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More Mergers

Worldwide merger activity in 1999 increased by more than 25%, from $2.7 trillion to $3.4 trillion. Among the more noteworthy developments were the dramatic increase in hostile deals in Europe, the major restructuring of the Japanese banks and the increase in high–tech mergers.

As long as the equity markets remain vibrant, there does not appear to be any reason why merger activity will not continue to increase. Therefore, more than ever, it is essential that companies prepare in advance for all contingencies; not just to deal with a hostile takeover, but to have state of the art preparedness for all aspects of merger activity.

The most important area for advance preparation is the understanding between management and the board of directors. There should be agreement (1) that the company is not for sale, (2) as to the types of acquisitions the company should pursue, (3) whether the company should entertain a merger of equals, (4) as to the core businesses that the company should concentrate on and (5) as to any company that would be strategic imperative if acquired by a competitor. These subjects should be reviewed by the board of directors on a regular basis so that there is an up-to-date understanding of the company's fundamental strategy.

In addition, there should be full appreciation of what the major shareholders expect and the likely reaction by them and the analysts to any merger action. Without the confidence of the shareholders and the analysts, major mergers run the risk of failure and successful rejection of takeover proposals is almost impossible.

Finally, the company should be prepared to seize an opportunity to make a strategic acquisition when it presents itself. The company should review regularly the companies it considers to be important merger opportunities and be prepared to move very quickly if there is (1) a rumored or announced deal, (2) a change in management continuity, (3) a shortfall in earnings or (4) a loss in investor confidence.

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