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Headline: WHICH FINANCIAL HEAVYWEIGHTS WILL SURVIVE THE SHAKEOUT?

Byline: BY JEFFREY E. GARTEN

As the downturn in global markets knocks 30% to 50% off the value of some of the world's biggest banks and brokerage firms, and as slower American growth portends even more pain, look for many Wall Street firms to cut back on overseas business and staff. In the months ahead, the headlines will focus on Wall Street's current wounds. It is becoming fashionable to look at Asia, Russia, and the Dow Jones industrial average and conclude that globalization is stalled or even going into reverse gear.

But the more lasting story is the international expansion of a handful of banks and brokerages. To be sure, many emerging markets could remain depressed for the next three to five years. But the top financial powerhouses are already preparing for the next wave of globalization--a wave that will involve reorganizing worldwide industries such as telecommunications and automobiles, managing trillions of dollars in pension funds from Germany to China, helping to restructure Japan, participating in a new European merger wave, and underwriting the reemergence of countries such as South Korea and Brazil in global capital markets.

LEVIATHANS. Which players on Wall Street and in other centers are best equipped to emerge as successful global giants? Here is a quick guide to the top four seeds and the likely champion.

The soon-to-be-formed Citigroup will certainly make the semifinals. Made up of the world's best-known banking name, Citibank, as well as Travelers Group and investment bankers Salomon Smith Barney, it could become the first global financial supermarket, providing everything from car loans to advice on mergers to more than 1 billion customers. But its success rests on the untested assumption that clients from New York to New Delhi want one-stop financial shopping, and its Achilles' heel could be the sheer complexity of managing so many different business cultures.

Morgan Stanley Dean Witter, the product of a recent merger, should also make the semis because it has a major presence in investment banking,

trading, and asset management, and it possesses strong institutional and retail sales capabilities. But it has yet to make bold moves to shore up its international franchise, such as a major acquisition in Europe or Asia. And the Morgan Stanley and Dean Witter components of the firm are not yet fully integrated--a potential liability in orchestrating complex global operations.

Goldman, Sachs & Co.--which plans to go public in November--will surely be a tournament finalist. It has the most savvy bankers, the most prestigious client base, and an extraordinary record of profitability. But it is not certain whether Goldman can maintain its cohesive culture if--as is likely--it uses the capital from its flotation to make big acquisitions. Also, like Salomon Brothers and Morgan Stanley, Goldman may lose some of its top talent when it goes public.

Merrill Lynch & Co. is far and away the No.1 seed. This may come as a surprise to those with outdated perceptions of Merrill's being a gray conglomeration of retail brokerage operations. And recent trading losses have surely hurt. But since the early 1980s, it has risen to the first or second position in every major category, from equity and debt underwriting to mergers and acquisitions. It has enormous assets under management. It has achieved solid balance among its various revenue streams. It has moved aggressively to plant its stake in Europe, Canada, Japan, Southeast Asia, and Australia.

**DEEP KEEL.** The key to Merrill's current and future success is what any winner in the global sweepstakes will need: a multinational management team with depth, wide-ranging skills, and seamless internal communications. Its executive committee averages more than 15 years' experience at Merrill Lynch. It has spent the past 10 years building teamwork among product groups and geographical units. It has mastered the art of acquiring foreign firms and assimilating them into its own culture. It has found a good balance for centrally controlling risks while encouraging entrepreneurship. Says Professor Sam Hays of Harvard business school: ``In terms of managing a global financial operation, Merrill is a decade ahead of the pack." Of course, the race to the top could be disrupted by surprising dark horses--as might emerge from the possible merger between Deutsche Bank and J.P. Morgan. But unseating today's top four will not be easy.

The doomsayers are having their day in shaping perceptions about the

unraveling of emerging markets in the global economy. But here's a better bet: Pay attention to the long-term strategies of Merrill and its rivals.

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