Why Goliaths need to be careful

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Procter & Gamble has announced it will acquire Gillette; Metlife is buying Travelers Life & Annuity and most of Citigroup's international insurance businesses; Novartis, the pharmaceuticals group, has agreed to buy Hexal of Germany; in telecommunications, SBC is swallowing AT&T and Qwest has just enhanced its bid in an effort to foil Verizon's offer for MCI. Big consolidations are also under way in other industries including steel and software.

It is a good bet that the wave of mergers is just starting to build. Each new combination puts pressure not only on rival companies to follow suit but also on big service providers - the lawyers, the public relations and advertising companies - to bulk up to serve their clients around the world, as WPP, the advertising group, has done. In the US, corporate balance sheets are flush with more than $4,000bn (£2,000bn) of cash and short-term investments waiting to be put to work. In Europe, a strong euro could help with acquisitions outside the eurozone. Corporate boards seem to be re-evaluating their post-Enron aversion to risk, too.

While many past big mergers have not panned out - AOL's deal with Time Warner comes to mind - many have, such as BP's acquisition of Amoco, the rival oil group. Most of the deals announced recently look well-focused and seem to be taking place for strategic reasons. For example, the merger of

P&G and Gillette will enhance the combined companies' bargaining power with corporate Goliaths such as Wal-Mart, the US retailer, and it will also put the company in a better position to penetrate emerging markets.

Classic antitrust concerns are unlikely to apply. Even after the new mega-companies are created, there will be plenty of competition, given that the entire world is now the relevant marketplace. In fact, the purpose of many of these deals is to cut costs, enabling the enlarged groups to compete better on price.

The fact that companies are growing so large has other implications, however, which should be of greater concern. It is not clear whether chief executives, no matter how skilful, can effectively manage companies with such a global reach. Consider how Citigroup - by any standards one of the world's most impressive and important financial institutions - has become mired in deep political problems in Japan and Europe due to lack of effective oversight from New York, and look how Chuck Prince, its chief executive, is being forced to refurbish the financial behemoth's culture from top to bottom. These days, chief executives are being held responsible for hands-on management of their enterprises; their duties include personally signing off on the accounts. But, as these businesses encompass more assets, engage in more complicated financial dealings, and employ more people in more parts of the world, can their attestations remain credible?

Another problem for outsized companies is the public perception that they possess too much political power. Mega-groups are, like all companies, under severe pressure to generate profits. But, as the most visible targets at a time of notable lack of trust in public companies, they could be held to ever higher standards of non-financial performance.

To avoid their sheer size prompting a political backlash, multinationals should try to use their "soft power" to pre-empt popular resentment. They should begin by reviewing the effectiveness of the many corporate associations that profess to enhance civil society and redouble efforts to turn rhetoric into concrete actions and results. They could, for instance, enhance the prominence of organisations such as the World Business Council for Sustainable Development and the Global Reporting Initiative, a group that is developing verifiable ways to measure the economic, social and environmental dimensions of business activities, from safety standards to air quality.

The mega-companies should become exemplars of corporate governance. General Electric and IBM have set worthy precedents. Their boards are overwhelmingly made up of independent directors, and their executive pay packages clearly tied to performance.

Mega-companies also need to be careful not to neglect their local roots. Charitable work in the community is sometimes uprooted by big mergers - as happened in 1999, when Honeywell, the Minnesota-based industrial company, moved its headquarters to New Jersey after merging with AlliedSignal and severely reduced its philanthropic activities in Minneapolis and St Paul.

At a national and global level, large enterprises also have the opportunity to advance public policy. In the US, this could mean helping to reshape the dysfunctional healthcare system. Worldwide, mega-companies can do much more to push for trade negotiations that have a meaningful impact on economic development.

In the gilded age of JP Morgan and John D. Rockefeller, big companies were seen as having unchecked power. This led to a dramatic increase in government regulation. Unless the new corporate Goliaths are smart about redefining their own role in global society, that could easily happen again.

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