PROLOGUE

The socialistic pattern of society adopted by the Parliament in 1956 envisaged a mixed economy for India characterised by the coexistence of public and private firms and an important place for market. Since then, public control and planning have always played a crucial role in defining the limits of market-based activities in the country. However, the "neoliberal reforms" (Bagchi (1999: 16)) was initiated in India in July 1991 which brought about a change in the prevailing commercial and industrial environment and competitive scenario of the economy. The changed economic regime necessitated corporate restructuring and in the process expanded the role of the market and price-based signals for corporate strategic decision-making (Khanna (1999: 3236)). Restructuring of firms can take place internally in the form of different kinds of expansionary activities through new investments in plant and machinery, research and development at process and product levels and also through improvements in marketing services rendered to customers. Or, it can also take place externally through merger and takeover activities by which a firm may acquire resources already organised in the form of another firm or a part thereof, by participating in the market for corporate control.

Mergers and acquisitions have gained a momentum in India in the 1990s as a part of business restructuring. This has raised important issues both for corporate decisions and for public policy formulation. It is known in principle, that from the point of economic efficiency, depending on the extent of compatibility and complementarity between unified firms, merger and acquisition activities lead to economies of scale and scope. But this is not all. Mergers may also lead to monopolistic power through increased manufacturing concentration. Moreover, the post-acquisition performance of companies may not have improved. Also, the gains to shareholders through corporate consolidation activities may merely represent redistribution away from labour and other stakeholders. Merger and acquisition activities are also said to lead to a speculative flurry in the society and generate a lure for short-term gains among shareholders.

In view of these conflicting hypotheses on corporate fusion activities, we felt it necessary at this juncture to construct an analytical framework so as to provide an in-depth empirical study of the nature and causes of mergers and acquisitions in India in the post-New Industrial Policy (NIP) regime and to assess some of the economic effects of such consolidation activities on Indian economy. The theory and empirical
evidence may help us to answer the natural and practical questions that may arise in this arena and strengthen our understanding and judgement about public policies towards corporate consolidations in the shape of mergers and takeovers.

The present study is expected to have immense policy implications regarding future course and direction of corporate restructuring in India. This study can also serve as a guide to the current quest of an appropriate model of corporate governance for the Indian economy.