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ABSTRACT

These 15 case studies developed by faculty at institutions in Bangladesh are appropriate for use in a course in management development. The typical case describes a real business situation in which a real manager had to reach a decision. The case gives quantitative and qualitative information that is, or may be, relevant to that decision. Questions for consideration to help students focus on problems of interest conclude each case study. Each of the case studies deals with a different problem and a different cast of characters. The case studies are concerned with five problem areas. Seven cases in employee pay and benefits are XYZ Garments Ltd.; Eastern Gas Systems, Ltd.; ABC Bank; Sweet Sugar Mills Ltd.; Bangladesh Northern Jute Mills; Bangladesh Match Co.; and BT Corporation. Cases in employee-employer relations are Bangladesh Products Factory and Bangladesh Railway. Two cases in employee motivation are Central Textile Mills and Southern Nationalised Banks of Bangladesh. The cases in distribution are Cure Pharmaceutical Company and Mehar Industries. The last two cases are in recovery of bank loans: Laird Chemical Industries and Progress Ltd. (YLB)

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# INTRODUCTION

The case studies contained in this publication were developed under the direction of the author while in Bangladesh during June and July, 1986, on an Executive Development Program/Case Writing assignment with the World Bank/ Bangladesh Management Education and Training Project. This is the second publication of this nature developed by the author. (See: Gary N. McLean, _Case Studies for Management Development in Bangladesh,_ World Bank/Bangladesh Management Education and Training Project, 1985.) While the 1985 publication was based solely on cases developed for seminars conducted in cooperation with the University of Chittagong, the author's primary objective in 1986 was to work with the Faculties of Commerce at the Universities of Chittagong, Dhaka, and Rajshahi, as well as the Bangladesh Management Development Center and the Institute of Business Administration, to assist them in developing Executive Development Programs from needs assessment through implementation to evaluation. A model developed by the author (and reproduced in the project's final report) was used. Following a needs assessment of executives and an assessment of the expertise of available faculty, seminar topics were identified; seminars were designed and developed; executives from local companies participated; the author and associated faculty members facilitated; and the seminars were evaluated.

In the process of considering the pedagogy to be used in the seminars, it was clear that faculty were most familiar with, and thus most comfortable with, a lecture approach, in spite of brief exposure to the case study process introduced by another consultant during 1985. One of the objectives assigned to me was to provide faculty with hands-on experience in developing case studies so that cases based on Bangladesh business and industry would be available for use throughout business education in the country.

As in 1985, without exception, executives expressed a willingness to work with faculty in the process of developing case studies. Likewise, faculty who had not developed a case study before found that a brief case study to be used for instructional purposes can be developed very quickly. I was impressed with how quickly and how well these cases were developed.

My role in the development of the cases was to review the case study proposals, including questions to be asked during the interviews; to assist in the gathering of information from the interviews and secondary data; to review, edit and rewrite drafts of the studies; and to revise the case studies based on the experience of using each of the cases in an Executive Development seminar. Readers may also wish to make reference to the 1985 publication for sections on "How to Write a Case Study" (p. 20); "How to Teach Using Case Studies" (pp. 21-24); and "How to Solve Case Studies--Student Notes" (pp. 25-26).

For those outside of Bangladesh who may wish to use this publication, some explanation regarding the currency terminology may be in order. There are 100 Paisa in Taka 1. At the time of writing Taka 32 = $1 (U.S.), or Taka 1 is approximately 3 cents. One lakh = 100,000; One crore = 10,000,000.

Most of the participants using these cases had not previously been exposed to the case study method. Questions for consideration have thus been appended to each case. When used with experienced persons, or if used for some other objective, these questions should probably not be reproduced.

I wish to express my appreciation to those executives who gave so generously of their time and knowledge for the sake of advancing management development in their country; and to the faculty for their assistance in writing the cases. My hope is that these cases might continue to be useful in supporting management development wherever it is taking place in Bangladesh.

**XYZ GARMENTS LTD. (XGL)**

A Case Study in Employee Pay and Benefits

Developed by Junaid Khan, Lecturer, Institute of Business Administration

XGL was formed in 1982 in the private sector as a 100% export-oriented garment manufacturing factory.

Being futuristic in nature, the management has always encouraged healthy union activities, allowing participation in many areas directly related to workers' benefits. The factory, being labour intensive, provided an excellent opportunity for the union to gain a base quickly. From the beginning, the workers have come to expect and accept the union's negotiating and bargaining for their benefits/welfare.

The present key union executive is a local person, and he and his family are well known and influential. Intent on developing a trade union career, he has played a cooperative role with management and his inside and outside opposition. His increasing understanding of, and perhaps, thus, cooperation with, management has made him somewhat unpopular with the workers.

On the other hand, management's neutral character and willingness to support healthy union activities has brought recognition from nearly all major unions of the locality as well as the local political parties. Moreover, by careful nurturing and control, the local unions and political parties have decided not to become involved in the XGL union, management or worker affairs. This neutral character of the factory is of key importance in its successful management and is thus desirable. Hence, management-union agreements have been an integral part of working relationships.

The compensation structure of the factory is basically attractive to all the workers. New, unskilled workers are paid higher starting salaries compared with all other factories of the industry. The wages are well defined and above the minimum wage board stipulations. Wages include basic, dearness allowance, and other allowances for house rent, washing and transport. Fringe benefits include subsidized transport and canteen, full time male and female nurse, regular daily doctors, and a yearly recreational fund.

Also, a "Best Worker of the Month" program motivates workers to compete for selection and also to gain one month's free canteen for one meal per day. Air cooling of the whole factory is an additional attraction. Regular performance evaluations, increments and promotions, plus structured leave regulations, monthly attendance bonus and yearly leave encashments are integral features of the compensation packet.

All of the above factors combine to create an atmosphere very congenial to many workers, especially female, who work at XGL due to the compensation packet, regular working hours, and fixed pay days. On the other hand, employees who can claim employment and experience at XGL are very desirable in the readily accessible job market.

The Situation

The current three-year agreement provides for a yearly recreational fund of Tk. 70,000. This is to be utilized for occasions of celebration, e.g., Bengali New Year, Independence Day, Shaheed Day, etc., and recreational activities, e.g., publishing/printing of literature, sports, picnics, etc. The fund is to be utilized within each fiscal year, managed by a worker-union committee, drawn against a budget and substantiated by appropriate bills.

This year there have been several constraints on this fund's utilization, e.g., the financial constraints of the company, export-production time pressures, political disturbances, weather conditions, lay-offs, union-management relationships, etc. As a result, only Tk. 3,000 has been used.

The union now intends to take a grant of the balance of the fund and distribute the cash within the work force before expiry of the fiscal year. It is not possible to organize any cultural function, sports event or outing because of the late date.

Management, realizing the union's intentions and constraints, does not want to provide the fund for cash distribution. But it is willing to allocate it for any function or occasion which can also be supported by bills of actual expenses incurred. It feels that the agreement should be strictly followed as has always been done. Moreover, it feels, if the money is distributed, there is every possibility of misappropriation, misunderstanding and a potential source of dissatisfaction among the workers, ultimately leading to trouble, hampering production. The basis of allocation is also quite ambiguous. Should the allocations be differentiated based on whether the workers are new or experienced; whether they are skilled or unskilled; and on base salary, base salary plus allowances, or an equal basis? Moreover, since the yearly recreational fund is a general benefit to all workers and not a part of the pay packet, the risk of setting a bad precedent of making cash awards/grants is inherent.

The union, on the other hand, is under several pressures. One, workers are pressing for the funds as a monetary benefit. Two, they want it before the Eid in the absence of any Eid bonus. Three, they do not want to lose the opportunity of obtaining sanctioned funds. Four, the union is facing stiff competition from a new union, heretofore nonexistent. They also have to declare elections within two months, so they must regain popularity and win the election.

After several attempts and negotiations, the union has finally submitted a budget to management for approval and allocation. The management suspects that the funds will actually be used for a cash distribution. The union knows they will not be able to organize the function. But the union committee assures management that they will submit relevant bills.

**QUESTIONS FOR CONSIDERATION:**

1. What options are available to management?

2. What are the likely union responses to each option considered above?

3. What should management do?

**EASTERN GAS SYSTEMS, LTD. (EGS)**
A Case Study in Employee Pay and Benefits
Developed by Reza Mohammed Momen, Lecturer
Institute of Business Administration

Eastern Gas Systems, Ltd. (EGS) was incorporated in 1962 with 90% of its shares owned by the Government and the rest by New Oil Company which undertook exploration and drilling of gas fields.

The main objective of EGS was to construct, own and operate natural gas pipeline facilities in one region of the then East Pakistan, now Bangladesh. After liberation in 1971, EGS was nationalised with all shares vested in the Government. The company started commercial operation in 1968 by supplying gas to a power station. In June, 1986, EGS had 240,000 customers, of which 100,000 were domestic. The daily average offtake of gas is over 200 million cubic feet, which is more than the annual offtake of 1968. Total manpower of the company in 1968 was only 200. By June, 1986, the number had increased to 1,625, of which 419 were officers.

Since EGS is fully state-owned, all of its major policies are set by the Government. Naturally, the company has no control over pay structure and has to adopt the National Pay Scale completely. In addition to salary, its employees have gratuity (one month for every 12 months of service in EGS) and contributory provident fund schemes. The employees are given two Festival bonuses annually, each equal to the basic salary for one-half month. The incentive bonus scheme is based on new connections within a given year. The scheme is as follows:

1) Industrial Connections

| | |
|---|---|
| 30 new connections | 7 days' salary |
| 31-75 new connections | 1 additional day for every 5 additional connections |
| Above 75 new connections | 1 additional day for every 3 additional connections |

2) Commercial Connections

| | |
|---|---|
| 500 new connections | 7 days' salary |
| 501-600 new connections | 1 additional day for every 40 additional connections |
| Above 600 new connections | 1 additional day for every 25 additional connections |

3) Domestic Connections

| | |
|---|---|
| 15,000 new connections | 7 days' salary |
| 15,001-18,000 new connections | 1 additional day for every 500 additional connections |
| Above 18,000 new connections | 1 additional day for every 250 additional connections |

The maximum bonus the employees can get under this scheme is 75 days. Employees of EGS have received a bonus under this scheme in each of the recent years. In both 1984 and 1985, the company declared the maximum bonus of 75 days. Recently, employees have expressed concern that this maximum limit is not sufficient and should be raised. Moreover, the company is providing gas subsidy for a single burner (amounting to Tk. 60 per month provided in cash). But the employees are pressing for a double burner gas subsidy (amounting to Tk. 100 per month in cash).

Unlike other Government organizations, EGS has no pension scheme for its employees. So employees have appealed to the Government through the Board of Directors for a pension scheme. The request is under active consideration.

In January, 1986, the Board of Directors declared two special annual increments for staff and one for officers. The officers reacted strongly to such disparity, and the EGS Officer's Welfare Association, of which all the officers are members, made representation to the Board which agreed to give consideration to this issue.

EGS makes an appraisal of employees for promotion if they fulfill academic requirements, have requisite job experience and have worked for three years in a position. During the recent past, the Military Government banned promotion for one year in Government offices and state-owned business organizations. As a result, the company could not consider promotion cases of a number of employees until their tenure in particuar positions was for more than four years. The affected persons made representation for their back-dated promotion (i.e., promotion with effect from the date when they were likely to have been promoted). But the Board refused. During the past two years the affected persons made represetation four times, and, on each occasion, they were refused. This has created a lot of misunderstanding between the persons concerned and the Board of Directors. And the employees, in general, have become very critical of the Board.

**QUESTIONS FOR CONSIDERATION:**

1. Identify the employee issues faced by EGS.

2. Describe the position you would take on each issue as:
   General Manager of Personnel
   President of the Officers' Welfare Association
   Labour Union President
   Managing Director
   Chairman of the Board

3. Explain why you would take each position described in 2, above.

**ABC BANK**

A Case Study in Employee Pay and Benefits

Developed by Mohammad Musa, Lecturer, Institute of Business Administration

ABC Bank, a nationalised bank, was established by a Presidential Order in 1972. It inherited 74 branches of XYZ bank operating in the then East Pakistan. As the Bank was created to provide credit and other banking facilities to the agricultural sector of the economy, emphasis was placed on the rapid expansion of branches and their operation. But no significant expansion of the bank was visible until 1979. After 1978, the expansion of the bank was rapid. During the period from June 30, 1978, to June 30, 1984, the total number of bank branches increased from 197 to 900. As a result the bank achieved good geographical coverage.

With the increase in the bank branches and expansion in the bank's operations, the requirement for additional manpower in both the operational and managerial levels increased. Part of the non-officer level manpower requirement was fulfilled by direct recruitment and the rest by promotion from within in conformity with the bank's current recruitment and promotion policy.

The bank could not, however, provide sufficient manpower for the openings at the management level. The practice was that managerial positions above the rank of Senior Officer must be filled by promotion from within. The promotion policy, in turn, required that an officer, to be eligible for promotion, must be confirmed and must have a minimum of three years' service in the grade. It was found that not enough officers were readily eligible for promotion on the basis of this criterion.

ABC Bank faced a serious problem in filling these managerial positions. If it followed the practice, many newly created positions would have remained vacant for quite a long period. ABC Bank, therefore, had to revise its promotion and recruitment policies. It accepted a liberal promotion policy whereby any officer confirmed in the grade might be considered for promotion to the next higher grade even if length of service in that grade was only one year. The Bank's new recruitment policy allowed the Managing Director of ABC Bank to recruit manpower from outside to fill managerial positions up to the rank of Deputy General Manager. The Bank started recruitment for these managerial positions.

Mr. Karim, in response to an advertisement, applied for the position of Assistant General Manager in ABC Bank. He had completed his MBA and joined Agrani Bank as Officer Class I on September 20, 1976. He served Agrani Bank in different areas and was promoted to Principal Officer on February 1, 1981.

Mr. Karim was interviewed in the ABC Bank on June 6, 1984. The selection committee appreciated his educational attainments and managerial competence. During the interview, however, he was given the understanding that, due to nonavailability of the Ministry's clearance, he would not be given the position he applied for; he was to join in the lower position of Senior Principal Officer

(SPO). The committee, however, informed him that as soon as the ABC Bank got clearance he would be given the position of AGM.

Mr. Karim received the offer of the ABC Bank to join as Senior Principal Officer on July 20, 1984. The offer promised him nothing except two additional increments in pay. In the meantime he learned that his case, along with others, was then with the Board of Directors of Agrani Bank for consideration for promotion to Senior Principal Officer, and he would soon be promoted. But still Mr. Karim decided to join ABC Bank in the belief that he would be given the position of AGM in the ABC Bank soon, as promised. He also knew that there were openings for him to grow in the Bank. He, therefore, managed his release order from Agrani Bank, surrendering one month's pay, gratuity money and a house building advance. He joined ABC Bank on August 8, 1984. Immediately after joining he learned that the promise made by the selection committee was baseless.

This offended him much. He applied for remedy to the Managing Director. The Managing Director gave him a personal hearing. During the interview the Managing Director gave him assurance that he would be promoted to the rank of AGM soon. In partial redress to his grievances the Managing Director gave him the benefit of continuity of his previous service and made him senior to all Senior Principal Officers who were promoted after the date of his joining the ABC Bank.

The Departmental Promotion Committee (DPC) was set up on May 18, 1985. Out of 26 SPOs, 19 were promoted and 7, including Mr. Karim, were left out on the grounds that their services in the grade were not confirmed. Subsequently, Mr. Karim's service in the grade was confirmed, and his case along with six others who had been left out earlier was placed before the DPC in August, 1985. The DPC recommended his case for promotion to the rank of AGM. But he did not get his promotion.

Seven months passed. Without implementing the recommendation of the earlier DPC, a new DPC was set up to consider promotions of those SPOs left out earlier. To his utter dismay he informally learned that his case was not being considered. At this he became frustrated and made a representation to the Managing Director on June 21, 1986, to redress his grievances.

QUESTIONS FOR CONSIDERATION:

1. Evaluate the procedures used by ABC Bank in filling the vacancies in the management cadre.

2. Evaluate the procedures used by ABC Bank in promoting SPOs to the position of AGM.

3. What options should Mr. Karim consider now? Which option would you recommend?

4. What are the possible consequences for ABC Bank resulting from the promotion procedures followed?

**SWEET SUGAR MILLS LTD.**

A Case Study in Employee Pay and Benefits

Developed by Md. Kismatul Ahsan, Lecturer, University of Rajshahi

Sweet Sugar Mills began operations as a public organisation in 1965 and was converted into a private organisation in 1968. After the independence of the country, it was nationalised in 1972, and, at present, it is run as an enterprise of the Sugar and Food Industries Corporation of Bangladesh. The mill produces 15,000 metric tons of sugar on average per annum.

There are approximately 1,000 permanent and 800 seasonal workers in the mill; 15 percent of the seasonal workers are skilled. The seasonal workers are employed for five months a year on average. During this time, their pay and benefits are identical to that of permanent workers. Seasonal workers either remain unemployed or arrange other employment during the time they are not needed at the mill. Skilled seasonal workers receive 50 percent of their on-the-job remuneration during the off-season as a retention allowance. Management follows this policy in an attempt to keep skilled workers from takng other full-time employment that might affect their availabiliy for working in the mill.

There is a trade union of workers formed for the purpose of bettering the working conditions of its members. Generally, workers get wages and other benefits (e.g., medical facilities, training, housing, club, etc.) as permitted by the corporation which are identical for all units of the corporation. The mill has a self-governed training institute which provides training to its workers. In addition, a formal on-the-job training program permits the technology to be handed down from experienced to inexperienced workers.

The trade union bargains with management for better pay and benefits for its members. The management sometimes feels that the demands placed by the union leadership are justified in the light of the present socioeconomic situation. But management is helpless sometimes to meet the demands as corporate rules (guided by government requirements) do not permit them to do so. The union leaders understand the limitations faced by local management, but they also face heavy pressures from their members. The union takes an active role in recruitment, sales, purchases, accommodations, drama, sports and culture. One incentive available to employees is a bonus based on achieving production equivalent to at least 65% of capacity. As the percent of capacity reached increases, so does the bonus, until it reaches 105% of capacity, at which point a bonus of 300% of monthly wages is paid. This bonus has not been available recently because of the shortage of raw materials. A further difficulty faced by management is a lack of clear objectives for which to strive in the management of the mill. The General Manager commented, "The government has not clearly defined the objectives of a public sector corporation nor identified the differences between a public and a private sector corporation. Are we to make profit or provide employment? Often they both seem important, but they are often conflicting objectives."

A recent occurrence put local management and the labour union in a confrontation situation. After the recent announcement of the new national pay scale, in which the combination of the basic pay and dearness allowance was superceded by a revised basic pay, the union asked management to pay overtime to its members for the past two years on the basis of the dearness allowance, in addition to the overtime already paid on their basic wages. But the government rules dictate that overtime benefits are to be paid to workers on the basis of their basic wages only. The management of the Sweet Sugar Mills carried on discussions with the union leaders for three or four days and then recommended to the corporation that the request be honoured. Subsequently, the corporation relayed the recommendation to the appropriate Ministry, after local union leaders placed their demands before the board of directors of the corporation. Ultimately, however, the demand was rejected by the Ministry.

The rejection was not well received by the union members. The union leaders of all sixteen units of the corporation jointly set out a program, demanding that an advance from the provident fund be made available to all workers. Typically, such funds are available only on individual application and only for specific purposes, such as illness and wedding celebrations. As a part of their program, they gheraoed (surrounded) the management personnel in the General Manager's office at the Sweet Sugar Mills and some other mills, and in some mills tried to create violence within the mill premises. Management of Sweet Sugar Mills claims that there was no violence at their mill at that time.

**QUESTIONS FOR CONSIDERATION:**

1. Evaluate the actions taken by the management of the Sweet Sugar Mills.

2. Evaluate the actions taken by the labour union of the Sweet Sugar Mills.

3. In the incident last described in the case, what actions are now available to management? What action should management pursue?

4. What can management do to reconcile the reasonable demands of the labour union with the sometimes conflicting government rules as they apply to wages and benefits?

**BANGLADESH NORTHERN JUTE MILLS**

A Case Study in Employee Pay and Benefits

Developed by Abinaya C. Saha, Associate Professor, University of Rajshahi

The Bangladesh Northern Jute Mills was organized in 1970 under the initiative of the then East Pakistan Industrial Development Corporation. Following Liberation, the mill was nationalised in 1972 under the Bangladesh Jute Mills Corporation. It began production on March 1, 1974.

At present, it has 239 looms, with 2,395 workers, including 387 casual workers. From 1980-81 through 1985-86, the mill's average production was about 5,000 metric tons annually compared with a target of 5,500 metric tons. During 1985-86, the wages cost per ton was Tk. 7,913 for Hessan and Tk. 5,272 for Sacking; average cost of production was Tk. 27,938 and Tk. 20,160, respectively. In comparison, the sales price per ton was Tk. 23,879 and Tk. 17,088, respectively. The accumulated loss by the end of 1985-86 amounted to Tk. 271.95 lakhs. Loss of production due to power failure was 6,027 metric tons during 1983-84 through 1985-86.

In addition to the wages and salary structure imposed by the government, employees are given house allowance/housing facilities, medical allowance, festival bonus, conveyance, educational facilities for the employees' children, and other social security provisions as permitted by the government.

In March, 1982, the manager of the mill was sitting in his office under some tension. The trade union leaders and about 600 workers were demanding two general increments which had been approved by the government, but only for workers having a freedom fighting background. The workers surrounded the manager's room. When this happened, the accounts head, project head, administration head, head of the labour department, and the medical officer joined the manager to provide whatever protection they could. About 17 union leaders joined the six management officials in the small office and engaged in heated discussion. Windows in the office were broken by the workers outside, the telephone line was cut, and the water supply was cut off. From 5 p.m. to after midnight, the discussion continued, with the union leaders claiming, "All the other jute mills are paying the general increments; now you must pay us." The union leaders were demanding that management sign an agreeent agreeing to pay the general increments. It is now 1 a.m.

**QUESTIONS FOR DISCUSSION:**

1. What options are available for management at this point?

2. What should management do?

3. What options are available to the union leaders?

4. What should the union leaders do?

The pressure was unrelenting, and finally management agreed to sign an agreement stating, "We will pay two general increments to all workers." Three copies were provided for signature; the administrative head managed to sign only one copy and that copy was signed with the notation, "Signed under duress." Management also managed to have the incident narrated tactfully in the agreement.

The next day the workers did not show up for work.

**QUESTIONS FOR DISCUSSION:**

1. What options are now available to management?
2. What should management do?
3. What options are now available for the union leadership?
4. What should the union leadership do?

Immediately, the corporation was notified of the previous night's actions. On the advice of the corporation, charges were filed with both civil and police authorities. Recognizing, however, that good relationships with the union and the workers were necessary, management undertook long discussions with the union to attempt to find a compromise. It was determined that other jute mills had not agreed to make the two-increment payment, as claimed by the union, and the agreement signed under duress was ignored. The discussion carried on for several months. When Martial Law was declared in June, 1982, the government encouraged management to proceed with the charges as quickly as possible.

**QUESTIONS FOR DISCUSSION:**

1. What action would you recommend to management?

2. What action would you recommend to the union leadership?

**BANGLADESH MATCH CO.**

A Case Study in Employee Pay and Benefits

Developed by Syed Alamgir Jafar, Assistant Professor
Institute for Business Administration

Bangladesh Match Co. (BMC) has now been in existence for nearly half a century. Even today, BMC continues to operate with its two original factories, one in Dhaka and the other in Khulna. The head office of BMC has slowly but surely improved and expanded its production capabilities and its share of the market to emerge as a large industry in Bangladesh.

With 66% of its shares owned by the universally reputed conglomerate, International Safety Matches Co., and 32% by the Bangladesh Government, BMC has been blessed with the best of technical and material support from abroad, while enjoying stable political and economic support at home. The other 2% of its stock is owned by individual shareholders. Although BMC has been a long standing member of the Stock Exchange of Bangladesh, the lack of trading of its stock is a clear reflection of BMC's sound position in the market. In recent days there has been some talk within the government of divesting its holdings in BMC, but thus far those voices seem to have been muted. And why not? BMC contributes 10% of the revenue budget of the government, through dividends earned by the government, customs duties on imports, and corporate income taxes--all of which add to the government coffers.

BMC has on its payroll about 2,000 permanent workers in its two factories and hires around 400 workers on a part-time basis, filling in mostly as relievers. This high number of relievers has become a necessity due to the high rate of absenteeism, mainly at the Khulna factory, where moonlighting is a common practice. Of the three shifts at the BMC factories, the night shift at Khulna has the highest rate of absenteeism at 60%.

One-third of the 180 company-wide managerial staff are posted at the two factories, with the remainder split evenly between the Head Office and BMC's four marketing area offices.

Mr. U. Moy, BMC's personnel manager, has a long-standing record of successful development of compensation packages for the employees of the company. To accomplish this year after year, he religiously and painstakingly surveys and reviews compensation packages of several industrial organisations from both the private and public sectors to achieve an effective cross-sectional match. Mr. Hoy has many times come up with valuable negotiating strategies and tactics for the management of BMC during negotiating sessions with the collective bargaining agents (CBA) of the company.

Even with all of these successes, Mr. Moy seems visibly disappointed with a particular aspect of the employees' benefits package which deals with their meal allowances. The management of BMC has over the years failed to negotiate an effective settlement of this issue in its biennial contract with the labour union.

In the early years of its operation, BMC, as part of its benefits package, decided to operate canteen facilities and provide meals for its employees at the two factories. This operation was adopted and conceived as a 'no profit' and 'no loss' operation. With a nominal subscription from the employees, it was envisioned that the meals would be provided to the employees at cost. This expectation on the part of BMC, far from materialising, has actually over the years sapped the company of large sums of money. BMC has been forced to offer meals to the employees at the Dhaka factory at 1965 prices, and at the Khulna factory at 1954 prices, even though this benefit has never been included in an employee contract. Prices of essential commodities on an average have gone up by 1,000%. So the original intention of offering meals to the employees at cost has turned into a 98% subsidy operation on the part of BMC simply through precedent.

BMC management has not yet managed to come up with an alternative on this expensive and delicate matter which would result in a resolution of this apparent conflict. At BMC every contract negotiation is preceded by a submission of a Charter of Demands by the labour union. It has been a common practice on the part of the union to submit around 150 items for negotiation, and the BMC management in its preliminary discussions with the CBA reduces these items to 15 or so based primarily on immediate priority. The Meal Allowance issue in the early years was not as serious as it has subsequently become. As time went by and the issue became more serious, the BMC management faced very strong resistance from the Union against negotiating this issue, and each time the BMC management had to concede this issue in favour of other more pressing ones. Presently, however, this issue has become a serious one for the BMC management.

Past experiences indicate that, in the event of a serious conflict stemming from a contract dispute, the labour union had adopted 'Go Slow' techniques and on some occasions went to the extent of striking. At times management of BMC was forced to retaliate with 'Shut Down' policies. In one such year the company barely met 45% of the market demand, which resulted in loss of revenue for the company, loss of earnings for the workers, loss of political stability for the government, and loss of adequate service for the consumers.

Incidentally, BMC's overall benefits package, covering the whole gamut of employee compensation, rates BMC as one of the top five companies in the country in matters of employee compensation.

**QUESTIONS FOR CONSIDERATION:**

1. What are some of the alternative courses of action that the management at BMC might adopt to change the present benefit plan on 'Meal Allowance' for its employees?

2. Which course of action would you suggest they adopt and why?

3. How would you sell your proposed course of action to the labour union?

**BT CORPORATION**

A Case Study in Employee Pay and Benefits

Developed by Muinul Haq Chowdury and Zafrul Karim, Lecturers
Institute of Business Administration

The BT Corporation is a public sector corporation. With 40 production units under its management, it controls one of the largest manufacturing sectors in Bangladesh. There are 37 private enterprises in operation in the sector, but they take the lead from the BTC in their operation and management.

The operations of the BTC are spread throughout the country and are divided into five zones. With manpower of nearly 44,000, the BTC is one of the largest employers in the country and controls a sector which accounts for the employment of nearly one million people.

The BTC shares a common history of labour unrest, financial difficulties and chronic losses with the other public sector corporations. The trade unions in the BTC, as usual, are arms of the various political parties, and the relative strength of a particular union varies from zone to zone, the ruling party always having an edge over the others in most of the zones, especially in the Tongi zone where the units were never shut down due to anti-government strikes. As in all public sector enterprises, the management has traditionally been shy in confronting the unionists backed by the government.

But recently, in an absolutely unforeseen development which took the BTC management by surprise, the mills in the Tongi zone were shut down for nearly a week as the pro-government unionists went on strike, forcing the management into a confrontation with the pro-government unionists. All the other zones of the BTC remained in production during this period, although the demands of the strikers were common to all workers in the BTC. The bone of contention was the system of dispensation of the festival bonus.

Since the government reserves all powers relating to compensation and pay in the public sector, the management did not have to contend with union attempts to obtain higher pay and benefits. The bonuses and allowances paid to workers and officers are also in keeping with the rigid regulations of the government.

The festival bonus, amounting to one month's basic pay per annum, was payable in two equal instalments, one instalment for each Eid for workers. Officers could be paid in the same way or in one instalment, as decided by the management. In the BTC officers were paid the festival bonus in one instalment. The workers demanded the same treatment, and for a long time the festival bonus was paid to workers in one instalment before the first Eid festival in the financial year.

When the second Eid festival of the year came up, workers pleaded for advance pay, a request that was difficult to turn down on humanitarian grounds. On some occasions the BTC extended advances, but, in general, workers were encouraged to borrow from the Provident Fund. The clamour for an Eid advance became a regular feature. To put an end to this perennial problem, management stopped extending loans from the corporation's funds altogether. Loans for small amounts, however, had to be extended for other purposes.

All of this coincided with a general squalor in the public sector corporations. The government took notice of all of this and termed the variance of paying the fesitval bonus to the workers in one instalment as "financial indiscipline." Directives were issued forthwith to BTC and all other corporations making it compulsory to comply with the government regulation of paying the festival bonus to workers in two equal instalments. By that time, however, all the other public sector corporations except the BTC and two corporations in the jute sector had already paid off the festival bonus in one instalment.

In fact, the process had already been initiated in the BTC to pay the fesitval bonus as in previous years. At the very last minute, in response to the Government's decision, the BTC management issued fresh instructions to all zonal managers and mill managers asking them to comply with the government regulation. Furthermore, to make it equitable, all other staff in the BTC were also to be paid the fesitival bonus in two instalments.

The workers were caught unawares by this sudden change in the festival bonus and demanded equitable treatment to their compatriots in the other corporations. Workers in all the zones of the BTC obviously agreed with the demand but did little more than voice it. It was the trade union of the Tongi zone which took up the matter in earnest. And to everybody's surprise, despite being a pro-government stronghold, trade unions in the Tongi zone called a strike. Production came to a standstill in the Tongi zone. According to rule 26 of the 'Industrial Relations Ordinance 1969,' such a strike without prior notice is illegal.

A week passed and the strikers showed no signs of returning to work. The Chairman of BTC called the Zonal Manager of Tongi to his office to discuss the matter.

The Chairman made it clear that management would follow the government regulation regarding the festival bonus. And since the strike was illegal, it was important, the Chairman believed, to penalise the strikers in some way. Otherwise, such incidents would be repeated. The Chairman asked the Zonal Manager of Tongi to explain to the workers the rationale for the decision behind the festival bonus payments and to find a way of penalising the strikers even if it amounted to a mere token penalty.

**QUESTIONS FOR CONSIDERATION:**

1. As the Zonal Manager, how would you handle the situation created by the method of paying the festival bonus?

2. What action, if any, would you take against the striking workers?

After a week had passed and the situation remained deadlocked, the striking unionists met directly with the government. What transpired in this meeting was not available to the BTC management, but immediately after the meeting, the government called a high level meeting in which it was decided to give full authority to the BTC and other corporations to decide how the festival bonus would be paid. Soon after this decision was announced, the workers returned to work. The government, thereby, passed the onus of dealing with the strikers to the management of the BTC.

**QUESTIONS FOR CONSIDERATION:**

1. As chairman of the corporation, how would you pay the festival bonus?

2. What actions, if any, would you take against the illegal strikers?

**BANGLADESH PRODUCTS FACTORY**
A Case Study in Employee-Employer Relations
Developed by Md. Zakir Hossain, Lecturer, University of Rajshahi

Bangladesh Products Factory was established in 1960, beginning production in 1962. This factory is well-known for the high quality of its product.

In this factory there are around 340 male and female workers; most of the workers are female because they tend to be better with the fine muscle coordination needed to work efficiently with this product. The workers are represented by a labour union.

Most years the factory has failed to reach its production target because of a shortage of raw materials. For example, in the last year, the factory's production was only around 54% of its target. It is expected that raw material will be more available next year, helping the factory to come close to production target. The factory has lost money each year of its operation from the beginning.

The employee-employer relationship that exists in the factory is far from smooth. Many grievances arise on the part of the workers against management. Many of the concerns are settled in discussions between the collective bargaining agent (CBA) and management, while others are yet to be settled. An example of employee-employer interaction follows.

Before the last Eidul Fitr, the workers demanded that the full bonus, i.e., equal to one month's basic pay, be paid in one instalment. Management wished to continue making the bonus payment in two equal payments, with one-half month's pay before the Eidul Fitr and another one-half month's pay before the Eidul Azha, on the grounds that, if the full bonus is paid before Eidul Fitr, the workers will demand another full bonus prior to Eidul Azha. The union disagreed with this logic, indicating that, when other government employees were not receiving any bonus, they had received one annual bonus. But, now, due to changes in government policy, since government officials were also receiving one annual bonus, they should receive two. Finally, management gave in to the workers' demand; as per the cabinet decision, they were paid one full bonus on the Eidul Fitr. This was the case for all nationalised industries in Bangladesh.

In addition to this full bonus, the workers again demanded an advance of Tk. 600 each against their contributory provident fund. Regulations required that such a loan could be given only upon the submission of an individual loan application. Since only a common application had been submitted, management refused. The workers again demanded that such a loan be given to all workers, irrespective of their rank, provideent fund balance, existing loan status, etc. The trustee board again objected, indicating that legally the loans could be allowed only for the purpose of a marriage ceremony or an illness of the worker or dependents, but not for other ceremonial purposes such as the Eid Festivals.

In response to this negative answer, the workers gherraoed (surrounded) the office of the manager for about six hours. Then the management was forced to pay the loan against individual applications received from the workers. In response, management suspended six union leaders. This, in turn, lead to a workers' strike. No time was allowed for management to consider their demands; thus, the required formalities for striking were not observed.

Both the president of the labour union and the vice-president of the workers' association felt that their demand was appropriate because the money in the provident fund belongs to the workers. However, the two disagree on the appropriateness of the actions taken by the workers. The president of the labour union defended the actions, while the vice-president of the workers' association confessed that some of the activities of the workers were unruly. He also added that the workers are poor, and that they are not able to manage their expenses with normal pay. As a result of their poverty, they were forced to adopt such steps, and so were justified in that respect.

The strike was continued for three days. Much political pressure and many threats were directed toward management during those three days. Offices continued operating under police guard. On the fourth day the Ministry advised the workers to withdraw the strike and requested the management to take a lenient view.

**QUESTIONS FOR CONSIDERATION:**

1. Evaluate the factory's employee-employer relationships from the point of view of the management.

2. Evaluate the factory's employee-employer relationships from the point of view of the workers.

3. Suggest the next step that management should take and explain why.

4. Suggest the next step that the union leadership should take and explain why.

5. How can employee-employer relationships generally in the factory be improved by management?

6. How can employee-employer relationships generally in the factory be improved by the labour union?

## BANGLADESH RAILWAY

A Case Study in Employer-Employee Relations

Developed by Sajal Kumar Mukherjee, Lecturer, University of Rajshahi

The first railway track was laid in Bangladesh in 1862 and has now grown to cover 2,891.83 kilometres of track. With the liberation of Bangladesh in 1971, the then Pakistan Eastern Railway became Bangladesh Railway. With 505 stations, 288 locomotives, 1,332 passenger carriages, 305 other coach vehicles, and 16,514 freight wagons, the railway is the principal transportation agency in the country. In late 1985 the Inter City Express service was introduced throughout the country.

At present, Bangladesh Railway is a state-owned and managed organisation, with two separate administrative zones, East and West, with a General Manager in each, and with overall management vested in the Director General, who also acts as the Secretary to the Minister in the Railway Division of the Ministry of Communication. As of June 30, 1985, the Railway had 59,918 employees. The Railway provides numerous facilities for the welfare of its employees and members of their families, including medical facilities, educational facilities, housing, sports and recreation facilities, a staff benefit fund, a benevolent fund, group insurance, trade unions, and other general facilities.

There are six registered trade unions on the railway, along with approximately six more that are not registered.

First Instance:

About 63% of the staff have so far been provided with residential accommodations with water at a concession rate and an electricity facility at 2.5% of basic pay. The Railway administration has a plan for providing more staff quarters. It has been decided to provide quarters for 100 percent of the staff posted at wayside stations where hired accommodations are scarce. Railway employees drawing pay in scale XVIII to XX are given rent-free accommodations. Other workers are charged up to 7.5% of their basic pay for railway accommodations (the higher paid pay a higher percent). If accommodations are not provided, the workers get a 35 to 55 percent fringe benefit as a housing accommodation, depending on locale and pay (the higher paid get a lower percent).

In zone "M" the houses constructed for the employees require full repair. But due to financial constraints, major repair work is being delayed. The occupants of those houses, through their union, demanded the fringe benefit in addition to the accommodations. Management asked them to vacate the accommodations before taking advantage of the fringe benefit. Some responded to this request, but the majority did not vacate their houses even though on paper and in the records the accommodations are shown as vacated.

In the absence of a Collective Bargaining Agent, management tried to negotiate with all 12 unions. In the meantime, a new GM of that zone assumed his duties, and the Additional GM informed him of the issue. The GM talked to the union leaders directly in three separate meetings, with four leaders in each. They were satisfied, but their members did not agree. They surrounded the conference room where the GM was in discussion with all the high officials of the Railway. They began to shout slogans against the management, and they even brought a procession towards the Railway Station where the GM was in his saloon car. The AGM requested the GM to come out and say something to the unruly mob. Eventually the GM appeared on the platform and delivered a speech. He told the workers that it was beyond his power to make a decision and that he could simply refer it to the Secretary/Director General of Bangladesh Railway, Dhaka. But they demanded to see the case recommended and the accounts division required to do what was needed for payment.

They destroyed the hosepipes and disconnected electrical connections to put pressure on the GM. They became so violent that management was considering calling the district authorities to control the situation, though they knew that would have dire consequences. The call to Jumma prayer brought the workers under control with no solution.

Second Instance:

As a measure of welfare to employees, third and fourth class employees receive a monthly grainshop allowance of Taka 25. Because the government has no control over the cost of basic commodities on the open market, these employees are now demanding that the grainshop allowance be replaced with a rations shop in which basic commodities would be available at a subsidy rate. This demand would be consistent with that benefit currently enjoyed by the military and the police.

Third Instance:

In the Railway, the employees were covered by a contributory provident fund, but changes were made and employees were provided with an option to continue their PF contribution or to take advantage of a pension. Most employees responded to the pension option, but some did not. Pension improvements have been made, but the PF has remained unchanged. So now the union is creating pressure for the option to be made available once again.

Fourth Instance:

Mr. X, an employee of Zone "M" of the Railway, went to give a letter to an authority in the nearby Railway station. On return he told his fellow workers that he had been assaulted physically by that authority. On the following day, the workers refused to unlock any office doors and demanded immediate punishment against that authority. The AGM took the initiative and talked to them, and under pressure he had to assure them that he would take necessary action, even though a board of inquiry has found the authority not to be responsible for the incident. The Board also recommended that the authority be transferred to please the workers.

**QUESTIONS FOR CONSIDERATION:**

1. In what ways did the actions of the union affect employer-employee relations?

2. In what ways did the actions of the management affect employer-employee relations?

3. In each instance, what should management's response be?

**CENTRAL TEXTILE MILLS**
A Case Study in Employee Motivation
Developed by A.B.M. Mahiuddin Khan, Assistant Professor, University of Rajshahi

Central Textile Mills is an enterprise of Bangladesh Textile Mills Corporation. It was established in 1974 and started production in February, 1979. Situated in an industrial area, it provides employment for both rural and urban people, as well as contributing to the national income. Its output is yarn only. Employed in the mill are 781 workers--681 are skilled, 48 semiskilled, and 52 unskilled. There are 163 staff and officers. To be hired as a worker requires no academic qualifications; only practical knowledge and knowledge of the trade are required for skilled workers. In addition, training is provided in an orientation and through on-the-job training.

The eight grades for monthly pay, in addition to fringe benefits, are:

1. 580 - 20 - 860 (minimum - yearly increment - maximum)
2. 590 - 22 - 920
3. 620 - 24 - 980
4. 640 - 26 - 1030
5. 690 - 28 - 1110
6. 730 - 30 - 1180
7. 760 - 32 - 1240
8. 820 - 36 - 1480

The workers enjoy the following benefits:

a) contributory provident fund at 8.33% of their base pay;

b) one bonus annually which is equivalent to one month's base wages;

c) medical allowance of Tk. 100 per month;

d) gratuity: employees with over five years of service but less than ten receive 14 days' wages for every complete year of service, and those with ten years' service and above receive one month's wages for every complete year of service;

e) house rent allowance of 30% of base wages;

f) free schooling facilities are provided up through class 7;

g) a bus is provided so workers can have free transportation from town to work and return;

h) a welfare fund provides sports, a club, TV, recreation facilities and equipment, cultural activities (dance, music, drama), and religious activities;

i) a profit participation fund provides 5% of all profit to workers earning up to Tk. 2000 base pay according to years of service (others feel that they should be entitled to this fund as well);

j) a profit bonus is provided if the profit target is exceeded by more than 50% (a sliding scale percent that increases as the excess increases);

k) an incentive bonus based on meeting monthly production targets and selling 80% of that produced; and

l) other allowances, such as night shift, attendance, and overtime.

A liberal leave policy has also been established, with 10 days for Festival holidays, 10 days for casual leave, 14 days for medical leave (with more available if the company is properly informed and the illness is attested to by a medical doctor), 1 day of earned leave for each 18 days worked, and 1 day a week for the weekend. All such leaves are with full pay. While infrequently used, there is also allowance for full pay for 9 months plus all expenses for any worker contracting TB.

Working conditions are generally excellent. One portion (about 75%) of the factory has humidification, both for the comfort of the workers and for yarn quality. There is proper lighting in the factory; and there is no abnormal sound, injurious gas, smoke, or vapour. Workers handling raw cotton are encouraged to wear masks to protect themselves from the fibres in the air. There are a sufficient number of washing basins, urinals, and spitoons. Factory floors are kept neat and clean. The supply of raw materials is regular.

The Deputy General Manager is the top authority in the enterprise. He controls and supervises overall administration, discipline, financial and budgetary control, good labour-management relations, welfare activities, security, etc. According to him, he tends to use an autocratic style of leadership for day-to-day administration. Special increments and promotions are used to reward outstanding employees, while suspension and dismissal are used for discipline. While the DGM believes both approaches can be effective, he thinks punishment (or its threat) may be more effective.

Workers are not all happy, however. For example, workers who have been permanent inhabitants of the area surrounding the mill tend not to apply themselves to their work and look for excuses to leave the factory to go home. They also tend to be more aggressive in their attitudes. Sometimes, they demand that recruitment of new workers be from the local area, even though management receives many suitable candidates from outside the area and, in fact, on some occasions is under government order to hire a quota of new employees from specified areas of the country.

A specific example of worker turmoil concerns Mr. X, a local person who is also a member of the CBA. He has a record of not working hard. One day he wanted to go outside the factory during working hours, leaving his work behind. As this is not permitted, the security guard prevented him from leaving. As a result, Mr. X became furious and assaulted the security guard and left the factory premises. Because this occurred during Ramadan, and the guard was weak from fasting, there was concern that he had been killed, though this proved not to be the case. Management took immediate action. Mr. X was suspended for one month, he had to pay medical expenses amounting to Tk. 200, and he was moved to a different shift. The general workers tried to move for a strike, demanding the withdrawal of Mr. X's penalties. Management stuck with its decision.

Ultimately, everything returned to normal. After one month, Mr. X returned to work, and management has found him to be a good, attentive worker since.

The monthly reports show that, during the month of June, 1986, out of 25,056 spindles, 1,343 were idle each day, on average, due to absenteeism. The DGM explained the absenteeism as being primarily the result of lack of adequate housing facilities (requiring workers to leave their families in villages or other locations), biological needs, and illness.

Management also reports that a small group of workers (15 to 20) is often found engaging in gossip during working hours inside the factory, keeping their machines idle. Further, when the DGM visits the factory during the night shift, he may find 20 or so workers, including supervisors, outside sleeping. When they are pressed, they return to work again.

Finally, most of the time, the CBA leaders keep themselves "busy" maintaining the liaison between management and workers and do not perform assigned work.

**QUESTIONS FOR CONSIDERATION:**

1. What are the motivational techniques used by management in this organisation?

2. Assess the motivational techniques used by management.

3. Recommend additional motivational techniques that management could use.

**SOUTHERN NATIONALISED BANKS OF BANGLADESH**
A Case Study in Employee Motivation
Developed by Abu Taher Mollik, Lecturer, University of Rajshahi

The Southern Nationalised Banks of Bangladesh was a private bank that was nationalised following Liberation in 1971. It has branches across Bangladesh in five regions. Each regional office is run by a Deputy General Manager (DGM) and an Assistant General Manager (AGM).

As in all nationalised industries in Bangladesh, pay and benefits are set by the government; employees are paid about one-third of what comparable employees are paid in private banks. While they are not as productive, generally, three employees can be hired for the cost of one employee in a private bank, thus providing employment for three times as many people, consistent with the government's objective of employment generation. In addition, while their pay is lower, employees in nationalised banks have more secure employment.

1. Entry-Level Employee

Mr. A is a clerk in a Jessore branch of the bank under study. He joined the bank and began working in this branch in 1980. He was born into a middle-class family in 1956. A's academic career has been very good. He passed the S.S.C. with First Division in 1975 and the H.S.C. in 1977 with Second Division. He dropped out of the Honours program two times before joining the bank. Afterwards, he appeared at the B.Sc. examination and was placed in the First Division. He has appeared at one B.C.S. examination and one B.R.C. examination with the intent of changing jobs, but he was not successful in either one. Before joining the bank, he served as a seasonal laboratory chemist in North Bengal Sugar Mills where he was well paid.

According to his immediate supervisor, he has been an efficient, sincere and loyal worker. Normally, employees are eligible for promotion after three years and, unless they have received a negative confidential report (CR) from the branch manager, promotion from clerk to senior clerk is automatic. To date, however, Mr. A has received no promotion. It is not known whether he has a negative CR. Though the DGM claims that a vacancy at this level is not required for promotion, the branch manager disagrees. Both agree that promotions are generally offered on the basis of seniority. Other clerks in this branch do have more seniority than Mr. A. Now he is becomng reluctant to work, work is delayed, and when completed it is inaccurate.

2. Mid-Level Employee

Mr. B was an officer and a manager of a branch of the bank in Jessore. He had always received positive evaluations. A new GM was assigned to the region. In Mr. B's next confidential report (CR), the DGM reported that Mr. B was a good, sincere, and efficient employee, consistent with previous evaluations. In his comments on Mr. B's CR, however, the new GM noted that Mr. B was inefficient and lacking in integrity, and that "he has no business being a banker." Mr. B has seen this CR.

The GM then transferred him to a remote corner of the region as a branch manager. The AGM there, unaware of the GM's earlier comments, reported to the GM that Mr. B was not fit for the post. He did not work sincerely nor efficiently for the bank.

3. Top-Level Employee

Mr. C is a top-level executive of the bank working in Khulna. He has been serving this institution for about 25 years. Before coming to Khulna, he was employed in the Head Office of the bank in Dhaka, the capital city of Bangladesh. There he lived with his large family in his personal residence, which he owned. Recently, he was transferred to the Divisional Head Office in Khulna.

Since his undesired transfer to Khulna, he does not cooperate with management. Many times he claims illness and offers various other excuses. As an example of his work efficiency, he would have ten letters a day referred to him for action that should have been completed that day or the next. Often, it would take seven to eight days to be completed, requiring the GM to work overtime to make up for Mr. C's slackness.

**QUESTIONS FOR CONSIDERATION:**

1. In each instance, indicate why the problem might exist.
2. What might management have done to avoid the problem in the first place?
3. What measures should management take now to motivate each of these employees?

**CURE PHARMACEUTICAL COMPANY**
A Case Study in Distribution

Developed by Mohammad Salek, Senior Management Counsellor
Bangladesh Management Development Center, Dhaka

CURE Pharmaceutical Company is a multinational company operating in East Pakistan (now Bangladesh) since 1960. The factory and central godown (warehouse) of CURE is located at Chittagong with head office located at Dhaka. Presently, CURE has 11 branches as indicated on the map at the end of this case. Until 1984 there were seven branches; in the next two years four new branches were added. Each branch office is responsible for supplying product to a specific identified area. Total products and formulations of CURE before the Drug Ordinance were 24 and 48, respectively, and since the Drug Ordinance there are 12 and 22, respectively. Total formulation loss was 55% due to the new Drug Ordinance.

CURE holds a handsome market share, standing seventh in terms of sales revenue in Bangladesh. Medicines are considered to be essential goods by the Government, and therefore their selling price is fixed. Still, overpricing is sometimes practiced by retail shops during crisis periods; undercutting of prices is permitted and sometimes occurs.

CURE delivers medicines when needed free of delivery cost. For the last twelve years every branch has had a mini van except for Barisal. The vans are used to deliver the goods from shop to shop within the branch's area. The average distribution cost of CURE (including costs incurred by <u>both</u> the head office and the branch) is 7-8% of total sales and the average promotional cost is 4-5%. Retailers are given a 15% markup by the company.

Until 1983, CURE did not have its own transport to carry the goods from the central godown at Chittagong to the other branches/depots. During that period, they depended mainly on a private contract transport company, which provided three-ton capacity transports. The transport company was hired by CURE on registered agreements and with a security deposit of Tk. 50,000. This security deposit amount is very minimal compared with a single truckload of goods worth approximately Tk. 1.6-1.8 million. The annual distribution cost for this arrangement before purchasing its own 1 1/2-ton capacity trucks was about Tk. 1 million for moving goods from the central store to the branches. No insurance was used by the company for transportation of goods as the total annual premium amounted to over Tk. 1 million. However, in the last ten years there has been no loss of a total truck load. Minor pilferage/theft/damage has occurred in transit which was compensated for by the transport company. CURE usually pays an additional Tk. 500 per trip to the carrying contractor for ensuring safety and security of the goods and for obtaining availability at any time. Two persons are needed for each truck. Usually branches are supplied medicines from the central godown once a month.

Present distribution of CURE is much easier and economical as the company purchased two trucks, one in 1984 and another in 1985. Since it is using its own transport, it is saving a large amount of money. These two trucks mainly carry goods from the central store to the branches, each making about four trips per month. In addition, CURE still has to hire private contract transports for about three trips per month. Before 1984, CURE used to require seven to eight trips per month by hired trucks for its seven branches. After purchasing its two trucks, CURE has been able to cut down distribution costs from Tk. 1 million to 1/2 million, while adding four new trucks. The distribution cost budget (from central godown to branches) for 1986 is about Tk. 1/2 million against a total sales forecast of Tk. 160 million.

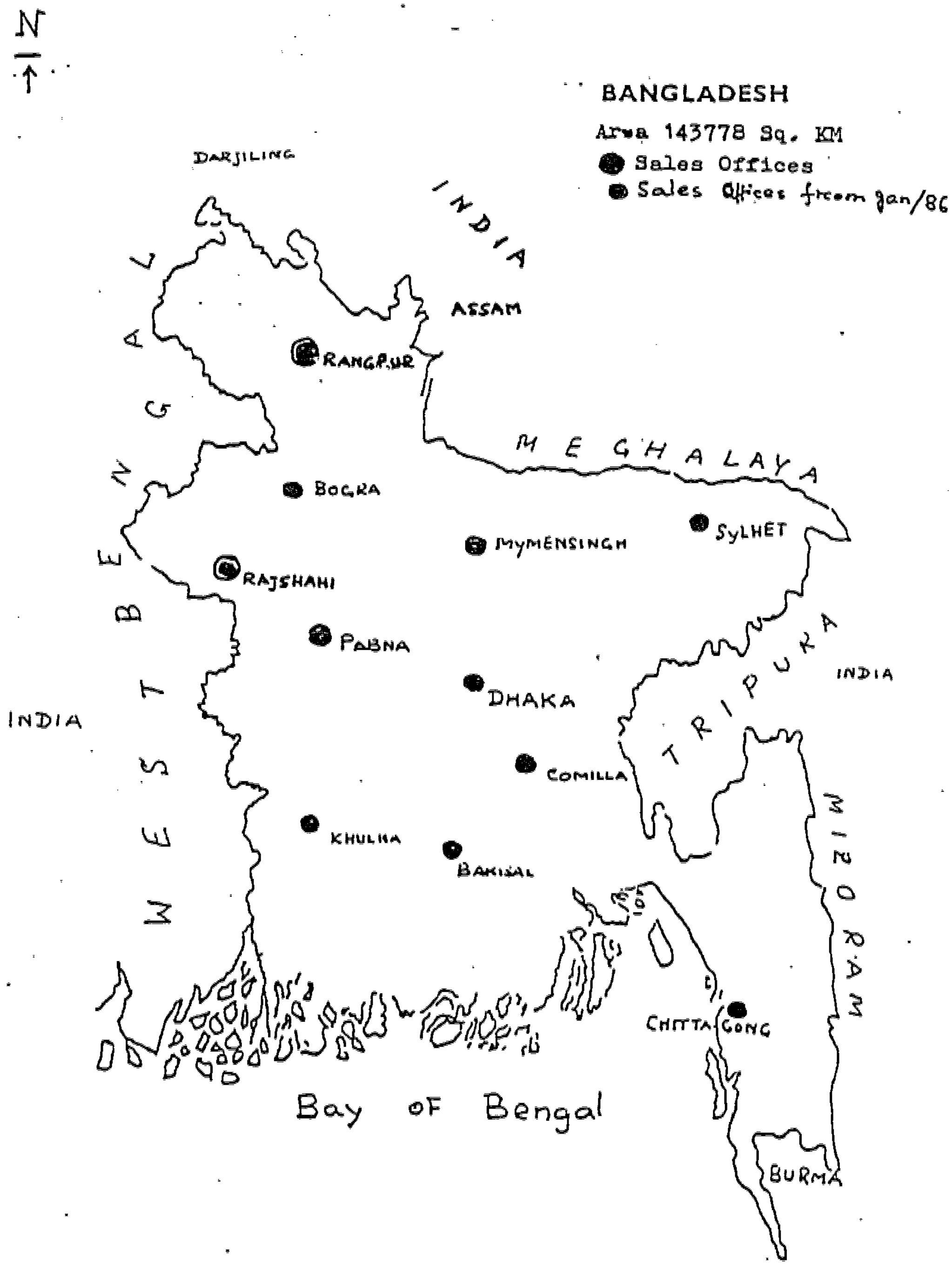
Five years ago the condition of roads and ferries was poor. During recent years it has improved a lot which thereby expedites transportation and minimizes time. Now it takes four-five days for a truck to make a round trip from Chittagong to the Northern part of Bangladesh. If any ferry jam occurs, the medicine trucks have been able to receive priority over other trucks in crossing rivers, even though there is no requirement that such priority be given.

**QUESTIONS FOR CONSIDERATION:**

1. Identify the distribution problems still faced by CURE Pharmaceutical.

2. For each problem identified, recommend possible solutions.

CURE Sales Offices in Bangladesh



**MEHAR INDUSTRIES**

A Case Study in Distribution

Developed by Mohammad Salek, Senior Management Counsellor
Bangladesh Management Development Center, Dhaka
and
Sarwar-uz-Zaman, Associate Management Counsellor
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Mehar Industries was established in 1961. As the then proprietors left the country in 1971, the Government took over the enterprise and handed it to the Bangladesh Steel and Engineering Corporation.

Presently Mehar Industries produces a wide range of products, mainly electrical and electronic goods, which includes TVs (colour and black and white), air coolers, ceiling fans, ballasts, water coolers, etc. The brand name of its TVs is 'Nikkon.' TVs contribute about 75% of total sales revenue. Among all the products, only TV sets are being marketed by Mehar through dealers in Bangladesh.

Mehar Industries at present has two assembly lines for TVs with the capacity of 8,000 units per year on an eight-hour shift basis. The production target set for Mehar Industries by the Corporation was 6,500 TV sets (colour and black and white) in the year 1985-86. But the actual production was 12,000 units on a twelve-hour basis, including 1,000 units of colour TVs. Mehar plans to increase its production of TVs to 15,000 units, using three assembly lines in the coming years.

Mehar Industries has 267 employees, including 18 officers headed by a general manager who is accountable to the Corporation for overall activities of the enterprise. The Marketing Office is managed by a Senior Commercial Officer.

Basic raw materials/components of Mehar products are imported from overseas, primarily Taiwan and Korea. From 1979-85 Mehar had only one assembly line for TVs. Afterwards, a new line was introduced as the demand for its product increased significantly.

Mehar maintains 100 dealers throughout the country, out of which 50 are from Dhaka. Among them, four-five dealers are wholesalers. It is said that NIKKON TVs hold a market share of 30% in the total TV market of the country. The other existing competitor brands are National, Phillips, Tanin, Royal, Singer, etc., in that order. Mehar maintains a showroom/store at Baitul Mokarram through which they usually deliver their goods to the dealers. Customers can also buy Mehar products from the factory premises at retail price. Other than TVs, most of the Mehar products are sold to Government institutions directly.

Mehar does not deliver goods to dealers as they think it involves risk and damage during transportation. Usually, the dealers have to lift the goods either from the showroom or from the factory premises. Sometimes, Mehar also delivers the goods by their own pickup (only one van) to the Railway/Bus/Truck stations in Dhaka. The dealer must pay for the goods before transfer is effected. From there the dealers have to arrange transportation to their destination at their own risk and cost. There is only one dealer at Chittagong because of difficulty in competing with the high number of smuggled goods. Management of Mehar also plans to open a showroom/depot at Biponi Bitan, Chittagong very soon. As the distant dealers have to procure Mehar products from Dhaka and carry them at their own cost, they usually sell these items at a higher price to compensate for transport costs and any breakage if it occurs. There is no quota system for the dealers as such. They also do not maintain any delivery schedule for the dealers. However, the dealers approach the factory or the showroom whenever they need the goods. On average a few of the best dealers lift ten-twenty TV sets from Mehar every day. Sometimes Mehar can not meet the requirements of dealers. In such cases the dealers are served on a first come, first served basis. But the best dealers and some distant dealers, especially the one from Chittagong, get priority in receiving delivery.

Usually there is no seasonal demand fluctuation. But on special occasions, like the SAARC Conference, World Cup Football, and the Eid Festival, demand for TVs increases significantly.

The management of Mehar is anticipating tough competition in the TV market with other established assemblers and newcomers in the near future. Proper planning and strategy should be adopted by Mehar to combat future competition.

**QUESTIONS FOR CONSIDERATION:**

1. What are the distribution problems currently facing Mehar Industries?

2. What recommendations would you make for overcoming each problem?

**LAIRD CHEMICAL INDUSTRIES**
A Case Study in Recovery of Bank Loans
Developed by A.R. Khan, Professor, University of Dhaka

Laird Chemical Industries (LCI) was established in 1971. The proprietor of LCI was an M.Sc. in Agricultural Chemistry who graduated in 1968. He started his career as a Lecturer in a University where he continued until 1971 when he set up LCI. The unit was located in Dhaka.

The promoter with his own technical expertise approached a Nationalised Commercial Bank (NCB) for financial accommodation. After due appraisal, NCB sanctioned a project loan of Tk. 1,72,250 on January 24, 1979. Initially, the unit was engaged in producing cosmetics, such as snow, powder, etc. The unit was small and produced a profit each year until 1980 with only Tk. 1,00,000 cash credit from another NCB which was paid up by 1980.

On November 26, 1980, LCI approached NCB for a loan of Tk. 23,90,000 for expansion purposes. LCI proposed to produce shaving cream, dental cream, skin cream, etc., in addition to its existing products. At the time of application, LCI had net assets of Tk. 7,77,750 (less Tk. 1,72,250 outside liabilities). Meanwhile, permission for the expansion program was received from the Directorate of Industries. NCB started an appraisal of the project on November 27, 1980, and completed it on Decemeber 5, 1980. The appraisal report showed that the expansion program of LCI would not cause any product marketing problem. Rather, the appraisers found that 60% of the product could be readily marketed locally, and the remaining 40% could find an export market. The appraisers also estimated that the expansion of the unit would yield Tk. 3 lakh as profit in the first year, Tk. 4.5 lakh in the second year, and Tk. 5 lakh in the third year of the project. After appraising all aspects of the proposed expansion of LCI, the appraisers suggested that the proposal be accepted for Tk. 21,89,000. The final integrated opinion of the appraisal team was:

> It is recommended that M/s. LCI (under foreign technical collaboration) may be considered for a long-term loan of Tk. 17,63,000 and a working capital loan of Tk. 4,26,000 which are found to be reasonable requirements to run the industry based on the findings in a Technical, Marketing, Financial and Economic analysis of the project (5.12.1980).

The management of NCB examined the appraisal report on December 24, 1980, and considered the LCI proposal for an amount of Tk. 20.95 lakh and sent the case for consideration to the Bangladesh Bank (Central Bank). The Bangladesh Bank on April 8, 1981, accorded authorisation for LCI with a comment that, before issuing final sanction to the unit, NCB should be sure about marketing following a cautious and meticulous market analysis.

On April 8, 1981, LCI was issued a final sanction letter of Tk. 20,95,000 which breaks into: project loan of Tk. 17.63 lakh and working capital loan of Tk. 3.32 lakh. LCI was also advised that the local currency component of the loan was Tk. 3,99,296, and the foreign currency conponent was Tk. 16,95,704, against which permission was given to open an L/C of Tk. 14,89,006 for capital machinery and Tk. 2,06,698 for raw materials.

The sanction letter advised the borrower (LCI) of the acceptance with conditions contained in a letter, including the requirement that the equity (Tk. 5,68,371) be deposited in NCB to be withdrawn only against fixed assets construction. Specific conditions included: (a) all fixed assets were to be mortgaged after having insurance for fire, RSD, and machine breakdown; (b) working capital requirement over Tk. 3.32 lakhs would be the responsibility of LCI; (c) any overrun cost of the project, including fluctuation in the rate of foreign currency, was to be borne by LCI from its own resources; (d) LCI would continue all banking transactions, including export business, through NCB; (e) construction of building should be made as per approved layout plan; (f) complete the project within six months of first disbursement of loan; (g) before distribution of any profit, a sufficient amount was to be set aside in the "Loan Amortization Fund" for payment of loan instalments that would fall due during the next financial year.

Relating to the repayment schedule, it was stated in the letter that the project loan would be repaid by 17 half-yearly instalments of Tk. 1,74,372, and working capital loans would be repaid by 9 half-yearly instalments of Tk. 49,879. It was further stated that repayment of the project loan would commence from the 24th month after the last disbursement of the loan or the opening of the L/C and for the working capital loan from the 12th month after the date of the first disbursement of the W/C loan. LCI agreed to the conditions contained in the sanction letter, deposited (24.6.81) equity money of slightly less than required (but agreed to by NCB) and opened an L/C in the amount of DM 30,120 (33,716 pounds). On May 8, 1981, LCI obtained the required machinery of West German origin, had it installed, and started production.

The proprietor of LCI started erecting a more costly building with more space than the approved specification. As such, the proprietor had to put in more funds than were intended for construction of the building. Meanwhile, LCI approached NCB for enhancement of the building construction rate from Tk. 150 per sq. ft. to Tk. 275 per sq. ft. to which NCB did not agree (3.7.81) as per the terms of agreement.

LCI also requested the waiver of the requirement of having the machinery insured to which NCB agreed after due examination by the experts and with approval of the Bangladesh Bank (5.4.83). NCB consented to this in order to facilitate LCI's working capital adequacy out of savings from non-payment of regular insurance premiums.

In the last quarter of 1983, LCI stated that the unit was facing a working capital inadequacy problem. As such, LCI requested a Tk. 12 lakh W/C loan. NCB on receipt of the request made Tk. 3,00,000 as the cash credit limit to ease the W/C position. LCI informed NCB that it had entered into a contract with GOYA International Ltd., England. It continued that GOYA products would have a wider market, and the unit would earn more by selling more. As such, for a larger volume of production, it required Tk. 12 lakh additional W/C loan from NCB. Then the amount of cash credit was subsequently raised in response to the request of LCI to Tk. 4,00,000 (Tk. 2,00,000 on pledge + Tk. 2,00,000 on hypothecation).

The W/C problem was further aggravated when the unit faced mass rejection of products worth an amount of about Tk. 10 lakh resulting from the wrong combination of chemicals. This time NCB verbally advised the proprietor to include one-two financial partners or to convert the legal status of the unit into a public limited company. The proprietor replied that no reliable financing partner was available, and he was not agreeable to converting the unit into a public limited company. He did agree, however, to convert the company into a private company. Such change in status, NCB thought, would not improve the financial condition of the unit as it would include only his wife and some near relatives who would make virtually no inflow of funds to the unit.

At one stage the bank anticipated that the proprietor was considering shutting down the plant and selling all the assets to pay off the bank loans. Since LCI had failed to make even one instalment payment on the project loan, the head office of NCB advised the loan-giving branch to prepare for a recovery suit to be filed against LCI (20.10.1985).

During the preparation of the recovery suit, the proprietor of LCI requested the manager to allow him some time and to give him additional W/C which, in his opinion, would facilitate the generation of income, and then he would make repayments. Since then, the matter of filing the recovery suit has been kept pending.

Meanwhile, the proprietor of LCI again requested the bank (10.2.86) to enhance the cash credit limit up to Tk. 10 lakh (Tk. 7 lakh hypothecation and Tk. 3 lakh pledge) which he pleaded would enable him to generate income resulting from augmented production and thereby sales. In his letter the borrower stated that the recent policy of the Government allowing the multinational companies (MNCs) to start production of toothpaste, shaving cream, etc., had seriously affected small units like his. He continued to argue that the MNCs not only had financial superiority but also were advantaged with better skill and wider publicity and therefore goodwill. In his long letter, the proprietor also stated that regular penetration of similar products smuggled from a neighbouring country had serious adverse influence on the marketing of LCI products. He suggested that, in spite of all the odds stated, he kept the unit running even without adequate working capital. He concluded that, if allowed Tk. 10 lakh C.C., he would start repayments from December, 1986.

The project file of LCI showed its position as displayed below (as of 20.2.86) (all amounts shown are in Taka):

| Type of Credit | Limit | Amount Due | Amount Defaulted | Outstanding |
|---|---|---|---|---|
| II IDA | 1,72,250 | 2,10,914 | 95,044 | 1,47,167 |
| III IDA<br>Project Loan | 17,63,000 | 10,27,564 | 10,27,564 | 30,20,878 |
| Working Capital | 3,32,000 | 3,20,854 | 3,20,854 | 4,56,861 |
| TOTAL | 22,67,250 | 15,59,332 | 14,43,462 | 36,24,906 |
| <u>Cash Credit</u> | | | | |
| Pledge | 2,00,000 | | | 1,45,248 |
| Hypothecation | 2,00,000 | | | (237) |

The preceding table shows that LCI was most particular in making repayment relating to cash credit but had defaulted Tk. 14.43 lakh against the term loans.

In March, 1986, the proprietor of LCI submitted an estimate of working capital for three months as Tk. 47.27 lakh. NCB also assigned an officer to assess the working capital requirements of LCI. The officer, after physical verification, assessed (8.5.86) that LCI, for raw materials alone, required Tk. 23.59 lakh per month as working capital. This estimate excluded working capital required for labour, power, spares, etc. The officer also reported that LCI sales were made mostly on credit, and Tk. 7,52,000 were then receivable from sundry debtors. The officer further reported that, during the days of his inspection, he found that the factory was not in operation.

A meeting with the proprietor of LCI in the office of the General Manager, Industrial Credit of NCB (20.4.86) was arranged for a thorough discussion in order to pursue the repayment of the amount defaulted so that his request for an enhanced working capital loan could be considered. He agreed to make a substantial amount of repayment during the time of discussion. About one month after the discussion, the proprietor of LCI made a repayment of only Tk. 50,000 against an amount of around Tk. 15 lakh defaulted. He then requested NCB to give him an early renewal of the C.C. limit that had been pending since February, 1986. He further stated that, without an early arrangement of the requested C.C. limit, LCI would be unable to make payments due to the workers and staff, and production would have to be suspended for want of cash capital.

After a couple of days, on June 4, 1986, the proprietor indicated that he had developed a plan to diversify his existing line of products to include an item required in the tannery industries as an item to replace imports. This product when produced with an adequate working capital arrangement from NCB would find a wide market and then would tremendously improve the fund position of LCI. The proprietor suggested an adequate working capital arrangement first, so that he could start producing the new item along with the existing products, and after some time LCI would start repayment of the bank loans.

The bank could not yet finally decide on the request. However, it could be gathered that the request for additional working capital would be considered if LCI would make an arrangement for repayment of at least 50% of the overdue loans.

**QUESTIONS FOR CONSIDERATION:**

1. What is the problem? Why was it caused?
2. Identify the responsibilities of NCB, LCI, and the Government.
3. Suggest remedial measures to solve the problem--for NCB, LCI, and the Government.

**PROGRESS LTD.**

A Case Study in Bank Loan Recovery

Developed by S.A. Siddiq, Assistant Professor, University of Dhaka, and Bulbul Bhowmik, Lecturer, University of Dhaka

Progress Ltd., taken over by the Government in 1974, is the only automobile assembling plant in the public sector. It has a capacity of assembling 2,000 units of different types of vehicles on a single shift basis and 4,000 units in double shifts. The enterprise assembles vehicles of different manufacturers of foreign origin. Until 1982, the inventory was kept at a realistic level in light of the market demand.

In the 1981-82 fiscal year the Government directed Progress Ltd. to assemble 3,500 units by extending the shift. The existing production target was, accordingly, revised. The organisation borrowed an additional sum of Tk. 45 crores from the Golden Bank and Tk. 20 crores from Silver Bank at an annual interest rate of 14 1/2% to facilitate the import of CKD components for 1,850 units of buses, trucks and jeeps of different makes and models, in addition to the 1,650 units already ordered as per the prior anticipated demand.

When the enterprise actually undertook this ambitious production program, free import of about 3,000 units of reconditioned commercial vehicles, such as trucks, buses, mini-buses, and mini-trucks, was allowed. This import, coupled with the prevailing economic recession, made the overall position of the enterprise extremely difficult. The situation further worsened due to a newly introduced policy of not allowing bank loans for vehicle purchases. Sales dropped alarmingly, and only 300 vehicles were sold over a period of two years. The organisation could not dispose of about 2,300 vehicles imported against bank borrowings. A huge number of imported vehicles were lying unsold and parked in open yards, causing serious deterioration of the condition of these vehicles. Consequently, a huge amount of interest accrued on bank borrowings as normal operations were curtailed.

Although the enterprise operated successfully and earned profits from nationalisation up to fiscal year 1980-81, the financial position started deteriorating in 1981-82. The profit and loss figures since 1974 are given on the next page.

| Year | Profit/Loss | (Tk. in Lakhs) Bank Interest |
|---|---|---|
| 1974-75 | 39.65 | Not Available |
| 1975-76 | 68.96 | Not Available |
| 1976-77 | 48.91 | Not Available |
| 1977-78 | 69.58 | 47.68 |
| 1978-79 | 202.76 | 42.26 |
| 1979-80 | 260.82 | 54.81 |
| 1980-81 | 547.55 | 61.23 |
| 1981-82 | (185.03) | 319.83 |
| 1982-83 | (836.10) | 826.95 |
| 1983-84 | (690.21) | 887.00 |
| 1984-85 | (764.54) | 817.57 |

As the inventory was very high and the condition of the vehicles was fast deteriorating, the company decided to sell these vehicles on deferred payment, payable over a period of two years without interest to the customer. Accordingly, the company started selling these vehicles to the customers against personal guarantees only from June, 1983, in order to salvage the enterprise. Under this system, the enterprise sold 1,967 units at a total value of Tk. 71.72 crores, of which Tk. 43.79 crores were realised up to 30.6.85, and the remaining Tk. 27.93 crores are expected to be recovered within three years.

To overcome the present financial crisis, the management of the enterprise has requested the banks to freeze the bank interest for the coming three years from July 1, 1985, so as to enable the enterprise to pay off the huge interest and principal due to the banks. The enterprise has so far paid back approximately Tk. 35 crores. But even after payment of this amount, the outstanding liability to the two banks stood at more than Tk. 60.44 crores on 30.6.86.

The enterprise offers to the banks that:

1. It will accept all its liabilities to the above two banks as they stood on June 30, 1985;

2. During the interest exemption period of three years, the enterprise will settle all its liabilities to the above two banks as they stood on June 30, 1985; and

3. It further agrees to allow the above stated banks to provide all banking facilities for its sister organisation, High Skill Ltd., having annual imports worth about Tk. 100 crores and sales of about Tk. 150 crores per year.

The production target for the 1985-86 fiscal year was fixed at 1,500 units. This will ultimately be increased to the installed capacity (per single shift) of 2,000 units based on market demand. The management of Progress Ltd. is determined to keep the inventory at a realistic level from now on and to carry out proper market surveys before a production target is set. The management strongly believes that, if it gets the necessary cooperation from the lending banks, it will be able to go back to its normal position and earn a profit as before.

Four alternative calculations with interest rates of (a) 0%, (b) 4.5%, (c) 8.0%, and (d) 11.25% on the balance of the bank loans as of 1.7.85 are given in Appendix A. Assume that the cost of borrowing from the Bangladesh Bank is 8.0%. A projected Profit and Loss Statement and a projected Cash Flow Statement based on the enterprise's appraisal of the future operations of Progress Ltd. are also given in Appendices B and C.

**QUESTIONS FOR CONSIDERATION:**

1. What are the causes that have created the problems now facing Progress Ltd.?

2. a. What should have been done in 1981 by Progress Ltd.?
   b. What should have been done in 1981 by the two banks?

3. What other information, if any, would you want the banks to have before making a decision?

4. What course of action should the two banks take now?

PROGRESS LIMITED

Appendix - A

PROJECTED REPAYMENT SCHEDULE OF BANK OVERDRAFT AND CALCULATION OF INTEREST AT DIFFERENT RATES.

Taka in Lacs

| Rate of Interest | Name of Bank | Overdraft Balances as on 1.7.85 | Add.Int. (85-86) | Total (85-86) | Less payment (85-86) | Overdraft Balance as on 1.7.86 | Add.Int. (86-87) | Total (86-87) | Less payment (86-87) | Overdraft Balance as on 1.7.87 | Add.Int. (87-88) | Total (87-88) | Less payment (87-88) | Overdraft Balance 30.6.88 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| @ 0% | Golden Bank | 3285.62 | - | 3285.62 | 700.00 | 2585.62 | - | 2585.62 | 750.00 | 1835.62 | - | 1835.62 | 800.00 | 1035.62 |
| | Silver Bank | 2758.66 | - | 2758.66 | 700.00 | 2058.66 | - | 2058.66 | 750.00 | 1308.66 | - | 2308.66 | 800.00 | 508.66 |
| | | 6044.28 | | 6044.28 | 1400.00 | 4644.28 | | 4644.28 | 1500.00 | 3144.28 | | 3144.28 | 1600.00 | 1544.28 |
| @ 4.5% | Golden Bank | 3285.62 | 147.85 | 3433.47 | 700.00 | 2733.47 | 123.01 | 2856.48 | 750.00 | 2106.48 | 94.79 | 2201.27 | 800.00 | 1401.27 |
| | Silver Bank | 2758.66 | 124.14 | 2882.80 | 700.00 | 2182.80 | 98.23 | 2281.03 | 750.00 | 1531.03 | 68.90 | 1599.93 | 800.00 | 799.93 |
| | | 6044.28 | 271.99 | 6316.27 | 1400.00 | 4916.27 | 221.24 | 5137.51 | 1500.00 | 3637.51 | 163.69 | 3801.20 | 1600.00 | 2201.20 |
| @ 8% | Golden Bank | 3285.62 | 262.85 | 3548.47 | 700.00 | 2848.47 | 227.88 | 3076.35 | 750.00 | 2326.35 | 186.11 | 2512.46 | 800.00 | 1712.46 |
| | Silver Bank | 2758.66 | 220.69 | 2979.25 | 700.00 | 2279.35 | 182.35 | 2461.70 | 750.00 | 1711.70 | 136.94 | 1848.64 | 800.00 | 1048.64 |
| | | 6044.28 | 483.54 | 6527.82 | 1400.00 | 5127.82 | 410.23 | 5538.05 | 1500.00 | 4038.05 | 323.05 | 4361.10 | 1600.00 | 2761.10 |
| @11½% | Golden Bank | 3285.62 | 369.65 | 3655.25 | 700.00 | 2955.25 | 332.47 | 3287.72 | 750.00 | 2537.72 | 285.49 | 2823.21 | 800.00 | 2023.21 |
| | Silver Bank | 2758.66 | 310.35 | 3069.01 | 700.00 | 2369.01 | 266.51 | 2635.52 | 750.00 | 1885.52 | 212.12 | 2097.64 | 800.00 | 1297.64 |
| | | 6044.28 | 679.98 | 6724.28 | 1400.00 | 5324.26 | 598.98 | 5923.24 | 1500.00 | 4423.24 | 497.61 | 4920.85 | 1600.00 | 3320.85 |

Appendix - B

PROGRESS LIMITED
PROJECTED PROFIT AND
LOSS STATEMENT.

(Taka in Lacs)

ESTIMATE

ACTUAL

| 1984-85 | Particulars | 1985-86 | 1986-87 | 1987-88 |
|---|---|---|---|---|
| 868 Nos. | Sales in quantity | 1500 Nos. | 1500 Nos. | 1500 Nos. |
| | A. Income | Tk. | Tk. | Tk. |
| 2295.47 | Sales | 4750.28 | 4750.28 | 4750.28 |
| 9.98 | Misc. | 48.00 | 48.00 | 48.00 |
| 2305.45 | Total | 4798.28 | 4798.28 | 4798.28 |
| | B. Expenditure | | | |
| 1798.79 | Raw Materials | 3905.89 | 3905.89 | 3905.89 |
| 2.50 | Power & Fuel | 3.00 | 3.00 | 3.00 |
| 249.95 | Salaries & Wages | 263.39 | 263.39 | 263.39 |
| 13.69 | Repairs & Maint. | 6.05 | 6.05 | 6.05 |
| 17.21 | Depreciation | 12.85 | 12.85 | 12.85 |
| 7.44 | Insurance | 3.90 | 3.90 | 3.90 |
| 94.20 | General/Admin. Overhead | 100.52 | 100.52 | 100.52 |
| 68.64 | Other business expenses | 78.68 | 78.68 | 78.68 |
| 2252.42 | Total | 4374.28 | 4374.28 | 4374.28 |
| 53.03 | Profit/(Loss) before charging interest on Golden and Silver Bank. | 424.00 | 424.00 | 424.00 |
| | Interest on Golden Bank and Silver Bank Loans: | | | |
| - | i) @ 4.5% | 271.99 | 221.24 | 163.69 |
| - | ii) @ 8% | 483.54 | 410.23 | 323.05 |
| - | iii) @ 11.¼% | 679.98 | 598.98 | 497.61 |
| 817.57 | iv) @ 14.5% | - | - | - |
| | Net Profit (Loss) : | | | |
| | i) If interest is paid @ 4.5% | 152.01 | 202.76 | 260.31 |
| | ii) If interest is paid @ 8% | ( 59.54 ) | 13.77 | 100.95 |
| | iii) If interest is paid @ 11¼% | (255.98 ) | (174.98) | (73.61) |
| (764.54) | iv) If interest is paid @ 14.5% | - | - | - |

Notes: 1. Interest of Golden Bank and Silver Bank upto 30.6.85 calculated @ 14.5% p.a. and thereafter @ different rates.

2. All increases in costs during 1986-87 and 1987-88 shall be off set by proportionate increase in revenue income thereby relatining profit unchanged.

PROGRESS LTD.,
PROJECTED CASH FLOW STATEMENT

Appendix-C

(Taka in Lacs)

| PARTICULARS | 1985-86 | 1986-87 | 1987-88 |
|---|---|---|---|
| OPENING BALANCE : (CASH IN HAND & AT BANK) | 504.16 | 498.75 | 512.94 |
| RECEIPTS | | | |
| Revenue receipts | 4798.28 | 4798.28 | 4798.28 |
| Receipts from deferred payment sales | 1200.00 | 1320.00 | 1080.00 |
| Receipts from other debtors | 200.00 | 200.00 | 200.00 |
| TOTAL : | 6198.28 | 6318.28 | 6078.28 |
| PAYMENT : | | | |
| Revenue expenditure per P&L A/C excluding depreciation | 4454.09 | 4454.09 | 4454.09 |
| Creditors | 350.00 | 350.00 | 350.00 |
| TOTAL : | 4804.09 | 4804.09 | 4804.09 |
| EXCESS OF RECEIPTS | | | |
| OVER PAYMENTS | 1394.19 | 1514.19 | 1274.19 |
| CLOSING BALANCE (BEFORE LOAN Repayment). | 1898.75 | 2012.94 | 1787.13 |
| REPAYMENT OF LOANS: | | | |
| Golden Bank | 700.00 | 750.00 | 800.00 |
| Silver Bank | 700.00 | 750.00 | 800.00 |
| TOTAL : | 1400.00 | 1500.00 | 1600.00 |
| FINAL CLOSING BALANCE : | 498.75 | 512.94 | 187.13 |