



“Syndication” in Bangladesh: A Glaring Example of Business Malpractice and Weak Market Supervision

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Research Note

Abstract

Purpose: Syndication in this paper refers to the agreed and unified effort of all the leading producers, importers, and dealers in a market to control the price of a specific product. This paper aims to explore the term "syndication", its nature, procedure, and consequences in the context of Bangladesh. It also provides a few recommendations for the policymakers for curbing or preventing such practices.

Design/Method: In this paper, syndication has been represented as a negative business practice prevailing predominantly in Bangladesh. The study is mainly based on data from secondary sources, as well as my (the author's) own observation and real-life experience. Secondary data were collected particularly from newspapers.

Findings: In the pre-planned trap of syndication practices by dishonest businessmen, the final consumers are the ultimate losers as they have to pay the premium price.

Implication: It is expected that upon proper utilization of the recommendations made, the responsible authorities or parties can take proper steps to make the consumer market free from such malpractice, at least to some extent. The paper is also anticipated to become a foundation for the researchers and academicians wishing to investigate more regarding this fairly unexplored phenomenon.

Originality/Value: According to my knowledge, this paper is the first attempt to unveil the true nature of syndication practiced in Bangladesh. The term “Syndication” used in this paper has a meaning which is totally different from the same word used for other purposes. Therefore, this conceptual paper is believed to be the founding block for further research investigations in the Bangladeshi consumer market scenario. I strongly believe that upon proper utilization of the recommendations made, the consumer market will be free of such malpractice.

Limitations: This article is limited to the consumer market scenario of Bangladesh only. Thus, the term cannot be generalized for the same meaning elsewhere.

Keywords: Syndication, Syndicate, Market mechanism, Business malpractice, Artificial demand and supply, Bangladesh.

1. Introduction

The word “Syndication” may have several meanings. In general, the "Syndication" process refers to a process carried out for any special purposes such as venture capital syndication (Cai et al., 2018). A syndicate can be formed to serve any specific purposes or to combat any emergency such as a task force. However, in this paper, I introduce the word in a unique form that is commonly used in the context of Bangladesh. By “syndication” I refer to the pre-planned process of forming an interest group consisting of the main players in the market for a specific product (in most cases, a consumer product of daily necessity) to gain an exorbitant amount of profit. Although many people elsewhere are not familiar with this negative connotation of the term “Syndication” or “Syndicate”, surprisingly, such a concept is a very familiar and frequently talked about issue in the context of Bangladesh. Therefore, the word or concept has a special meaning in the Bangladeshi market scenario or market mechanism. The interesting fact is that Bangladeshi ordinary customers are victimized by such malpractice and consider it as part of their lives.

Syndication in the Bangladeshi scenario can be termed as the combined effort of price hiking for a specific product through creating artificial market demand by controlling the supply. Such intention is made possible when the supply of that specific product or service is controlled by one or a few importers, dealers, or market leaders. It should be noted that this wicket intention can be easily materialized if the product is not grown or produced within the country and has to be imported from outside by a few business players.

Afterward, since the supply or availability of such product is controlled by those groups, they can create the artificial demand by hoarding that product and hence act as the players of price hiking. The big dealers or retailers collect that product from such syndicate at a high price and accordingly sell the same product to the customers at a high price adding profits per unit. Therefore, the ultimate losers are the customers or end-users who have to pay unnatural prices thus becoming the victim of this artificial market mechanism.

This paper aims to identify and explain this unethical practice with the process (how it works) and its consequences. It also offers a few recommendations for the policymakers in order to prevent such unfair and unethical practices made by a few criminals and save ordinary customers from this vicious business circle.

2. The concept of syndication and syndicate

As mentioned earlier, syndication refers to the combined effort of one or a few business groups making a joint effort to undertake some specific duties or carry out specific transactions or negotiations. Those activities may be conducted for good as well as bad purposes depending on the motives of the syndicators. If the motive is, as an example, to earn abnormal profit or cheat the ultimate consumers, it can be termed as bad syndication (Khan & Islam, 2009).

On the other hand, they may form a syndicate for noble activities like making adequate supplies rather than hoarding the commodities. In this paper, syndication is presented as an unfair and unethical business practice where such syndicate members mainly intend to earn abnormal profit from the market by creating an artificial supply crisis thus increasing demand. According to the basic rule of demand and supply, since the supply becomes limited due to hoarding or control, the market observes abnormal demand for that specific product. As a result, price becomes sky high mostly beyond the reach of general customers at least for a shorter period. The ultimate result is the victimization of general customers who have to pay the consequences of greed created by those syndicators.

3. Conditions of forming syndication and how it works

There are several pre-conditions where syndication can be made possible. Such pre-conditions are listed below shortly to be understood by the readers.

- A specific product is targeted that is not either produced in the country or the production is too low compared to overall demand.
- The product is a daily necessity required to be consumed by people. In Bangladesh, such targeted products are mostly food items such as edible oil, onion, ginger, or milk.
- The market is controlled by one or a few (usually one to three) key market players who have the sole authority to import specific products, such as edible oil or baby milk.
- Government supervision or market mechanism is weak and the syndicate members are politically influential.
- The general consumers require consuming such product(s) anyway even paying the higher prices.
- The legal system is not proactive to take necessary actions against such criminals.

Further, such syndication works in a unique style. More often, such syndicate members organize themselves targeting some specific undesired events such as flood, drought, political unrest, war, special emergency, etc. But in the Bangladeshi scenario, such syndication and artificial demand can be observed even on the eve of festivals such as Ramadan (Muslim holy fasting month). More often than not, even the Government claims that there is no lack of supply and it (The Government) cannot control the sky-high price.

As mentioned earlier, the syndication continues to form targeting one or two consumer products that are in high demand in special circumstances not easily available due to such undesired evil actions. The traders or importers usually make a business alliance (often secretly) that they do not admit or disclose publicly. They control the supply and hoard all the available units of that product using their monopoly powers in the market. As a result, demand soars, and ordinary people become helpless. However, the solvent customers are willing to pay even the premium price for that product as such product is a daily necessity (such as edible oil or baby milk). In this high time, the syndicate releases some of the units slowly to the wholesalers at high prices. The high price continues to

increase adding profits from wholesalers to retailers and the final customers are people who have to take the burden of such unusual prices. The working sequence of the syndication process can be illustrated by the following figure:

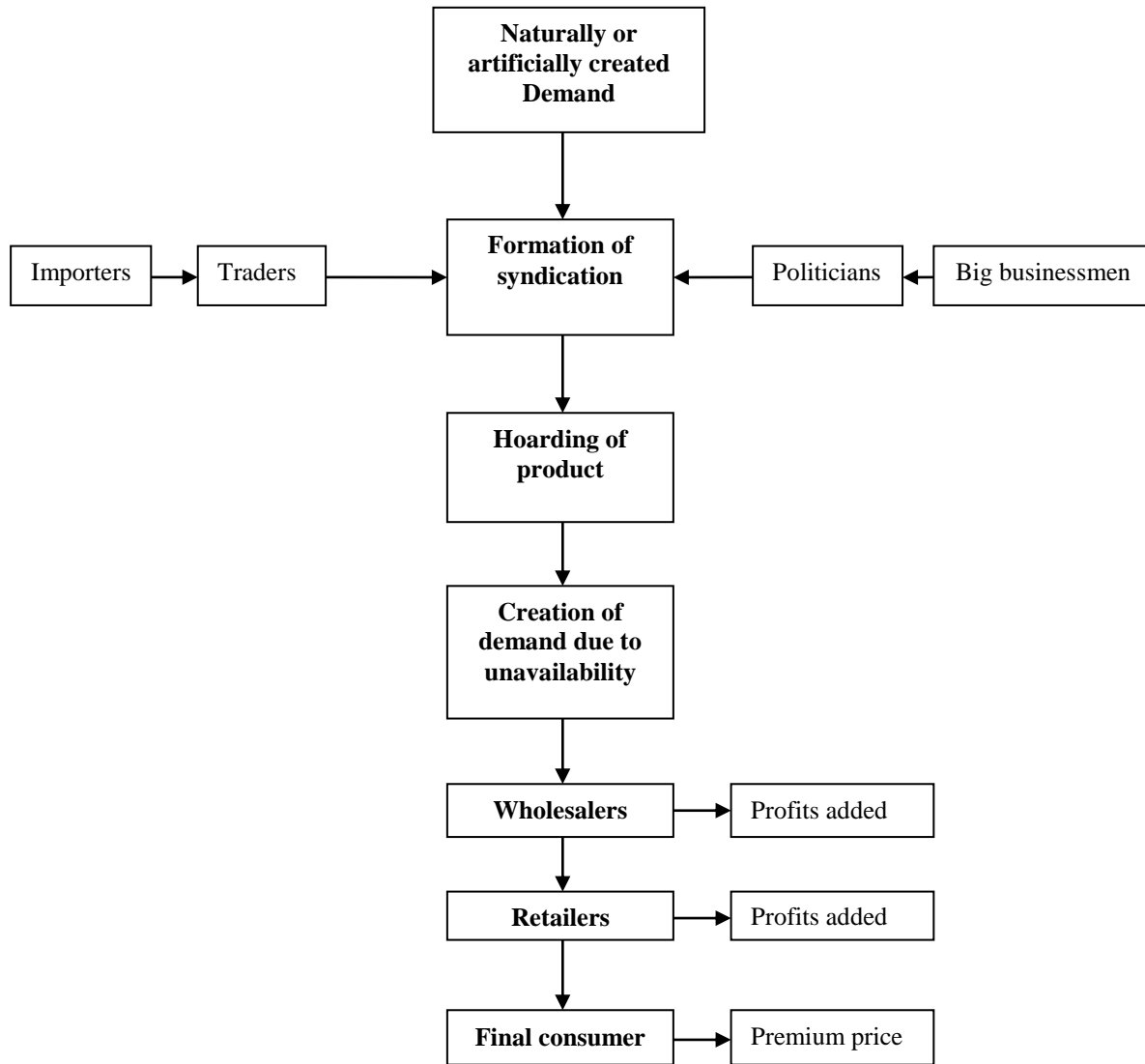


Fig. 1: The syndication process explained

Source: Author’s elaboration

Figure-1 indicates the sequential process of syndication in an illustrative manner. It should be noted that in a corrupted, unsupervised, or weak supervised market, syndicates can be formed with the mutual alliance of powerful and influential importers, local traders, big businessmen, and politicians. The main strength of such syndicators is the influence over local or national politics as well as businesses that seemingly motives them to take such an unfair and unethical attempt.

4. The ultimate losers

Obviously, the ultimate losers of such an unfair and unethical business practice are the customers or end-users who have to pay the burden of greed created by the syndicate members. In some cases, if all (at least, most of) the customers can boycott such product(s), the syndicate might become weak due to falling demand. But such a case is

very unlikely to occur as it is not possible to make an organized customer association if the market mechanism itself or the consumer unity is weak. This is the opportunity that the syndicate members usually pick.

Therefore, a good amount of money transfers from the customers' pockets to the syndicators' pockets in the form of abnormal profit. As an individual customer, a person cannot even realize that he/she is also contributing to such abnormal profit by paying such a high price for the product bought. An example is the price of onion (The Daily Star, April 26, 2020) and ginger (The Financial Express, April 26, 2020) in Bangladesh which increased sky-high in 2020 but the customers still purchased those products as those ingredients are important for cooking in the holy month of Ramadan. A very recent incident is the price of edible oil that has reached a record high in Bangladesh due to the syndication process (The Daily Star, February 12, 2022) where the Ministry of Commerce has become simply an observer rather than a controller.

5. Syndication: The underlying factors

Several underlying causes are responsible for such unethical business malpractice. Most of the factors are caused by the weaknesses of the government agencies and legal enforcement. A single factor can be attributed to the consumer base as well. The underlying factors that are responsible for syndication are briefly highlighted below.

Demand on specific occasions: A notable factor that motivates dishonest businessmen to create a syndicate is the unusual demand for a particular product for a specific period. Such demand may either be created due to the shortage of supply or sudden huge demand. An example is a demand for N-95 masks and disinfectants at the time of the COVID-19 outbreak.

Lack of control: Inadequate controlling measures by the government agencies are also responsible for syndication. It is a well-known fact that powerful agencies or business groups utilize such opportunities where the supervision measures and control systems are weak.

Loose enforcement of legal regulations: Another factor that can be accused of forming syndication is the weak enforcement of legal regulations. This includes irregular market monitoring, weak punishment practices, and weak consumer protection laws.

Weak consumer base: The final reason that can be attributed to syndication attempts is the weaker actions from the consumer protection groups. Generally, consumer groups should have some representations at the Ministry of Trade and Commerce in any country. If, however, such representation is absent or improper, the dishonest businessmen can avail this opportunity to materialize their interest.

6. Discouraging or breaking the syndicate: Some recommendations

Some strict measures may be recommended to discourage syndication efforts. Such efforts should mainly come from the government and law enforcement agencies.

Breaking the monopoly: The first and foremost rule of a good market mechanism is to break any chance to create a monopoly or duopoly. If any product is in shortage at the market, the Government should immediately approve multiple business agencies to import or produce that good so as to ensure the normal flow of supply. This is also good for a perfect competitive scenario in the market and ensures a competitive price for the customers.

Regular and effective market monitoring: A regular, proper, and efficient market monitoring system should be formulated and implemented by the Ministry of Trade and Commerce in order to prevent the sellers from taking abnormal prices. Such monitoring should be implemented at all levels of import to retailing. Such monitoring will help refrain the sellers from taking abnormal prices and bring customer confidence.

Fine and prosecution: Another measure might be to impose a higher amount of fines and legally prosecute the business companies, agencies, or shops that ask for higher prices. In Bangladesh, such actions can be evident sometimes where a Magistrate does this with the help of law enforcing members although in a limited scope. Such actions should be regular and wider in scope.

Forming strong consumer groups: Consumers also have their moral duties to prevent such syndication. They can do it in two ways: forming strong consumer associations that can create public awareness and pressurize the Government. Second, they can motivate publicly not to buy in unnecessary quantities when such high prices are being asked by the sellers.

7. Implications for theory and practice

I explained the market scenario of price hikes due to the syndication process. As a pioneering initiative to reveal such a dishonest practice, I found a serious lack of research both conceptual and empirical on the issue of

syndication in the Bangladeshi consumer market. It is expected that the paper will encourage interested researchers to conduct more studies (theoretical and empirical) on this issue. Thus, this conceptual paper can be a founding guideline for the upcoming studies.

On the other hand, based on the recommendations provided, it is anticipated that policymakers can control the market through formulating effective policies and monitoring processes. I strongly believe that the malpractice can be combated or restricted through public awareness as well as the concerted efforts and the good intention of the concerned government agencies.

8. Conclusion

Syndication is a net outcome of weaknesses in market mechanisms created by all the concerned groups. However, the ultimate sufferers of such malpractices are the consumers who bear the final burden. Every year, they lose a huge amount of extra money to the group of unscrupulous businessmen through this syndication mechanism. The present paper has highlighted the nature and extent of this unethical practice. A market is a combination of many parties such as producers/importers, wholesalers, retailers, government agencies, and customers. Therefore, a combined effort of all these concerned parties is required to prevent syndication in Bangladesh. It is expected that the focused discussion in this paper would be a baseline for further investigations regarding this bitter reality in Bangladesh.

9. Limitations and direction for further research

This paper has been based solely on the published sources (newspaper data) and the author's own observation/experience as a consumer of daily necessities. No primary data were used for this paper. Future researchers may conduct empirical studies based on primary data collected through survey/interview methods from consumers and concerned parties.

Conflict of Interest: The author declares no conflict of interest.

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