys an excellent reputation generally, including for its ethical practices. Kamal recognizes that this was probably a factor in his obtaining the position as CEO of Engineers Ltd. The Engineers Ltd has a written ethical policy that explicitly prohibits the use of bribes to obtain new business or facilitate ongoing operations. however, there has been no attempt to build an ethical framework and culture within the organization to ensure the day-to-day implementation of its ethical policy.

Requirement:

Prepare a report for Kamal Ahmed that advises him on how to develop an effective ethical framework and culture within Engineers Ltd. 10

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