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MD sees profitable future for local firms

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MALAYSIA needs effective, unified, coherent action based on a clear understanding of what needs to be done to design and implement a better future for companies in the country.

There needs to be a tough period of adjustment but the message is not gloom and doom because once those adjustments are made, the country will be stronger than it ever was.

Bain and Company (Asia) Inc managing director Mr Mark Daniell told Business Times that Prime Minister Datuk Seri Dr Mahathir Mohamad who said at Christmas time that there will be ruthless surgery required to fix the problem, had got the right prescription.

"There's a window of restructuring and unfortunately there will be bankruptcies," he pointed out.

But at the end of it all, there is hope for companies. "There will be a profitable future and there will be restoration of growth. The fundamentals in Malaysia haven't changed. It has a lot of things going for it," he said.

Among these are a good strategic location, a pro-business environment, a highly literate, good ethic population and natural resources.

In addition, he said, Malaysia has other assets coming on-line such as its new airport, the benefits of which will be coming through soon.

"There is no way of turning back to the clock to five years ago. It's a question of moving forward pro-actively to create, to design and to implement a better future for companies in the country.

"The longer the delay, the more diluted the remedies, the slower the recovery, the weaker the patient at the end of the period," he cautioned.

Daniell said the present crisis is unique as Malaysia is not lagging a global recession. "What we're seeing is a unique inter-related set of crises which have affected a portion of Asia only.

"The US is not in recession, most of Europe is not in recession and parts of Asia such as Hong Kong, Taiwan and China are not suffering from the crisis.

"It is not a sovereign debt crisis. Rather it was a situation created by private sector companies taking on a lot of short-term dollar denominated offshore debt.

"The very high degree of debt meant the companies had to continue to have high growth to sustain their debt service levels. And unfortunately the foreign currency debt was either unhedged or hedged with a counterparty that could not make good the other side of the transaction.

Daniell said the two factors that drove the crisis to the depth, were the combination of very shallow markets which meant that currencies could be moved with very small amounts of money and the fact that a lot of the transactions were driven by necessity.

"People had to buy dollars to pay debt. So you ended up with people buying dollars in a thin market which drove the dollar-ringgit exchange rate much more because it was such a thin and more of a one-directional market," he said.

Then the sentiment turned negative and portfolio investors were pulling out. "So there was a combination of the capital market going down because portfolio investors did not want the currency exposure or the economic exposure and the currency market going down because the imbalance of buyers and sellers due to the debt situation.

"You ended up with the two sort of dragging each other down and the net result of that was that the levels of debt which were arguably high beforehand became impossible to service with the cashflows of the businesses," he said.

This is because the debt levels stayed the same but the values of the assets and the cashflows dropped off and the collateral which was, in a lot of cases, property-based did not have the market value.

"This is my view of what has created the crisis. So the result is you have some very good companies operating in a very successful country in a very difficult period of time that requires private sector response backed by the Government," he said.

Daniell said the solutions of the problem need to be taken at a private company level. "What people need to do is restructure to focus scarce capital and management resource on businesses that can be successful.

"The need to realign their businesses to attractive customer segments, cutting costs where costs are not required, merging and consolidating businesses to create sustainable competitive entities," he said.

He added that organisations need to restructure their compensation systems to reward individuals and companies who contribute to create business success stories.

"For everyone operating in Malaysia right now there is no low-risk, high- returns strategy like there has been in the past. Now it is a much riskier environment and you need to understand your customers.

"Understanding your customers' customers is also important to make sure you get paid, to make sure that your customers are growing and to make sure that you are delivering real value to your customers to grow businesses," he said.

He added that the other countries which are battling the crisis are all responding in different ways, some more effectively than others. "From my understanding, which is not macro-economic but a summary of building blocks that I see in the commercial sector, South Korea and Thailand are doing much better while Indonesia is facing a much tougher time than people thought.

"The Philippines is also doing better than people thought, partly because of the long history of International Monetary Fund involvement in the country.

"So I think after some initial denial and confusion, things are getting aligned and moving forward rather than backward and in ways which are more positive than most observers would have thought," he concluded.

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