Case Study on Olam International

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At the JPMCC's December 2015 Research Council meeting, Professor Forest Reinhardt of Harvard Business School (HBS) led a discussion on Olam International. This discussion was based on an HBS case study, which he had co-authored in Bell *et al.* (2013). Professor Reinhardt is also a JPMCC Research Council member.

This 2013 case study's abstract is available at:
http://www.hbs.edu/faculty/Pages/item.aspx?num=43838, and it explains:

"From modest beginnings as a cashew trader in Nigeria, Olam, founded by Indian nationals in 1989, has grown into a leading global agricultural trading company, with annual revenues of $14 billion. The company recently has begun investing in farms and in the production of packaged goods, shifting from its traditional focus on the midstream of the value chain. The case raises questions involving competitive positioning, corporate strategy, sustainable development, and the management of business and political risk."

Professor Forest Reinhardt, Harvard Business School, presenting on Olam International at the December 4, 2015 Research Council meeting.

From 1989 through 1994, Olam's CEO and his early colleagues had successfully employed an asset-light strategy in Africa as an agricultural trader. Olam's early employees were largely well-educated, young Indians, and its employee attrition rate was high due to the difficult working conditions in "up country" Africa. In 1995, Olam extended its operations to other emerging market countries. During this phase of the company's development, it retained three characteristics: (1) focusing on developing countries in Africa and beyond; (2) staying asset-light; and (3) extending only into product and logistical areas that naturally tied into existing business operations.

In 2005, the company raised money for expansion via an initial public offering on the Singapore Stock Exchange, followed by further capital raises in 2007 and 2008, and culminating in large-scale mergers and acquisitions, including in developed countries.

In 2009, after the Global Financial Crisis, Olam's CEO and board moved more aggressively to change course, including (1) diving into additional developed markets; (2) becoming much more asset-heavy; and (3) investing in completely new agricultural ventures, seemingly unconnected to past areas of expertise. That said, Olam's African operations still remained a key part of the company's strategy.

In late 2012, an aggressive and well-known short-seller made the case that Olam's business model was not sustainable; that its capital structure was extremely overleveraged; and that the firm should be valued at its liquidation value. This is the point at which the case study ends and the discussion on the case begins.

Professor Reinhardt told the assembled Research Council that Olam's "most recent transformation … [was] its most ambitious, and perhaps its riskiest." He also noted that he had taught the Olam case study in "Boston, Africa, [the] Middle East, [and in] Asia. It's a different discussion every time. I have never taught it in a room that has this many Ph.D. economists." The case discussion gave the academic and practitioner members of the Research Council the chance to benefit from each other's perspectives on the behavior of firms active in global commodity markets.

Amongst the insights that emerged from the discussion were as follows:

(1) While Olam performs many of the same functions—logistics, risk management, market development—as "ABCD" (Archer Daniels Midland, Bunge, Cargill, and Dreyfus, historically the dominant commodity traders, all based in the OECD), it initially did so exclusively in geographies and markets where ABCD were not very active. Now, like several other new firms based in Asia, it competes with them directly.

(2) Risk management increased in importance as the company's fixed assets grew (as noted by Robert Greer, Scholar-in-Residence at the JPMCC);

(3) "The leadership [of Olam] is inseparable from the [company's] economics and strategy," as pointed out by Professor Reinhardt; and

(4) After the company's strategic pivot, perhaps the CEO's strategy for business acquisition was similar to his approach to his early employees: one expects a lot of attrition, but one will end up with some really great assets (as proposed by Sueann Ambron, Senior Advisor for the JPMCC and Former Dean of the University of Colorado Denver Business School.) Professor Reinhardt amplified Dr. Ambron's point: perhaps this is the Olam view-of-the-world: "We are a pressure cooker. Not everyone can stand it. And not every asset is going up. But think how much we are learning [for the benefit of our overall business]."

Professor Forest Reinhardt (at the whiteboard), Harvard Business School, leading the discussion on the Olam International case study, during the December 4, 2015 JPMCC Research Council meeting. Back row (left-to-right): Ms. Hilary Till, Solich Scholar, JPMCC; Dr. Thomas Brady, Newmont Mining Corporation; and Dr. David Hammond, Hammond International Group. Front-row (left-to-right): Mr. Robert Greer, Scholar-in-Residence, JPMCC; Professor James Hamilton, University of California, San Diego; and Professor Emeritus Marcelle Arak, University of Colorado Denver Business School. All are members of the JPMCC Research Council.

Professor Reinhardt concluded the Olam-focused discussion by noting that the company is now majority-owned by Temasek, an investment firm owned by the Singaporean government. Another large shareholder is Mitsubishi Corporation. These big shareholders insulate the management of Olam International from the pressures imposed by aggressive short-sellers. Detractors of the firm would say it is buffering itself from capital market discipline, while Olam leadership would argue that the ownership structure frees it to pursue long-term value.

Reference

Bell, D., Reinhardt, F. and M. Shelman, 2013, "Olam: On a New Course," Harvard Business School Case 513-044, April 2013.

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Forest L. Reinhardt is the John D. Black Professor of Business Administration at Harvard Business School. Reinhardt is co-chair of the Harvard Business School's Global Energy Seminar, a new executive education course for the leaders of firms that produce oil and gas, generate and distribute electricity, or play other important roles in the delivery of energy services. He also teaches regularly in the HBS Agribusiness Seminar. In the HBS Owner/President Management Program, Reinhardt teaches a core course on Global Markets. Drawing on microeconomics, macroeconomics, political science, and history, the course helps business leaders understand the economic and political environment in which business is conducted, and the strategic opportunities and risks to which globalization gives rise.

Reinhardt is interested in the relationships between market and nonmarket strategy, the relations between government regulation and corporate strategy, the behavior of private and public organizations that manage natural resources, and the economics of externalities and public goods. He is the author of Down to Earth: Applying Business Principles to Environmental Management, published by Harvard Business School Press. Like that book, many of his articles and papers analyze problems of environmental and natural resource management. He has written numerous classroom cases on these and related topics, used at Harvard and many other schools in MBA curricula and in executive programs. Reinhardt received his Ph.D. in Business Economics from Harvard University in 1990. He also holds an MBA from Harvard Business School, where he was a Baker Scholar, and an A.B., cum laude, from Harvard College.

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