

STRATEGIC BUSINESS MANAGEMENT AND LEADERSHIP

Time allowed- 3:30 hours
Total marks- 100

Nov-Dec 2024

[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. a) Syndicates are associations of traders, group of individuals or organizations who work together to set prices and control supplies of goods throughout the country and manipulate a specific market, system, or service to achieve mutual gains, frequently at the expense of customers and public interest.

In Bangladesh, syndicates have been a significant concern across various sectors of the economy, including commodities, transport, and construction sectors. Syndicated activities have wide-ranging implications on the economy, government policy, and public trust in institutions.

Syndicates have increasingly dominated Bangladesh's food commodity market, controlling the flow of essential goods such as rice, sugar, edible oil, and more recently, broiler chicken and eggs. Engaging in unethical practices like price-fixing, hoarding, and creating artificial shortages, syndicates manipulate markets to take their own advantages. According to the Bangladesh Competition Commission, over 1,500 syndicates operate across various sectors, including food commodities, resulting in stifling competition, hindering innovation, and inflating prices through coordinated control of supply and demand.

The lack of effective regulatory oversight has allowed powerful market players to exploit the system to boost profits. Syndicates also rely on unethical officials to secure necessary licenses and permits for their operations. Despite being a key priority in country's manifesto for decades, the promise to make essential commodities available at transparent prices have not been realised. Recently, the prices of staple goods have risen significantly, placing many such items beyond the reach of certain income groups.

Whilst there was a minor decrease in prices of food grains in December 2023, according to the latest report from the Bangladesh Bureau of Statistics (BSS), overall food inflation stood at 9.58% in December 2023, falling from 10.76% in November and its peak of 12.56% in October 2024, marking the highest inflation rate in over a decade.

To break the cycle of syndicate control, comprehensive reforms in both legal and institutional frameworks are necessary, alongside greater transparency and public accountability. Through coordinated efforts between the government, law enforcement, and civil society, it may be possible to mitigate the harmful effects of syndicates and create a more equitable economic environment in Bangladesh.

Recently an initiative taken by 'Youth Against Syndicate (YAS)' has gained significant popularity across the country. It focuses on sourcing daily consumer products directly from farmers and selling them to end consumers at much lower prices, bypassing the middlemen and syndicates that typically control the supply chains. This model not only helps farmers secure fair prices for their produce but also allows consumers to purchase goods at a more affordable price. The movement is rapidly spreading throughout Bangladesh, with social youth groups and community-driven organisations increasingly embracing it to combat price manipulation and promote transparency in the marketplace.

Requirements:

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| i) Briefly describe the challenges farmers in Bangladesh face in production and selling of their produces. | 3 |
| ii) What initiatives can the Government take to alleviate impact of syndicates? | 3 |
| iii) Is initiative taken by "Youth Against Syndicate" mentioned above a sustainable solution? Suggest one sustainable solution to reduce syndicate problem. | 4 |

- b) The global packaging industry, traditionally dominated by plastic and non-recyclable materials, has faced increasing pressure from consumers, governments, and environmental organisations to shift towards sustainable alternatives. Despite growing demand for eco-friendly packaging, many businesses are still relying on conventional packaging solutions due to being low cost, but mass awareness to avoid plastic products creates an opportunity to innovate in this space.

An innovative start-up, EcoPack Solutions, is planning to focus on providing eco-friendly, biodegradable, and cost-effective packaging solutions to businesses in industries such as food, cosmetics, and e-commerce. By focusing on sustainability, simplicity, and scalability, the entity aims to tap into an underserved market where few competitors currently offer comprehensive, affordable, and environmentally friendly solutions.

Business strategy and analysis:

Value innovation:

The entity wishes to create a unique value proposition by offering 100% biodegradable, compostable packaging made from natural materials such as plant fibres, seaweed, or mushroom-based packaging. These products will not only address the environmental concerns of plastic waste but will also be competitively priced to attract a wide range of businesses, from small start-ups to large corporations.

Differentiation through technology:

The entity plans to utilise advanced material science to create packaging that is not only environmentally friendly but also durable, lightweight, and cost-effective. Through partnerships with research institutions and eco-material developers, the entity will ensure that its products meet the highest sustainability standards.

New market creation:

By focusing on small and medium-sized enterprises (SMEs), particularly those in the food and beauty sectors, the entity will create a new market for eco-friendly packaging that will be affordable, customizable, environment friendly and lastly aligning with the values of eco-conscious consumers.

Cost leadership:

The entity will focus on keeping production costs low by leveraging economies of scale, reducing material waste, and establishing strategic partnerships with local farmers and suppliers. By offering competitive pricing for sustainable packaging, it will appeal to businesses seeking to "go green" and provide a cost-effective alternative to traditional packaging suppliers.

Market Strategy:

Target audience:

The entity will target businesses in the food cosmetics and e-commerce industries, particularly those that have a strong environmental or social responsibility agenda.

Customer value proposition:

It will offer sustainable packaging solutions that help businesses reduce their carbon footprint and appeal to the growing segment of eco-conscious consumers.

Marketing channels:

It will utilize digital marketing, direct outreach, and partnerships with sustainability-driven organizations to build brand awareness. It will also showcase its products at sustainability expos, green business conferences, and online marketplaces catering to eco-friendly products.

Outcome and strategic benefits:

By applying the Blue Ocean Strategy, the entity will enter a largely untapped market space, differentiate itself through innovation, and create a new category of packaging that aligns with global sustainability goals. It can establish itself as a market leader in eco-friendly packaging while, achieving strong growth with minimal direct competition.

The current government has recently taken steps to eliminate and ban single-use plastics by 2030, which further validates the business model of the entity.

Requirements:

- i) Define blue ocean strategy. How does EcoPack Solutions differentiate itself in the packaging market by adopting the blue ocean strategy? 4
- ii) Is it effective for a business to adopt a differentiation and a cost-effective model simultaneously? Briefly discuss. 4

2. a) Structural Engineering Ltd (SEL) is a medium sized firm, employing 250 staff in Bangladesh. It was founded in 1948 by Tofazzal Ahmed, and the current Managing Director is his grandson, Aminul Islam. There are several other family members employed in the business. The firm is one of the largest private sector employers in Bangladesh. SEL opened a foreign branch in Ireland and it has been doing business successfully in European Countries.

Originally Structural Engineering Ltd manufactured submersible pumps, but now it has three main businesses:

- (1) the manufacture of submersible pumps
- (2) pump maintenance and repair contracts for a growing range of Irish clients, and
- (3) a consultancy service for the design and development of manufacturing processes that utilise pumps.

The pump maintenance and consultancy businesses are marketed in Ireland only, but the submersible pumps are sold around Europe, particularly in France, Germany and the UK. Structural Engineering Ltd differentiates its pump manufacturing business from competitors based on design and manufacturing excellence, technical specifications, and the speed and flexibility with which the firm responds to customers.

Ten years ago, the firm got into financial difficulty. The Structural Family obtained outside investment to ensure the firm's survival, and although still an ostensibly family run firm, the group of investors who rescued the firm now control 60 percent of the shares in the business.

It is now clear that the manufacturing unit has become a drag on overall business performance, and the outside investors are pushing for the manufacturing of the pumps to be outsourced. Tofazzal Jnr has identified a Polish firm, with an excellent manufacturing reputation, which he feels will be able to manufacture the pumps designed by Structural Engineering Ltd, to the same or near the same quality standards as in-house, while reducing manufacturing costs by 40 per cent. Should Structural Engineering Ltd decide to use the Polish firm, it will result in the manufacturing plant closing in Bangladesh, with the loss of 140 jobs there.

Requirements:

Prepare a report to Structural Engineering Ltd critically assessing:

- i) The position of the key stakeholders in the proposal to outsource pump manufacturing. 4
 - ii) The implications for the sustainability of the firm's differentiation strategy of using an outside supplier to manufacture the pumps. 5
- b) Farooq Jahid has recently been appointed Managing Director of Western Pharmaceuticals Ltd., a manufacturer of generic medicines and vitamin tablets, aimed predominantly at the Bangladesh market. The company was founded in 1998 and employs 120 people, a reduction of 90 people since 2008. The work at Western Pharmaceuticals Ltd. is both technical and precise. It requires significant training, and many staff have third-level qualifications, particularly those in the Research & Development (R&D) and Quality Assurance (QA) laboratories. The majority of the production-line workers have considerable experience: on average, they have been with the firm for ten or more years.

The firm has been in steady decline for the past several years. Revenues have been falling and operational performance metrics deteriorating. There is no single reason for this, however, the business made considerable cutbacks during the economic recession and has not really recovered. In particular, morale is relatively poor. It has not helped either that Farooq's predecessor employed a very bureaucratic management approach, arguing that, because of what Western Pharmaceuticals Ltd. manufactured, everything had to be 'always by the book'.

Although Farooq has over twenty years' experience in the pharmaceutical sector, this is his first appointment as Managing Director. He is confident, however, that his strong people skills will enable him to be successful.

Requirement:

Prepare a report for Mr. Farooq Jahid in which you critically assess the leadership approaches that he should consider as Managing Director of Western Pharmaceuticals Ltd., and recommend the leadership style(s) that he should adopt for best results.

8

3. a) Heartcare Hospital Ltd is a 400-bed specialised hospital dedicated to providing advanced cardiac care, including diagnostics, treatments, and post-surgical rehabilitation. Established in 2010, the hospital has earned a significant reputation for excellence of services and for its cutting-edge technology and expert medical staffs.

During a recent meeting, hospital's CFO asked the finance manager to analyse the revenue generation per cabin. The finance manager presented the below information, assuming a cabin is fully occupied in a particular month:

Particulars	Amount (BDT)	Day/number	Total
Per cabin	6,000	30	180,000
Per procedure	60,000	7	420,000
		Total	600,000

Average stay per patient is currently 4 days (1 day before surgery and 2 days after surgery) for performing a procedure which generates revenue of BDT 24,000 per cabin and BDT 60,000 per procedure from per patient.

Following the analysis, the CFO has now appointed you as business consultant to devise a more effective financial strategy for generating more revenue per cabin by optimising the pattern of stay in the hospital.

Requirement:

As a business consultant under the above brief, suggest effective strategies for increasing hospital revenue.

5

- b) Cholo Ltd. is a popular ride sharing platform in Bangladesh. Its business model revolves around connecting riders with drivers through its mobile app, enabling on-demand transportation. It relies on a network of independent driver-partners who use their personal vehicles, and it generates revenue by taking a commission from ride fares, surge pricing, and additional services. The Company also partners with vehicle leasing companies, banks/payment processors, insurance providers, and local regulators to operate smoothly and expand its offerings. Further, strategic alliances with businesses, both for employee transport (Cholo for Business) and through technology partners, strengthen its service ecosystem.

The key activities of the company include platform management, matching riders with drivers, pricing optimisation, driver recruitment, and customer support. The company's technology infrastructure is a critical resource, alongside its brand reputation, data insights, and human resources. The company invests in continuous innovation to stay competitive, with advanced features like dynamic pricing and real-time tracking.

The company's value propositions for riders include convenience, affordability, and safety, offering multiple ride options and cashless transactions. For drivers, it provides flexible income opportunities, low entry barriers, and a simple platform to earn money. It also ensures personalised customer experiences, leveraging data to optimize service offerings and maintain high satisfaction levels.

Cholo engages with its customers primarily through its mobile app, digital marketing channels, and corporate partnerships, while it maintains strong relationships by offering tailored services, ratings systems, and loyalty programs. The company targets both individual riders, corporate clients, and drivers as its primary customer segments, with a broad reach that includes budget-conscious riders using Cholo Pool and business customers using Cholo for Business.

The cost structure includes significant investments in driver incentives, technology maintenance, marketing, and legal compliance. The company faces high costs related to maintaining its app and addressing regulatory challenges in various regions. However, it has developed multiple revenue streams, from commission-based ride fares to corporate partnerships and the growth of its delivery service (Cholo Eats). Cholo's diversified business strategy ensures financial sustainability, positioning the company as a leader in the ridesharing and logistics market.

Requirement:

Outline a summarised business model canvas for Cholo Ltd. mentioning all elements.

5

4. a) Mr. Hasan is a retired employee who wishes to enjoy a steady income from investing in the stock market and regularly invests in listed shares. He bought 1,000 shares of Robin Tex at BDT 250 in March 2023. By September 2023, the share price rose to BDT 400.

Mr Hasan expected to generate cash dividend of BDT 4,000 by December 2023, but the company did not announce any dividends for the year. Rather the Company plans to invest in capital projects to increase capacity.

Whilst he was upset hearing this news, he recalled once being told by a financial advisor that it does not matter whether a company declares dividend or not. Assume price has remained same at BDT 400 on 31 December 2023.

Requirements:

Justify dividend irrelevance theory in the context of above situation.

5

How can Mr. Hasan generate homemade dividend? How many shares does he needs to sell?

5

- b) Sukuk bonds are Sharia-compliant, asset-backed securities offering a reliable income stream through periodic rental payments or profit-sharing returns. Unlike conventional bonds having which are interest bearing, they derive value from tangible assets, providing lower default risk. Sukuk appeal to ethical investors by excluding industries prohibited under Islamic law, such as alcohol or gambling, and are often linked to socially responsible projects. They offer diversification, especially in emerging markets, and competitive returns in low-interest environments. With growing demand, Sukuk is an attractive alternative for both religious and non-religious investors seeking ethical, stable, and lower-risk investment options.

Recently, Green Company is approved to Ijarah issue a sukuk bond after complying all regulatory compliances, information of which is detailed below:

Face value: BDT 1,000

Annual lease payment: BDT 160

Discount rate (r): 5%

Term of lease: 5 years

One Dealer of the stock market has successfully bought 1,000 bonds, per bond costing BDT 1,000 on 15 December 2023. As at year end on 31 December, the bond was not started trading at Dhaka Stock Exchange. As per earlier communication by the management of sukuk issuer and approved by the BSEC, the bond will be traded from 10 January 2024 (market debut date).

Head of Accounts of the Dealer Company is uncertain regarding the recognition of the amount as at year end as the market rate of the bonds as at year end was not available.

Requirements:

- i) What features make sukuk bond more attractive as investment vehicle?

4

- ii) What should be the optimum pricing for the above sukuk issuance? Guide the Head of Accounts of the Dealer Company for the appropriate recognition.

6

5. a) IAS 38 Intangible Assets sets out the principles of accounting for the recognition and measurement of intangible assets. The standard differentiates between intangible assets acquired individually, those acquired as part of a business combination, and those which are internally generated. IAS 38 relies on the concept of fair value to measure intangibles, but the strength of the fair value test varies depending on the objective.

Benefit Ltd (Benefit) has entered the following transactions during the financial year ended 30 June 2023. The company seeks to maximize the reported value of its assets wherever possible.

- (1) On 1 July 2022, Benefit acquired, from a bankrupt competitor, a license to provide radio broadcast services to a region within Bangladesh. This license would have been originally issued by the government for a ten-year period at zero cost but has a market value due to its exclusivity. The cost of the license to Benefit was BDT3.3 million, and the remaining useful economic life was 6 years.
- (2) On 1 July 2022, Benefit commenced work on developing a new technology to enhance the quality of the radio broadcasts. It purchased several patents at a cost of BDT2 million and spent a further BDT6 million developing the technology, as well as BDT2 million researching

the international market for the technology in advance of its launch. The directors of Benefit were confident throughout the development process that the technology had massive potential to generate future economic benefit. On 30 June 2023, this opinion was validated when a rival broadcaster offered Benefit BDT15 million for its partially developed technology project.

- (3) As a result of Benefit's growing reputation in the broadcasting industry, the directors commissioned a consulting firm to value its brand name. The brand name has not been recognized as an asset in the financial statements to date. On 30 June 2023, the consultants issued a report stating that the fair value of Benefit's brand was BDT20 million.
- (4) Benefit has a portfolio of patents it developed over the past few years. These represent technologies and processes used in the company's business to generate economic benefits. The total carrying value of these patents was BDT2.8 million on 1 July 2022. They originally had a 15-year useful economic life, but on average seven years remain to their expiry date. The directors propose, on 30 June 2023, to revalue this portfolio to its estimated fair value of BDT5 million

Requirements:

- i) Discuss the requirements of IAS 38 Intangible Assets with respect to the initial recognition and measurement of intangible assets acquired: (1) for cash, (2) as part of a business combination, and (3) internally generated. 9
 - ii) In each of the scenarios (1) to (4) above, prepare a briefing note for Benefit's financial controller advising on the appropriate accounting treatment for the intangible assets for year ended 30 June 2023. 8
 - b) What is the ethical position of non-executive directors in corporate governance? 3
 - c) Identify and explain any 5 components of the code of conduct. 5
6. You are the audit manager in charge of the audit of Absolute Wires Manufacturing Ltd (AWM). The company manufactures electrical wiring for the domestic and export markets and does not sell directly to the general public. The audit is nearing completion, and you intend to recommend to the partner-in-charge that an unmodified audit report be given to the client. As part of your final review, you are reading the minutes of the Executive Board's last three meetings, one of which was held before the end of the financial year and the other two since that date.

One possibly significant item which you notice is that, about four weeks before the current financial year end, a disclosure was made to the Board by an employee claiming protection under so-called 'whistleblower' legislation i.e. Disclosure of Public Interest Information (Protection) Act 2011. The disclosure alleged that the insulation material used in one of the company's most popular products does not meet the required industry standards and could, in adverse conditions, expose property in which it is used to the risk of fire or, in the case of living things approaching or touching it, the risk of electric shock or even electrocution.

In response to this, the Board requested the most senior technical experts in the company to investigate and prepare a report. This report is now complete and is unequivocal in rejecting the allegations of the whistleblower. It further points out that the particular type of wire in question has been on the market for a number of years and no reports of problems with it have ever been received.

This report was presented at the most recent Board meeting. During the discussion which followed, the importance of preventing this allegation from entering the public domain was agreed by all those in attendance. It was decided to consult the company's legal advisors and to request them to draft a formal reply to the whistleblower denying, in the strongest possible terms, the substance of his or her allegations. This process is currently ongoing.

Requirements:

- a) Appraise the significance to the auditor, of protected disclosures by whistleblowers regarding audit clients. 4
- b) Based on the case AWM case above, recommend the most appropriate course of action for you, as audit manager, to follow between now and the conclusion of the audit. Justify your recommendations. 6

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