

CHAPTER 1

INTRODUCTION

Malaysia has grand ambitions. With Vision 2020 in the pipeline to transform Malaysia into a fully developed nation by the year 2020, it is heartening to note that the Government takes a serious view that finance is to be the driving force of the economy. Aggressive policies have been geared to promote the financial services sector to be on par with those towards the real sector. 1995 has been a crucial year as a more transparent and liberal regulatory environment was introduced - all of which should boost Kuala Lumpur's push to be the region's preeminent financial center. To take a quote from the Finance Minister Dato' Anwar Ibrahim "The die is cast, there is no turning back".

The above results in the blurring of differences between all types of financial institutions. This presents an important challenge and impact on the development of the financial services sector and specifically, the Malaysian merchant banking industry. Although different types of financial institutions appear segregated, the similarities with financial services now offered have competitive implications. New guidelines include a two-tiered system and the added liberty to employ expatriates, aimed at preparing the local financial institutions for the eventual liberalization of the industry. To recap, Malaysia is committed to liberalize the financial sector as stated by the World Trade Organization of which Malaysia is a signatory.

Therefore, as competitive forces converge, there is a need to be efficient, to look outward, to internalize fully the impending challenges as urged by Bank Negara. This is imperative as market forces will weed out the weak and uncompetitive banks. This augers strong signals to lax financial institutions as consolidation looms nearer. Therefore, it appears that one of the greatest challenges is internal in nature. The Big Bang of the Malaysian financial sector has already begun with the emergence of several financial supermarkets. Whether a shake-out stage is imminent remains to be seen.

Hence, there is a dire need for merchant banks to develop an independent view about tomorrow's opportunities and how to exploit them. In short, strategy has to deal with competing for tomorrow's industry structure as much as competing within the existing industry structure. As such, doing the right things is more important than doing things right because an organisation is going to be in real trouble if strategic decisions are not made effectively. This study will attempt to identify the right things to be done as far as merchant banks are concerned.

Scope and Objectives of the Study

The main objective of this study is to examine the merchant banking industry in Malaysia. Strategic analysis techniques such as Michael Porter's Structural Analysis Model and environmental scanning will be utilised to understand industry dynamics and how industry players compete as a prerequisite to success in merchant banking. Other concepts of strategic management will be applied and the findings are

with the view of giving strategic recommendations to X Merchant Bank being the subject of a case study.

Secondly, it is hoped that the study will contribute to the dearth of literature in this sub-sector of the banking industry. Indeed, it is felt that a strategic case analysis on a local financial institution would be beneficial to the management of financial institutions.

The scope of study is in general limited to the operations of the 12 merchant banks in Malaysia.

Research Methodology

The sources of data in this report will be mainly secondary data. They are mostly gleaned from :-

1. Annual reports
2. Newspaper and magazine reports
3. Trade journals
4. Reports issued by both Bank Negara Malaysia and The Ministry of Finance.

Primary data used are from unstructured, non-random interviews with merchant bank personnel, Bank Negara personnel and bank clients.

The data analysis methodology is based on Michael Porter's Five Forces Industry Analysis Technique which analyses the influence of buyers, suppliers, substitutions, threat of entry and industry rivalry, on the industry under study. The adopted methodology is illustrated in Figure1.1.

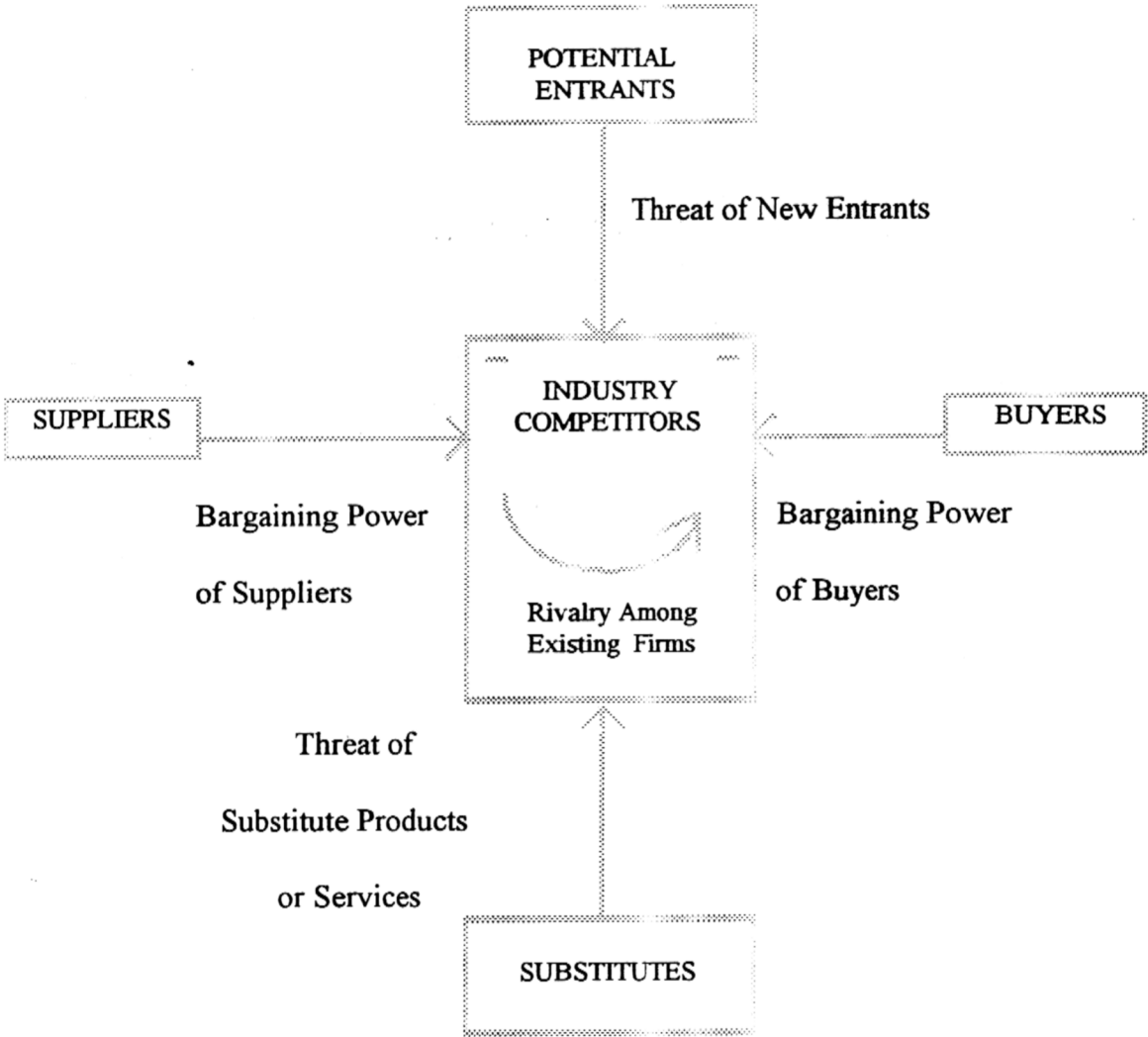


Figure 1.1 The Five Competitive Forces That Determine Industry Profitability
Source : Michael Porter (1980 : 4)

Significance of the Study

The Malaysian Merchant Bank is originally intended to complement and supplement existing financial services. It has slowly evolved to becoming an important financial institution as Malaysian economic activities gather pace. This study serves to provide new insights for future strategic decisions for competitive advantage in the merchant banking industry. The rationale is to identify appropriate policies and strategies for the proactive organisation. It is hoped that X Merchant Bank will find the study contributive to its strategic endeavours.

The study also seeks to demonstrate the workings of strategic analysis tools in a true and thriving context of the financial world. It is felt that the study will interest those who are keen in the practical aspects of strategic management.

Limitations

This research intends to cover the entire 12 merchant banks and their operations in Malaysia. Attempts have been made to obtain comprehensive literature and statistical data on this particular industry but as one of the many nuances of the merchant banking industry, only general references have been found. These were made available at the resource centers of Bank Negara, Association of Merchant Banks Malaysia, SEACEN Research and Training Centre and libraries of various merchant banks.

The author had the benefit of a cooperative X Merchant Bank for the case study. However, certain statistics and workings of the bank could not be revealed due to legislative restrictions. The true identity of X Merchant Bank is withheld for the sake of confidentiality. Further, due to time and confidentiality limitations, interviews with other merchant bank's personnel were often brief in nature. In retrospect, it is understandable as to why certain issues and activities remain confidential in the competitive merchant banking environment.

Organisation of the Report

This report consists of six chapters. Chapter I outlines the environs where the merchant bank operates. It also furnishes the scope and objectives of the study, methodology, purpose and limitations of the study.

Chapter 2 presents a literature review of the concepts and stages involved in strategic management and the need for a theoretical frame work . It also review studies done on the merchant banking industry.

Chapter 3 gives an overview of the Malaysian merchant banking industry as well as the world view and in ASEAN countries. A brief historical perspective of merchant banking is included to complete the picture.

Chapter 4 looks at the Malaysian merchant banking industry from the structural analyst point of view.

Chapter 5 provides a strategic insight into X Merchant Bank being the subject of the case study.

Finally, Chapter 6 proposes strategic recommendations for X Merchant Bank Berhad.