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Succeeding in a merged world

THE planned merger of two international oil companies, British Petroleum Plc (BP) and Amoco Corp of the US, is the largest ever in the oil industry and indicates just how essential oil is to the global economy. The deal, said to be worth US\$54 billion (US\$1 = RM4.22), is also the largest corporate combination in history outside of the telecommunications and banking sectors. Some may say, the proposed merger indicates the on-going weakness in the oil industry (oil prices have hit their lowest levels in a decade) while others may laud it as a good move to stave off stiffer market competition. Globally, mergers and acquisitions have worked well for many international companies in confronting the challenges of the free market. With the merger, BP and Amoco will turn into a new industrial petroleum giant and will be better placed to face any further shrinkage in the international oil market.

However, Prime Minister Datuk Seri Dr Mahathir Mohamad has warned in several speeches, both locally and abroad, of the dangers that such deals pose. In June, at the Fifth Symposium of the Institute for International Monetary Affairs in Tokyo, Dr Mahathir said, "Super-large corporations are being formed in developed countries which will dominate the world. There will be no room for small companies in the poor countries to exist, much less to expand and spread into the rich markets now opened to them." Malaysia, of course, is not against globalisation and free trade, but it is fully aware that there are inherent weaknesses in these areas. Aside from this, mergers cannot be viewed as the solution to the current problems faced by the oil sector. Issues such as the pursuit of new oil sources are not addressed by these deals. For instance, there is the Caspian Sea Basin which poses problems for investors and requires extensive investments if oil is to be extracted. Here again, it must be noted, that the oil industry, has been affected by the current weaknesses besetting the world economy, which have been triggered by Asia's currency woes. Asia has been the most rapidly growing market for oil. Now that sales from the region are dropping and world oil prices have fallen despite repeated efforts by producing countries to limit supplies, oil companies need to look into the problems buffeting the industry.

But as far as mergers and acquisitions are concerned, this year has seen the announcing of quite a few plans. In April this year, Travelers Group and Citicorp agreed to merge, so too did NationsBank Corp and BankAmerica Corp. In May, SBC Communications Inc announced its intentions to buy Ameritech Corp and also in the same month, Daimler-Benz revealed its plans to purchase Chrysler Corp. On the local scene, the companies which have merged can be said to be tiny in comparison. There is a need for local companies to merge, not just for the sake of following an international trend, but to become stronger and more efficient. Some local banks and finance companies have already done so, while it is just possible that insurance companies may follow suit.

By merging, companies stand to benefit in several ways. One of the advantages is that generally speaking, merged entities are better able to venture abroad. They become "bigger and stronger" and are better equipped to take on competition. Perhaps, the Government could also initiate merger efforts for those firms which seek business overseas. Such "marriages" need not necessarily be only between local companies. A local firm which forms a strategic alliance with a foreign one can find access to

international markets easier. Still, care must be exerted to ensure the union is a success. The "right" merger produces a more powerful entity that is more capable of taking on competition and winning. Besides, in these difficult times, any local company venturing overseas faces almost insurmountable obstacles. To do so with insufficient resources and capabilities is to court failure. Yet Malaysian firms must look beyond the nation's shores for business as this is the only way they can truly expand. The merger option is something they must consider, if they wish to someday be "business goliaths".

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