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Merged not mauled

MERGERS have become a necessity for small companies striving to stay alive in a rapidly globalising world. Finance companies and banks in Malaysia are doing just that in order to be well prepared for stiff competition from the giants when the global financial sector is liberalised. However, in the rich industralised countries, mergers have taken place even between giants, producing mega giants. This has proven fatal for many small companies, even after they have merged among themselves. In a country like Malaysia, the biggest corporation may only be medium sized in the US or Japan. Mergers among local companies, therefore, may not be enough to save them from the giant corporate predators. As such, more and more local corporate players are finding it strategically beneficial to allow for foreign equity participation in their companies, preferably by the giants or the mega giants, so that they would not be completely devoured when globalisation and liberalisation come knocking on their doors.

Prime Minister Datuk Seri Dr Mahathir Mohamad, in his recent speeches locally and abroad, has spoken of this David-versus-Goliath scenario in a globalised, deregulated world. On Monday, he once again reminded local companies of the need to increase efficiency and be on guard against attempts by foreign corporations to "re-colonise" the country by way of its economy and business. The prospects are more real today with shares of local companies going for next to nothing, a situation compounded by the weaker ringgit. Both are the results of the regional financial crisis that will enter its first excruciating year next week. For example, as Dr Mahathir pointed out on Sunday, at the end of the Umno general assembly, 76 Bumiputera-controlled companies out of 82 that were allocated shares by the Government had seen their share prices drop way below their initial public offer price. Generally, the shares on the Kuala Lumpur Stock Exchange, including the blue chips, are experiencing the same fate.

But that does not mean that Malaysian companies are defenceless or should do nothing to protect their interests against this new form of colonisation by the new capitalists. Corporate mergers should not be seen as an exercise where parties involved lose control and end up with less in the merged entity. Major firms in developed countries have used mergers effectively as a corporate strategy, often resulting in big profits for both owners and shareholders. In the US and Europe, mergers and acquisitions are viable short-cuts to becoming a major international player. Companies in these advanced economies have been practising cross-border mergers to protect, consolidate and advance their international competitiveness. Between 1988 and 1996, according to the World Investment Report, cross-border mergers and acquisitions doubled to some US$305 million (US$1 = RM3.95). Such mergers are widely acknowledged as an effective means of creating transnational corporations.

The fact that Malaysian companies have to merge or allow others to buy stakes in their equity structure is not something the Government can have total control over. That is what globalisation, deregulation and liberalisation are all about. The biggest challenge for the local companies is to avoid being completely mauled by the merger and acquisition predators. That will require them to be big enough in the first place, or have niche markets, or at least be very, very efficient in their areas of business. Dr Mahathir's advice to Proton, the national car manufacturer, to buck the trend, find its own niche, and come up with

improved designs and products will help ensure that Proton develops a built-in mechanism that could foil attempts to devour it. As long as Malaysian companies maintain the national identity, any effort to globalise them will be more difficult. Even if Proton, for example, merges with General Motors, it will not be stolen from Malaysia if it safeguards its unique Malaysian identity.

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