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Awaken the local giants

PROF Christopher Clarke, the regional managing director of AT Kearney, the global management consultants, made some very pertinent points on the immediate challenges facing Malaysian conglomerates. Particularly the point about the conglomerates having to grapple with the challenges of globalisation and liberalisation, apart from the more obvious problems emanating from the current economic downturn. Globalisation and liberalisation will open up domestic markets to international competitors, a double whammy for local conglomerates already weakened by the impact of the region's currency and stock market turmoil.

The foreign conglomerates, armed with a lot of cash and technology, are already on the look-out for good buys in countries like Malaysia to expand their empires. AT Kearney itself has reported of the interests expressed by some of its clients to consider merger and acquisition (M&A) deals with local companies in banking, telecommunications, food, building materials, and electronics sectors. In fact, the global consultant company has shifted people at its Kuala Lumpur office to work on M&A and post-merger exercises due to increased business in this line. Although M&A must be seen in a positive light as it could strengthen the position of local companies and help them prepare better for globalisation and liberalisation, it could also mean yielding control of local operations and national interests to outside parties at the end of the day. Unless Malaysian companies are in a very strong position to set their own terms, it is very likely that they will find themselves at the receiving end in an M&A. If this is the case, Malaysians could wake up one day to find their conglomerates eaten up and reduced to small parts of a global network serving the globalised and liberalised community. Should this happen, our economy will cease to be ours to control.

While such a scenario could sound a little excessive, it is far from improbable. Worldwide, giants have merged with other giants to become so big that the competitors cannot hope to touch them; in fact, they are sometimes left with no worthy competitors at all. Prime Minister Datuk Seri Dr Mahathir Mohamad recently made references to this when addressing local entrepreneurs. This land of the giants, he said, is the face of naked capitalism which is the opposite of free market, the gentler face of capitalism presented to discredit socialism and communism. In naked capitalism, there is no place for the small and the less well-prepared.

Prof Clarke gave some pointers as to how Malaysian conglomerates, which are a prime target for M&A, should go about preparing themselves in the face of such a competition as well as in view of the current economic downturn. The most important thing is for the local conglomerates to focus on things they are successful in. This is the opposite of the massive diversification exercises they had undertaken during the good times not too long ago. The argument for this is simple: if a conglomerate in Malaysia is in 10 different businesses, he will soon be facing 10 different big guys who are each specialised in their respective fields. Sime Darby is one of the Malaysian conglomerates that would have been implicated in Prof Clarke's argument. In the case of Sime Darby, it has already pulled out of banking and securities, which are recent forays that have cost it dearly. Sime Darby has said it will now concentrate on things it does best.

The Government has been encouraging industries to consider mergers to

strengthen and consolidate. Since the crisis, its insistence has been directed strongly at banks, finance companies, insurance firms, stockbrokers. Before that, the telecommunication companies were also urged to look at the merits of M&A. Prof Clarke's points are an echo of these calls made by the authorities. It had taken the industry leaders ages - and the economic downturn - to respond to the call. Prof Clarke's disclosure that companies in certain sectors of the economy are already targetted for M&A should give the people concerned a sense of urgency to act before they become someone's meal.

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