BY GENE KORETZ

POISON PILLS DIDN'T KILL THE MERGER BOOM

Economists tend to regard the merger-and-acquisition boom of the 1980s as a positive development, which enriched stockholders while shifting control from complacent managers to more efficient, profit-minded executives. Thus, some charge that poison pills and state statutes aimed at hindering takeovers were self-serving mechanisms adopted to protect management and may well have caused the demise of the merger boom at the end of the 1980s.

A new study by economists Robert Comment and G. William Schwert of the University of Rochester concludes that poison pills and protective laws had little impact on the incidence of takeovers, however. Out of some 2,000 exchange-listed companies, the two researchers report that more than a third adopted poison pills in the last half of the 1980s. Indeed, by 1991, 87% of such firms were covered by either a poison pill or a protective state statute. But though acquisition activity fell sharply at about the same time, that doesn't mean that poison pills caused the demise of the merger wave.

Comment and Schwert found that takeover activity in 1989 and 1990 subsided significantly across the board-even in states without protective laws and among companies without poison pills. Thus, they say the likely cause of death of the acquisition boom was not poison pills but such concurrent developments as the economic downturn and the credit crunch fostered by regulatory action to curb junk bonds and banking system excesses.

The study also suggests that stock market investors have little to complain about. It found that the adoption of poison pills had no significant effect on stock prices of companies that were not targets of takeover bids. But by giving added bargaining leverage to targeted companies, poison pills seem to have benefited their stockholders. While the takeover premiums garnered by shareholders of acquired companies without poison pills averaged 30%, they averaged nearly 48% for companies with poison pills in their arsenals.