

By Charles Raj



Merger Mania

The recent spate of proposed mergers, from corporate entities to political parties, while viable in certain instances, have created suspicion and speculation in others due to their vagueness. This does not bode well for transparency and accountability.

MERGERS SEEM TO BE ALL THE RAGE THESE DAYS.

There is a proposal to merge three plantation giants, while two major newspaper groups, The New Straits Times Press (M) Bhd and Utusan Melayu (M) Bhd, are also proposing to merge their operations. Only weeks earlier, Sin Chew Jit Poh announced that it was wresting control of Nanyang Press Holdings Bhd. On Dec 6, it was reported that two listed technology companies under the AKN Group could merge soon.

But it's not only the listed corporates that are experiencing merger mania. Earlier this month, we heard the Prime Minister calling on contractors to merge to become a force to be reckoned with.

Even political parties are getting into the act. The People's Progressive Party (PPP) has extended an invitation to its Barisan counterpart, Parti Gerakan, to merge.

There is nothing wrong with merging. Its proponents will give you numerous reasons why 'big is beautiful', and why there will be cost savings, synergies and other economies of scale when you pool your resources.

Of course, in many cases, these 'mergers' are not mergers in the true sense. They are often a takeover by one party on another but disguised as a merger for reasons best known to themselves. In Malaysia, at least, there is sometimes a thin line between what constitutes a merger and a takeover.

But in reality, it is not easy to conclude a successful merger. The larger the entities, the more difficult the task. There are cultural differences, work habits and numerous other barriers to overcome. Indeed, studies have shown that in general, 80% of mergers worldwide do not succeed.

And it does not help if the merger proposals are embroiled in uncertainty and controversy. For one, negotiations will be lengthy, and even if a deal is inked, the integration process will take longer than usual to achieve.

Take the mega plantation merger for instance. It is no secret that the heads of the three companies, namely, Sime Darby Bhd,

Guthrie Corporation Bhd and Golden Hope Bhd, had little to do with initiating the merger. In fact, it is unclear if even Permodalan Nasional Bhd willingly pushed for it.

Hence, the merger is being driven by the CIMB Group, itself the subject of the largest ever banking merger in the country just earlier this year.

But whatever the reasons for the merger, it is important that minority shareholders' interest be protected at all times. There is a possibility that they might be outnumbered when it comes to a vote. This is because since PNB is not initiating the merger, it would be able to vote on the deal.

So, are there some higher powers pushing for the merger? If there is, it is not good in the interest of transparency and good corporate governance.

Let us look at the NSTP-Utusan merger. Again, there was uncertainty in the market as to what was happening. In the meantime, there was heavy speculation in the shares, which finally resulted in them being suspended in mid-trading. This is quite strange, given that shares are usually suspended between trading sessions.

Even stranger was the fact that the shares were re-quoted without any merger details being announced. This led to further severe fluctuation in the share prices.

The peculiar thing about this whole merger is that politicians are dictating the merger details. It was reported that their unhappiness led to the merger proposal being shunted back to the drawing board.

At the time of writing, details were not forthcoming. There is even the possibility of the whole proposal being aborted. How this will affect the share price is anybody's guess.

Let's hope future mergers are carried out with less controversy. Careful thought must be given before they are made public.

While there will always be good and bad to every merger, the good must far outweigh the bad for a successful conclusion.

There should be no compulsion or coercion. After all, we must accept that big may not always be beautiful. **mb**

WHILE THERE WILL ALWAYS BE GOOD AND BAD TO EVERY MERGER, THE GOOD MUST FAR OUTWEIGH THE BAD FOR A SUCCESSFUL CONCLUSION. THERE SHOULD BE NO COMPULSION OR COERCION. AFTER ALL, WE MUST ACCEPT THAT BIG MAY NOT ALWAYS BE BEAUTIFUL.