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THE INTERNATIONALIZATION OF AKIJ GROUP: SHINING THE SPOTLIGHT ON THE FIRST-EVER CROSS-BORDER MERGER AND ACQUISITION (M&A) FROM BANGLADESH

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INTRODUCTION

In 2018 Akij Group, one of the largest industrial conglomerates in Bangladesh, took over the operations of two Malaysian companies. These are Robin Resources Malaysia, SDN BHD and its subsidiary Robina Flooring SDN BHD. These companies are specialized in the manufacture of medium-density and high-density wooden fiberboards. This acquisition has been deemed the first ever cross-border acquisition of a Bangladeshi company internationally and also the first of its kind in Bangladesh. The acquisition of these two Malaysian companies would give Akij a diverse network of exporting operations ranging across 60 countries worldwide leveraging from the export operations of these two Malaysian companies. It is to be mentioned that any kind of offshore investment by a Bangladeshi company is quite new and at present eight Bangladeshi companies have been granted approval for conducting such outward investments internationally. And this has been largely facilitated through amending the country's foreign exchange act of 1947 that paved the way for capital account transactions, as Bangladesh does not allow capital account convertibility, and therefore laying the groundwork for offshore foreign investments from Bangladesh. The purpose of the case is to investigate the detailed internationalization process of the Akij Group in their acquisition of two Malaysian companies. Therefore, this case details some of the preparatory phases of the acquisition process including the motivations behind the acquisition, the acquisition process itself from deal initiation through deal execution and financing, some of the challenges, operational risks, and benefits from this acquisition.

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ANALYTICAL FRAMEWORK

The proposed case is based on three theories of Mergers and Acquisitions (M&As). These are (i) efficiency theory; (ii) synergy gain theory; and (iii) diversification. The efficiency theory proposes that M&As happen when the acquiring enterprise benefits from the specialized knowledge and skills of the target enterprise. For example taking advantage of the specialized skills or the target's management, eliminating idle resources, sharing expensive technologies and promoting products that are complementary to each other, thereby reducing transaction costs and re-allocating existing expenses (Wolfe et al., 2011). Therefore, through the merger the management efficiency of one company is transferred to the other company (i.e., the inefficient firm resulting in both social and private gain as it improves the performances of both firms and also utilizing the resources of the economy more optimally). This is seen mostly in related mergers or horizontal mergers in which both firms are engaged in the same line of business (i.e., Akij Resources1 and Robin Resources Malaysia, SDN BHD). Moreover, it helps for sharing managerial resources in the sense that if one firm has excess managerial capacity, this could be distributed to the other firm that lacks such competencies. Moreover, with the integration of the two entities both firms (i.e., the acquirer and the acquired) can identify each other's strengths and weaknesses and complement each other by transferring skills and competencies from one company to the other and thereby, improving the overall operational efficiency and bolstering the competitive advantage of the combined entity.

The second theory, i.e., the synergy theory proposes that there are significant advantages to be gained from an acquisition that benefits both the acquirer and the acquired. These gains come from financial and operating synergies. This is shown in the scope of attaining greater economies of scale by distributing the fixed costs over a larger production base for both firms and gaining economies of scope by combining both operations for producing a wider array of products and thereby, lowering the fixed costs in the process. Moreover, it helps for the involvement in effective management, improvements in production techniques and sharing complementary resources between the two companies (Bradley et al., 1983). In addition, this helps for producing new products and also marketing them internationally. For example, if one company is good at research and development (R&D) and the other is good at marketing these products internationally.

The third theory, i.e., diversification posits that firms are customarily engaged into acquisitions to expand their international presence, which could be either related to tapping new markets or expanding their product range internationally.

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[1] The proposed name of the combined entity after the execution of the acquisition.

This also brings reputational benefits2 in the forms of preserving reputational capital and also responding to the need (both by managers and employees) to expand internationally. The acquiring firm gains by increasing its corporate debt capacity and a decrease in the present value of its future tax liability resulting in the stability of cash flows. In addition, diversification could also be seen as a good strategy to expand internationally, especially when a firm seeks to enter a foreign market faster with the needed resources but lacks in the internal mechanisms to obtain such resources from itself to attain this objective (Weston et al, 2010).

THE CURRENT REGULATION FOR OUTBOUND FOREIGN INVESTMENT IN BANGLADESH

Until 2015 Bangladeshi companies were not allowed to invest abroad due to restrictions in capital account transactions. However, the 2015 amendment in the foreign exchange regulations act has paved the way for Bangladeshi companies to invest abroad. The accession of Bangladesh into a middle-income country in July 2015, as declared by the World Bank has been the chief determining factor that has helped the central bank for easing restrictions on foreign exchange transactions. The latest foreign exchange regulations act as amended in 2015 stipulates a “conditional provision” that allows only Bangladeshi export-oriented companies with international experience to invest abroad. Though Bangladesh has not developed an outward foreign direct (OFDI) investment policy yet, therefore, at this moment the central bank plays the key role in granting approvals for outward investment by Bangladeshi companies. On this basis proposals for companies willing to invest abroad are evaluated on a case-by-case basis and upon recommendations from the Bangladesh Bank, these proposals are submitted to a proposal evaluation committee (PEC) of the financial institutions divisions of the Ministry of Finance, Bangladesh and thereby, subsequently granted approval (Nikkei Asian Review, 2017).

About Akij group

Akij Group is one of the largest Bangladeshi industrial conglomerates. History of the Akij Group goes back to the later part of the 1940s. In its infancy, the Group started its journey with jute trading that earned a huge foreign exchange. The Group’s ceaseless efforts with dynamic management had led towards diversification of the business activities. In the 1950s, the Group started manufacturing its handmade cigarette popularly known as “biri”. This sector gave a real boost to the revenue earning of the Group as well as making a substantial

[2] A good corporate reputation gives a firm what kinds of perceptions the audience and prospects are going to have about the firm’s brand, its history and its potential to survive in the future.

contributor to government exchequer. With the passage of time, the Group undertook new ventures and currently there are 26 strategic business units for the Akij Group in different sectors including jute, food and beverage, ceramics, cement, plastics, shipping and transport, particleboard, printing and packaging, agro processing, steel mills, entertainment, real estate, hospital, and others. At present, the Group employs more than 50,000 employees and has been awarded for 25 national achievements including national export trophy, Best Employer Brand Award, and others.[3]

INTERNATIONALIZATION OF AKIJ GROUP

Until recently internationalization through acquisition was something that corporate Bangladesh could only dream about. But it has now become a shining reality since the Government of Bangladesh has relaxed its control over outward foreign investment and allowed the Akij Group to acquire two Malaysian companies - Robin Resources Malaysia SDN BHD and its subsidiary Robina Flooring SDN BHD in a transaction involving $77 million. Both the companies are located in the Mentakab, Pahang,4 some 150 kilometers from Kuala Lumpur, Malaysia. The companies were established in the year 1994 and 2000 respectively. Both the companies manufacture medium density fiberboards, wood floor tiles, and different other wood products and export to about 60 countries around the world, generating $8 - $9 million profit a year.

This landmark achievement by Akij Group is a pathway towards a new era of internationalization process for Bangladeshi companies. Business ventures from Bangladesh would now be able to go for diversification in international markets as well as boost foreign exchange income through outbound investments. Thus this acquisition possesses a significant importance for investment activities conducted to and from Bangladesh.

MOTIVATIONS BEHIND THE ACQUISITION

For Akij Group, the motivation for acquiring the two Malaysian companies consists of the following –

[3] Retrieved from https://www.akij.net

[4] Pahang is the third largest state in Malaysia and the ninth largest in population.

Aspiration to go abroad

Akij Group always aspired to go global. They have well financial capacity with their export earnings. They were looking for an opportunity for a long period of time to acquire a foreign firm or establish a new company in a foreign soil. After getting the information that the two Malaysian companies would be sold, Akij Group did not want to miss the opportunity. They considered it very seriously and made the moves immediately to become an international company.

Well-established acquired companies in Malaysia

Both the companies are well established and very successful in Malaysia. They are generating a profit of $8-$9 million a year with an export market of nearly 60-countries. The only reason the two companies were sold because their current generation of owners is not interested to pursue their business in Malaysia.[5]

Known industry geography

Akij Group has a subsidiary called Akij Particle Board Mills Ltd., which is in the similar line of business as with Robin Resources and Robina Flooring of Malaysia. Since these companies (i.e., both Bangladesh and Malaysia) produce the same category of products, i.e., wooden fiberboards, Akij felt that it would be easier for them to make the acquisition. As due to the known industry processes, cultural similarity and geographical proximity it would be easy for them to manage and control the operations of the Malaysian entities successfully.

Reasonable price

The initial asking price for the two companies was $100 million. The amount was reasonable for Akij Group based on their financial strength. According to the Chief Financial Officer of Akij Group Mr. Shamsuddin Ahmed, "*Akij Group's current financial condition supports to go for an acquisition with a transaction involving $100 million. If a scenario occurs where the $100 million would be lost, the Group would easily survive.*" However, the Group would reconsider if the price would be more than $500 million.

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[5] This is owned to the fact that after the death of the founder of the company, the second generation of owners (i.e., his children) lacked the vision of their father. Though the company was running profitably. And since their families (i.e., the children) were settled in the United States therefore, they planned to sell off the business and move to the United States.

Cultural similarity with Malaysia

Culturally Bangladesh and Malaysia are not that much different, especially from a religious point of view. So managing the two companies would not be that much complicated. That is why Akij Group opted for this acquisition.

THE ACQUISITION PROCESS

The overall acquisition process of the two Malaysian companies was divided into the following segments –

Deal initiation

Akij Group came to know about the two Malaysian companies being sold by a Resin supplying firm from Malaysia. Apparently the same firm also supplies raw materials to Robin Resources and Robina Flooring. Immediately after learning about the two companies, a team from Akij flew to Malaysia to visit the existing facilities. Robin Resources with its 57 acres site has a capacity up to an average of 240,000m^3 annually. Robina Flooring on the other hand has an annual capacity of 180,000m^3. Visiting the two premises, the Akij team was very satisfied and they flew to Singapore to discuss further with the parent company of Robin Resources and its subsidiary Robina Flooring.

Negotiation

Akij team met with the Singaporean parent company to discuss the pricing for the acquisition and other systematic procedures. The initial asking price from Singapore was $100 million. However, the price was not fixed and there was a bargaining opportunity. Both the group tried to maximize their own pie. The price was capped at $77 million after a successful negotiation.

Financing

Setting the price fixed to $77 million, Akij team returned to Bangladesh. The next destination was Bangladesh Bank to convince them approving the transaction. The Group prepared a detailed proposal explaining how the acquisition would be helpful for the company as well as for the whole economy of Bangladesh. They identified few direct benefits for Bangladesh including profit repatriation and grabbing more export market for Akij Particle Board mills limited - resulting in earning more foreign currency. In addition there would be employment generation opportunity for Bangladeshi workers in the Malaysian soil. Highlighting all these benefits Akij Group requested the Bangladesh Bank to release their Export Retention Quota (ERQ) to buy the two companies. After analyzing all the facts and benefits, the Bangladesh Bank authority released $20 million and asked Akij Group to go for debt financing. The group immediately started looking for potential financiers. Green Delta Capital Limited (GDCL) was the mandated lead arranger and advisor to the deal. GDCL provided structuring of the deal and helped source financial partners from around the world. After meeting with several financing companies worldwide, the Group was finally able to secure the required money. Table II presents the overall financing breakdown of the project.

Table I: Financing breakdown of the project

Source of Financing	**Amount in millions**
Akij’s own ERQ released by Bangladesh Bank	$20.00
German development finance institution DEG	$24.50
Standard Chartered Bank Malaysia	$13.50
Issuance of Preference Stock to a British Company	$10.00
Dividend from two companies	$9.00
Total	**$77.00**

Source: Selected interviews with personnel at Akij Group

Deal execution

Getting the permission from the Bangladesh Bank and other financial sources took a longer time for the Akij Group than expected. Meanwhile, another Thai company called Tong Hua was very much interested to purchase the two companies in Malaysia. Therefore, competition was already started. However, Akij Group maintained proper communications with the Singaporean company. On a regular basis they would update the Singaporean company about their progress. Seeing Akij Group’s dedication and professionalism, the Singaporean management felt happy and confident to make the deal with Akij and thereby, they sold the two companies to Akij. Thus a landmark deal was achieved, history was made and a first Bangladeshi company performing an acquisition internationally was made.

CHALLENGES OF THE ACQUISITION

Cross-border acquisition is a complex process. Employees of the acquired unit customarily have concerns regarding the cause and outcome of the merger, the security of their jobs, the integration of culture and management practices of the two units, i.e., the acquirer and the acquired, concerns about one side having dominant power over the other and the fast and smooth integration of the operational processes for functioning as a single combined entity. However, in this case Akij has not sought to change the working arrangement and the status quo of the two Malaysian companies, keeping them as they are, and this will presumably be seen as positive and thus assuage any concerns from the Malaysian counterpart for job losses and shifts of managerial power in the initial period of the acquisition. However, potential concerns could arise about managing such diverse workforce in the context of Malaysia where there are a number of ethnic communities for example, Indians, Malayans and the Chinese and a hierarchical system that constitute the corporate culture. Therefore, working with such diverse group, balancing the power distance while at the same time to reign in decision-making and authority could prove potential challenges for Akij in the future.

OPERATIONAL RISKS

One of the major operational risks that may arise from integration of these two operations is the currency exchange rate risk. Akij may require a very smart plan to hedge such risks. The repatriation of dividend would not be a problem, as there is an active bilateral treaty between Bangladesh and Malaysia. However, the repatriation of dividends from Malaysia could be a challenge, as the company has to restructure the operations initially and this would increase the cost of production coupled with the debt servicing obligations that the company has to meet to its creditors. Since a major portion of the financing for the acquisition comes from debt, Akij would face the challenge to pay it down mobilizing from different sources. In addition, Akij would also need to develop a comprehensive integration plan, a key constituent of the post- merger activity that not only operationalizes the two firms working as a single whole but also plans to move forward. Therefore, it is believed that without such an integration plan it could prove difficult for Akij to bring about the operating synergy and the targeted outcomes that had been mulled over in the initial planning stages when embarking on this acquisition.

BENEFITS FROM THE ACQUISITION

Akij is aiming to reap a number of synergistic benefits from this acquisition. One consideration is that as both companies (i.e., both Akij and its Malaysian counterpart) are manufacturers of wooden fiberboards, they can leverage their competencies for bringing in newer innovations in the offering of more new products adding to their existing portfolio. Another consideration is that the continuous improvement of such competencies will further boost the markets of these two countries in terms of offering the best quality products in the wooden fiber board category and capture significant market share. Another consideration is that the combined effect of the merger will help Akij to tap into a wider range of export markets mostly leveraging from the Malaysia entities' export base and also identifying and concentrating in a few large and lucrative markets in the process of future expanding their business and securing commendable market share. A final consideration is that this will help to better plan to reduce the production cost (i.e., fixed cost), redistribute the slack managerial resources for cutting additional costs and better productivity, resource transfer, improving the sourcing of inputs (i.e., raw materials), reallocation of expenses and better streamlining the operations of both units.

CONCLUSION

Akij is in the initial phase in the operation of this merger. Therefore, significant developments need to be seen how a large resource pool of Bangladeshi employees are transferred to the acquired enterprises and what impact this will have in the existing status quo of these two Malaysian companies. In addition, they need to work together an integration plan that will help set the direction of the combined entity and using it as a way forward to bolster the new entity's competitive position both for Malaysia and Bangladesh and to leverage this internationally.

CASE STUDY QUESTIONS

- Identify some of the motivations that encouraged Akij to acquire two Malaysian companies
- What are the challenges Akij could face when integrating the operations of the two companies (both Bangladesh and Malaysia)?
- What are the benefits Akij could reap for making the acquisition?

- Do you think Akij's acquisition of the two Malaysian companies would influence other Bangladeshi companies to make similar ventures in international markets in future?
- Do you think this acquisition process would improve the image of the Bangladeshi companies venturing outside as effective competitors in the international business environment?

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