Chapter – I
INTRODUCTION

The liberalization throughout the world has paved a way for many developments in the corporate sector. Corporate firms responded to these developments in many ways. Restructuring has been one of the ways used to respond to the liberalized and globalized economies the world over. The increased emphasis on competition, efficiency, customer satisfaction, etc., altered the ways businesses think. Restructuring is a mechanism by means of which companies prepare themselves through a series of concerted efforts aimed at restoring the competitive advantage lost somewhere in the past. Many forms of restructuring have been identified and employed. Management, labour, market, product, portfolio, financial, technological, etc., restructuring are resorted to streamline the form and force of business activities. Of various forms of restructuring, mergers and acquisitions (M&As) have emerged as significant tools of corporate restructuring.

M&As are used increasingly as a strategy for instantaneous growth, increased size and to enhance production and market capabilities, etc. M&A provides an opportunity for a business to shift the gear from lower level to higher level and in a matter of few months helps businesses to increase the size the business. M&A represent a form of external growth where a firm acquires businesses of related or unrelated entities with an objective of realizing benefits arising out of scale economies, scope economies, market power, financial synergies, managerial synergies, etc. The empirical research available report several objectives for mergers both plausible and dubious. Firms acquire other businesses to fulfil even personal motives of managers.
It is an established fact that in US mergers occur in waves. The US has a history of more than 120 years in mergers and several waves have been identified. The empirical evidence has identified six merger waves so far and seventh merger wave is said to be in the offing. Further, the empirical research in US also indicates that merger waves begin with the revival of economy and stock market and end with the collapse of stock market. In other words, merger waves are sustained by strong market buoyancy and end when market loses the requisite steam. In view of this, Shleifer and Vishny (2004) term that mergers are stock market driven and managers exploit favourable market valuation to acquire poorly valued firms in the market by using their overvalued stocks. In addition to the fact that mergers occur not only in waves, each merger wave is characterized by different type of merger activity (Goughan, 2004, and Mitchell and Mulherin 1996). The first merger wave in US was identified as merger for consolidation while the second was regarded as a merger of horizontal firms. The third merger wave was regarded as vertical merger wave. The present merger wave is regarded as mergers for competition or strategic mergers.

Researchers evidenced that, rate of takeovers and industry patterns are directly related to economic or industrial shocks. These industrial shocks may be technological, deregulation, market upheavals, etc. The merger activity is determined by both firm level factors and industry level factors (Andrade et. al., 2001, Andrade and Stafford 2004). Mitchell and Mulherin (1996) and Andrade et al (2001), Andrade and Stafford (2004) etc., find enough evidence in support of this hypothesis. They identify ‘deregulation’ as a single factor accounting for nearly 51% of merger activity in fourth merger wave.
M&A are on the rise in India since liberalization period. The unleash of economic policies opened up the floodgates for Indian companies to restructure especially in the form of M&As. Mergers have become a preferred means of inorganic growth in India to consolidate and strengthen the competitive advantage. In addition, inbound and outbound deals are also on the rise. The empirical evidence records that, the Indian mergers have followed the world trend in mergers. Mergers of late are strategic in nature even in India and industrial shocks especially deregulation explain for greater number of mergers in India.

Firms merge for varied reasons. The academia classifies them into economic or rational motives and dubious motives. Sometimes merger motives could be personal. Several explanations have been extended in support of merger motives. In reality, mergers are justified only if they increase the value of combined firms. The sources of value increases may be due to synergy gains, elimination of competition and consequent wasteful utilization of resources, elimination of duplicating activities, tax savings, improved bargaining power vis-a-vis suppliers and customers, increased power, etc.

Mergers can be justified on all these counts. However, mergers reducing risk through diversification is viewed as dubious in view of the fact that shareholders can also diversify and their diversification is easier and less expensive. There are arguments in support of diversification as a rational motive for mergers. Diversification becomes necessary and value adding in case of owner-managed firms; to retain reputation capital, to carry forward brand and other intangibles developed, for unlisted firms, listed but not regularly traded, etc.
Mergers are also justified because they reduce excess funds in the hands of managers and force him to tap capital market sources of funds. A merger or takeover can help in resolving agency problem by removing inefficient or indiscipline managers by the acquiring firm.

A merger may be motivated by personal reasons of managers. The academic puts this in the form ‘managerialism’ or ‘managerial entrenchment’ argument. A manager may use merger to grow himself and his coterie. Merger increases manager’s power and makes him indispensable. Further, merger increases size and size of the firm in turn increases manager’s compensation.

Analysis on the lines of motives would help us to understand the basic reasons for which firms merge. Do firms merge for synergy purpose or diversification purpose or for personal reasons? Generally, society gains when merger motives are economic and loses when mergers are driven by personal goals of executives. Mergers which leads to reduction in number of competitors are generally discouraged the world over and there are anti-trust regulations against mergers restricting the competition. Merger gains depend on merger motives. A merger with economic motive performs better than others. Similarly, a merger with personal motive fares poorly from shareholders’ perspective. Why do Indian firms merge? What explains for merger motives in India? Are they strategic or personal in nature? Do merger motives are uniform across countries?

**Need for the Study:**

Corporate merger is basically the combination of two independent firms and formation of a new firm. In this regard the
existing firms lose their identity and the new firm takes birth. This is a strategic investment for the acquiring firms as well as a strategic decision for the target firms. Both the firms need to observe in detail about the favourable and unfavourable prospects before they merge. Merger of the firm occurs, when future benefits of the combined firm exceeds the present costs of individual firms.

The present study is an attempt to understand and verify the merger trends and the various motives behind them. The study is aimed to find out the answers for various questions arising in the subject matter of mergers, such as; why do firms undergo mergers rather than investing huge amount of capital for their own internal growth?. What are the motivations behind the mergers?. Whether the occurrence of mergers is consistent over the period?. Whether the Indian mergers follow the merger trends of global mergers? Whether mergers are occurring at a similar rate across the different industries? etc.

The past evidences reveal that the merger movement was not consistent in several countries of the world (Andrade 2004). For instance in the case of the US economy several merger movements occurred (Globe and White 1998). Each merger movement was dominated by different type of merger and influenced on different industries (Gaughan 2004).

The intensity of mergers is not consistent in all the countries of the world. In some countries there may be more mergers and in some other countries less or no mergers. The concentration of mergers varies from one period to another period in a country. Some countries
experienced more number of merger deals during a period and same trend may not be there in other countries during the same period.

The studies undertaken by Mitchell and Mulherin (1996) in US and Agrawal and Bhattacharjea (2004) in India evidenced that, regulatory shocks influenced on the mergers. The similar view was observed in amendment of Claytons Act in 1950. This Act tightened restrictions against vertical and horizontal mergers. As a result very few vertical and horizontal mergers were completed and the number of conglomerate mergers increased in 1960.

In India several studies were undertaken on mergers and acquisitions and their effect on the economy. Majority of the studies concentrated much on merger profitability and shareholder gains. The study on merger trends and their motives is the thirst area for the present research. This is necessary because Indian economy has passed through different phases, pre-independence, post independence and pre-globalization and post-globalization etc. The change in the economic condition and its influence on the business is not covered by the earlier studies. For this purpose the present study is divided into two main parts, first part describes the analysis of merger trends over the period, and the second part discusses the various motives behind these mergers.

**Review of Literature:**

Merger is a common phenomenon since 20\textsuperscript{th} century in the advanced countries like USA, UK etc. This had received attention of the researchers and voluminous studies are done on mergers and acquisitions in the developed countries. The common topics used in the
merger literature were; wealth effects for bidders and targets around announcement date (Jensen and Rubeck 1983), estimation of merger synergies (Mueller et al 2003), impact of methods of payment (Shliefer and Vishney 2003), long-term performance (Agarwal and Jaffe 1999), the managerial hubris (Roll 1986), merger prescriptions (Trautwein 1996), industry clustering (Mitchell and Mulherin 1996) etc. Some others have concentrated on post-merger performance, merger waves, etc.

In India mergers and acquisitions have gained importance in the recent period, particularly after 1991. Several studies have been undertaken on mergers and acquisitions in India. Beena (2000a) and (Beena 2004b) to understand the merger waves, mergers in response to regulatory shocks (Agarwal and Bhattacharjea 2004), M&As by MNEs: patterns and implications (Kumar 2000), M&As pre and post acquisition performance (Guruswamy and Radhakrishnan 2010), long term post merger share price performance (Hyderabad 2012), type of merger and impact on operating performance (Mantrawadi and Reddy 2009). Some of them are conceptual, textual, legal, and also accounting aspect oriented and other few studies are done on the basis of empirical analysis.

There are very few studies analysing merger trends, merger motives, linkages between merger trends and motives, impact of the world merger trends on individual countries mergers, etc. A brief review of these works has been done in the following pages to identify research gaps in mergers and acquisitions in India, has been done.

**Evidences from Western Countries:**

**Keown and Pinkerton (1981)** analyze the relationship between merger announcements and insider trading activity. The study was
undertaken on 194 sample firms in US. The study provides empirical evidence on the excess returns earned by the investors of the acquired firms prior to the public announcement in a planned merger. The study evidences that leakage of merger information leads to insider trading and results into abnormal movement of stock prices of such firms.

**Halpern (1983)** conducts an event study of acquisitions. The study covers various methodical issues like estimation of residual, (predication errors), portfolios, time periods, abnormal returns vs. adjusted dollar gains and choice of an event data. The author describes two classes of acquisition theories; the first refers to non value maximizing behavior by the management of acquiring firms. The second theory states value maximizing motivations of acquisitions.

**Mc. Gee (1988)** analyses economies of acquisitions and mergers in US. This study attempts to explore the charges that have been levelled against M&As and the defences that have been offered using M&As of the period from 1979 to 1986 in the US. The study concludes that merger activity has increased dramatically irrespective of reasons.

**Franks, Harris & Titman (1991)** investigate share price performance of acquiring firms. The researchers select the takeovers of US from 1975 to 1984 and select 399 acquisitions made by firms listed on NYSE and AMEX during the above mentioned period. The analysis finds that there are negative post merger share prices performances for bidders, and are more because of ‘benchmark errors’ than to ‘mispricing at the time of announcement’.
Berkovitch and Narayanan (1993) adopt ‘market returns’ as a method to understand merger motives for 330 tender offers of 1963-1988 period. The study presumes three motives for mergers – synergy, agency and hubris and looks at the correlation between target and total gains. A positive correlation is taken as an indicator of synergy motive, negative motive as agency motive and zero correlation to mean hubris motive. The empirical evidence shows that synergy is the primary motive in takeovers with positive total gains even though the evidence is consistent with the simultaneous existence of hubris. The study finds that agency is the primary motive in takeovers with negative gains.

Loughran and Vijh (1997) use 947 acquisitions in the US during the period 1970-1989 to analyze the relationship between post acquisition returns to mode of acquisition and to form of payment. The authors classify the sample firms on the basis of mode of acquisition (merger or tender offer) and the form of payment (stock or cash). The study concludes that, in case of tender offers when cash is used for payment, average acquirer stock returns are greater than maturity stock returns. In case of mergers, when stock is used as mode of payment the acquirer stock returns are smaller than the matching stock returns.

Andrade et al (2001) observes new evidence on mergers in 1990s. The study identifies that mergers occur in waves but each wave is different in terms of industry composition and a significant portion of merger activity might be due to industry level shocks. Industries respond to these shocks by restructuring their activities or through merger. The industry shocks may be in the form of technological innovations, industry consolidation, supply shocks, oil prices, deregulation etc.
Koohi and Kolari (2001) studied the bank mergers and acquisitions and their impact on small business lending. The study makes a proposition that, the bank mergers have a greater influence on small business lending than lending for acquisitions using 3 years data (June 1993 to June 1996) of the small lending of the US banks, it concludes that, structural changes brought about by mergers in US banking industry would likely to have negative effects on small business lending. However adverse effects are not as noticeable when structural changes stem from acquisitions.

Delong (2003) examine the value created by the bank mergers with the help of 54 bank mergers of the period from 1991-1995. The study uses cross sectional regression analysis of merger announcement for effects. The study concludes that market positively reacts on merger announcement but this does not necessarily improve long term performance. Only similar earning stream will enhance long term performance.

Andre et al (2004) analyze the long run performance of M&As by using 267 Canadian mergers and acquisitions during 1980 to 2000. It uses calendar-time approach or event time approach and finds that, the Canadian acquirers significantly underperform over the post merger event period.

Rossi and Volpin (2004) analyze the M&As of 49 countries, announced during Jan 1, 1999 to December 31, 1999. It uses three sets of variables such as; market economic conditions to M&A activity, cultural difference and individual deal level and means of payments and concludes that more number of M&As results in to more attempted hostile takeovers.
**Harford (2004)** analyze reasons for merger waves. The aggregate merger waves could be due to market timing or due to the combination of industry shocks. The study examines causes and timing of industry level merger waves using the mergers between the period 1981 to 2000 with a transaction value of minimum $50 million.

The study opines that, merger waves could be the outcomes of mis-valuations but capital liquidity also causes individual industry level merger waves. This helps to cluster in time to create aggregate merger waves.

**Joseph, Clougherty and Duso (2005)** analyse stocks reaction of rivals to merger events and examine the effects of mergers on rivals, rival effects and merger waves, heterogeneity in merger characteristics, and heterogeneity in rival characteristics. It uses a sample of 162 large M&A transactions of horizontal in nature in the period of 1990-2002, which have affected the European stock markets and concluded that the rivals will gain, when competitors engage in mergers, the positive effects are not driven by the information effects of merger waves and positive effects for non merging rival forms robust to heterogeneity in merger and the rival characteristics.

**Morelec and Zhdanor (2005)** makes an attempt to present a model of takeovers based on the stock market valuations of merging firms. The model incorporates competition and imperfect information that determine terms and timing of takeovers. The implications of the model are returns to shareholders are consistent with the available evidence. The study predicts that abnormal returns to target shareholders should be larger than returns of bidding firms and abnormal returns to bidding shareholders be negative when there is
competition for the target, and competition speeds up the acquisition process that decreases returns to bidding shareholders. It finds that abnormal returns to target shareholders are larger than bidder shareholders due to analogy between takeover opportunities and exchange options.

Rhodes, Kropf, Robinson and Vishwanathan (2005) analyze the effect of mis-valuation on merger activity. The authors opine that merger waves occur during valuation waves because ex-post targets have mistakenly over estimated synergies using SDC data from 1978 to 2001 and a sample of 799 deals of mixed payments, 1218 stock and 1542 cash transactions.

Study finds that there was high market to book ratios for those firms, which are involved in mergers as compared to the firms of non-mergers. This ratio is higher for acquirers than targets. It concludes that cash target are under-valued as compared to stock targets and cash acquirers are less over valued than stock acquirers. Therefore mergers occur when there is mis-valuation.

Kamaly (2007) analyse the direction and determinants of the aggregate merger activity in developing countries during 1990s. The study observes macro- economic determinants of aggregate merger activity and concludes that higher level of stock market activity and depth in developing countries decrease the amount of M&A directed to them.

Rissenmy and Carr (2008) provides guidelines to help the organizations to manage the merger of organizational cultures. Merger is a creation of new culture that is salient for the people of the acquirer
and the target. It concludes that M&A constructs an unlimited potential for all the people of an organization only when the information provided is in a valid and reliable manner.

Arnold (2009) employs the market performance approach to identify motives and employs 63 merger cases of UK between 1989 and 2003. A positive gain to merging firms is considered as ‘synergy motive.’ A gain to target only is taken to mean ‘managerialism motive’ as bidders pay a premium to acquire the target. On the other hand, ‘hubris motive’ is assumed if initial gains to targets are positive but overall gains are zero, due to random nature of the valuation errors being made. The study concludes that synergy and hubris hypotheses dominate as motivations for mergers.

Studies in India:

Several researchers have examined the merger activity in India on the lines of US studies. Though we do not find so much sophistication in merger research the number of research works on the rise. Market reaction to merger announcement has been a popular area of research in India followed by financial performance evaluation of combined firm on post-merger basis. Studies on long-run share performance and merger waves are few and limited. A brief review of these studies is shown in the following pages:

Kapor (1980) focus on various reasons for amalgamation of the firms and identify pre and post merger problems such as types of amalgamations, capital structure of the combination, valuation of assets and tax aspects. The study concludes that the amalgamation of
corporate is not a legal issue but it involves various complex financial considerations before and after merger.

Subramanian (1996) analyse the various strategies for mergers in India and classifies these strategies for the past merger trends as well as for the future trend.


The study finds that there is a dominance of mergers in the relative business and these mergers are in horizontal nature. The study concludes that M&A are the important means of corporate growth since seventies and gained more prominence in 1990’s. Liberalization of the Indian economy and removal of other regulatory barriers helped to increase the pace of mergers. The study suggests that acquisitions contributed in assets growth and merger was not a route to growth which was financed through resources gained from the stock market.

Venkatesh and Sudhakaran (1998) conduct a survey of 12 firms of the Indian corporate sector involved in mergers during the period 1991-1996. It concludes that, the pooling of interest method is based on weak conceptual foundations.

Yadav et al (1999) attempt to analyze the profitability of mergers in India by study using four merger cases to determine the profitability by comparing three years in pre and post merger and use accounting
ratios like ROI, ROTA, EPS, Expenses ratio etc. They find that there is an increasing trend in ROI, ROTA, and EPS and a reverse trend in expenses ratio. The study concludes that, the mergers in India are profitable.

**Basant (2000)** makes an attempt to view the corporate response to economic reforms by analyzing mergers, acquisitions, collaborations and transnational companies. The study argued that, the private corporate sector in India responded favorably to the new economic reforms with larger investments in the early 1990 and declined after 1994-95. The MNCs have typically used acquisition route as an entry strategy to strengthen their presence in the country. Indian firm’s reliance on foreign technology purchased have increased and the Indian corporate sector shown a mixed tendencies. **Kumar (2000)** concludes that the MNEs use M&A as a route to enter and presence in India and 2/5 of FDI is in the form of M&A and among them, acquisitions are more than mergers.

**Khandwalla (2001)** opine that, LPG system requires changes in the functioning of the corporate. The corporate restructuring has become an important means for achieving such changes in India and elsewhere.

**Pawskar (2001)** analyzes the impact of mergers on corporate performance. The study compares the pre and post- merger of operating performance of the acquiring firms involved in mergers by using a sample of 32 cases of mergers during the period 1992-1995. It finds that merging firms perform better than industry in terms of size of the firm by 16% to 17%, and also in growth rate, tax benefits and liquidity etc. The rate of increase is in the case of profitability is
negligible. The study concludes that the mergers have synergistic benefits for all the characteristics excluding profitability. Merger had a negative impact on the profitability.

**Saxena and Grandhy (2001)** makes an attempt to analyze the various payment methods used in Indian mergers. The authors conclude that the cash payment is easier than other forms of payment.

**Ghosh and Das (2003)** provide the conceptual framework for mergers and acquisitions and explain terms like absorption, amalgamations, combinations, mergers, takeovers, and demergers.

**Mukherjee et al (2004)** sought the views of CFO’s to analyze the merger motives and target valuation. The study uses a sample of 721 firms for 1990-2001 period and finds that the operational synergies are the primary motivation for mergers and acquisitions. The study also concludes that the operating synergy is the primary motivation for M&A and the reason for divestiture is to increase focus. Both of these results are consistent with other empirical evidences for the acquisitions during 1990s.

**Beena (2004)** opines that the M&As of 1990 are facilitated by the policy shift in the Indian economy. The study attempts to identify different merger waves in the Indian corporate world. The first wave occurred during (1990-95) due to foreign competition and the second wave (1995-2000) was due to presence of MNCs. The study concludes that the major share of M&A is among the related firms or in the same business groups. This is either to increase controlling power or to guard against takeover. The study failed to find out factors that influenced mergers.
Selvam, Vinitha, and Babu (2005) examine the performance of bank mergers. The study sets the various parameters to assess the merger performance such as; the growth of total assets, profits, revenue, investments and deposits and compares 4 year pre-merger and 4 years post-merger period performance. Selecting 7 sample banks out of the 20 bank mergers occurred during 1984 to 2001 the study concludes that the post-merger performance of the banks is significantly higher than the pre-merger performances in respect of all the performance indicators. Further study advises banks to develop other gauges to measure the success of M&A activities and adopt suitable strategies to improve their post-merger performance.

Agrawal and Bhattacharjea (2006) analyze on how the industry and regulatory shocks play a key role in determining merger activities in India. The study used a comprehensive data for a period of from 1972-73 to 2002-03 and identify that there is a clustering of industries at the industry level as a response to regulatory shocks. The amendment to MRTP Act in 1991 removed premerger scrutiny and found positive effect on merger behavior of firms. These mergers were undertaken for expansion reasons.

Rohit Kapur; KPMG (2007) make an attempt to analyze both in bound and out bound mergers and acquisitions during 2001-2006. It opines that the Indian mergers are driven by various factors like investments in infrastructure, industrialization, competition, reduction in tariff, progressive and regulatory policies etc. The study identifies a clear cut increasing trend in M&As from $1634 million in 2001 to $ 6361 million in 2006. The number of the inbound deals increased from 224 in
2001 to 532 in 2006. Their increase in M&As trend reflects increased visibility and confidence on the Indian economy.

**Rajesh Kumar and Prabina Rajib (2007)** attempt to throw a light on examining distinctive characteristics of the acquirer and the target firms in the merger. The study used a sample of 227 acquirer and 215 target firms merged during 1993-2004. Using Mann Whitney U test and Kalgomoror smirnor test for analysis on the assumption of non-normality of the sample distribution the study reveals that the size of target firms was smaller than acquirer, acquiring firm have high cash flow, high PE Ratio, high book value, high liquid assets and lower debt to total assets. Lower liquidity position leads to larger probability to become target. However, firms are less likely to become targets.

**Shrinivasan and Mishra (2007)** attempts to analyze the intent of acquiring target firms by using 30 recent M&A deals involving one Indian corporate firm for 2002-2004. The present study is based on public statements of the top managements in the media. It identifies strategic motives as reason for acquiring targets by bidding firm.

**Ramakrishnan (2008)** analyse the post – merger performance of Indian firms by using 414 mergers of the period 1993 -2003. Accounting variables such as pre tax operating cash- flow, return on assets, operating margin, sales turnover, etc were developed. It concludes that mergers in India have helped firms to perform better in the long run period.

**Panday and Shankar (2008)** conducted a case study on the Hindalco Industries Ltd to describe the need for acquisition, deal formation, arrangement of funds, challenges for Hindalco Ltd,
advantages of this acquisition etc. The study concludes that complementary assets and expertise of the team provides a strong platform for growth and success of the acquiring firm. This acquisition opened the doors for global mergers for Hindalco Ltd’s value added high end aluminium products.

**Padmashree and Bharatidevi (2008)** evaluate the performance of banks in post-merger period and used 5 Bank mergers as sample size of 1996-2003 period. Majority of the banks show a tremendous growth in the variables set. The growth rate of the banks did not remain same in all the sample banks and concludes that bigger banks have more advantages than small banks.

**Beena (2008)** analyzes the trends and perspectives of corporate mergers in contemporary India and finds two merger trends as; from 1990-1995 and 1995 onwards. The study categorizes acquiring firms on the basis of their nationality; as Indian owned firms and foreign owned firms. It identifies few trends and theories of mergers in general. Firms under same business group and similar product lines have dominated in the merger waves. Secondly, the average performance of acquiring firms in manufacturing sector is better than the other firms. These findings are similar to findings of the Agarwal(2003), Mantravadi and Reddy (2008).

**Mantravadi and Reddy (2008)** analyze the post-merger performance of acquiring firms in India in 1991-2003 by comparative study of various performance ratios for a period of 5 years in pre-merger and in 5 years post-merger. It concludes that there is highest decline in the operating performance of conglomerate and vertical mergers. This decline was in terms of return on net worth, capital
employed, and net profit margin. The decline in net profit is more than the other two measures.

Raghunatha Reddy and Arun (2008) examine the financial implications of the merger of RIL and RPL on the shareholders wealth on the basis of daily excess returns to the shareholders around the date of announcement of merger deals and finds that positive excess returns to the shareholders of the Target Company and negative returns to the shareholders of the acquiring company.

Guruswami and Radha Krishnan (2010) analyze 279 mergers and acquisitions of nine industries for 1999-2000 and examine the pre and post acquisition performance of the firms in India. The study used financial ratios like profitability ratios, liquidity ratios, efficiency ratios, leverage ratios and finds that there is variation in pre and post acquisition performance and the variance is high in Basic metal industry, IT industry, and Telecom industry and is less in other industries. The study concludes that horizontal M&As have greater influence in improving the past performance as compared to the other types of mergers and acquisitions.

Bedi (2012) analyze the merger trends in India by selecting the period from 2001 to 2007 in manufacturing sector and service sector firms and concludes that there is no significant difference between the merger trends of manufacturing sector and service sector firms. The study fails to provide information on concentration of mergers in the various sectors and also it did not cover the slowdown of economy in the year 2008.
Neelam Rani et. al. (2012) identify various motives of mergers in India. This is an empirical study based on the primary data collected through questionnaires. The study classifies the motives as primary, secondary and other motives.

Banga and Gupta (2012) survey 65 mutual fund managers in India through a questionnaire to examine motives behind mergers and takeovers of mutual fund scheme and finds that expansion of marketing and management capabilities, expansion of asset size and benefits of diversification as three most important motives behind mergers and takeovers of mutual fund schemes in India on the basis of factor analysis and multiple regression analysis methods.

Statement of the Problem:
A perusal of literature reveals a yawning gap in research works done in India. Majority of the studies analyse the post merger financial performance and few studies on motives foe mergers in India. Some of the studies done in India are on individual merger cases and lack of analytical and comprehensive approach.

Mergers in India are on the rise. We find waves of mergers in India, though there exists no comprehensive analysis on this. The Indian merger waves cannot be described in isolation. The global merger trends or waves do influence Indian mergers. A wave length of increase and decrease could be hypothesised between Indian and global mergers. It can also be said that sectoral influence also exists. Mergers in manufacturing sector at global level could influence merger deals in Indian manufacturing sector. This kind of comparison between global
and Indian merger trends is a missing link in studies done so far in India. The present study aims to overcome this aspect.

There are several motives for corporate mergers. These merger motives are not perceptible. They need to be germinated from market reaction to merger announcement or by post-merger performance. It can also be done by enquiring CEOs and CFOs involved in mergers. The study aims to find motives for corporate mergers in India by questionnaire method. Neela Rani et al (2012) do a comprehensive analysis of merger motives. However, merger motives in the context of global merger trends are conspicuous by its absence. Motives could also depend on trends. Mimicking is spontaneous. Rolling up in sectors could make other companies to do roll up mergers. Consolidation at global level might lead to consolidation of companies in India too. Hence, consolidation becomes a motive for mergers. Thus, the study hypothesizes a link between merger trends and merger motives and differs to a great extent from the work done by Neelam Rani et al (2012). In view of all these academic gaps, the study titled as:

“Analysis of Trends and Motives of Mergers in India”.

Research Objectives and Methodology:

Objectives of the Study:

The objective of the present study is to understand and analyze the trends and motives of mergers in Indian corporate firms. The study aims to cover the mergers that have occurred during 1999 to 2010 period. The following are the specific objectives set by the study:
1) To identify the trends of mergers particularly in post liberalization period.
2) To examine the impact of global merger waves on Indian mergers.
3) To examine merger trends across different sectors in India and outside India.
4) To analyse the motives for corporate mergers in India.
5) To examine the motives across different sectors.

Formulation of Hypotheses:
In order to achieve the above objectives, the study set the following hypotheses.

H₁ : “There is no significant association between Global merger waves and mergers in India”.

H₂ : There is no significant relationship between merger trends of manufacturing firms and service sector firms.

H₃ : There is no significant relationship between acquisitions trends of manufacturing firms and service sector firms.

H₄ : There is no variation in merger motives across the different mergers.

H₅ : Synergy and economies of scale are the predominant motives for corporate mergers in India.

Research Methodology:
There are different approaches to analyze the causes and consequences of mergers and acquisitions. We find four approaches in most of the studies; survey approach, clinical approach, event study approach and accounting data approach. The first approach has been popularised by Bruner (2002). These surveys are in the form of
interview with the executives, as their views towards merger determinants, success or failure of mergers. The second, Kaplan (2000) referred the case studies of small mergers. These studies explore a particular merger in depth, through extensive field survey with the executives involved. The third is common approach, the event study approach. An event study approach measures the effect of company’s specific information on the share price in the market. The fourth approach is based on accounting data. The accounting data is analysed to draw the valuable inferences. The present study use survey approach to achieve the research objectives.

The study aims to analyze merger trends and their motives. For this purpose the necessary data is collected from the both primary and secondary sources. The collected data is analyzed with the help of various statistical tools to draw the inferences.

Scope of the Study:

The study covers the mergers occurring in India during the period from 1999 to 2010. In the case of global mergers the period chosen was from 1997 to 2009. Mergers of all types and in all industries are considered for the purpose of analysis.

Sources of Data:

The study is based on both primary and the secondary data. The primary data is collected to identify the merger motives. The questionnaire method is used to gather the data. After extensive review of available literature, the draft copy of the questionnaire was designed to full fill the research objectives. For the purpose of revision and modifications, the designed questionnaire was sent to the experts and
academicians. After receiving their suggestions and modifications, the final questionnaire was sent to the CEOs and CFOs of the companies which were involved in mergers.

The secondary data was used to understand merger trends in India as well as at global merger trends. In order to understand merger trends in India the data is collected from PROWESS Database of CMIE, Mumbai. The merger and acquisition deals reported in the above mentioned source were used from 1996 to 2010. The data of BLOOMBERG database was also used to analyse the global merger trends. This data was collected from 1999 to 2009.

**Sampling Method:**

The primary data was used to identify the various motives behind corporate mergers in India. For this purpose, the appropriate and representative sample size was determined based on the merged companies in India. In this regard a list of 1874 merged companies was prepared based on the mergers announced in the PROWESS database of CMIE, Mumbai during 1996 -2010. (The studies conducted by Beena and Manish Agrawal and Aditya Bhattacharjea verified and confirmed the CMIE data with the mergers announced by the regional offices of the registrars of companies). The companies listed on BSE are considered as sample to increase the accuracy and reliability of the selected sample firms. Then it was observed that the sample firms should have enough representation from the various industries as listed in the National Industrial Classification 1987 code. The present sample is derived from as many as 20 industries. The final sample of 587 firms was selected by considering mergers among related, unrelated and both.
Statistical Tools used for the Data Analysis:

The study comprises two broad components; the first is the analysis of merger trends for the 1996-2010 period and across the industries and also sectors. The second component is the analysis of merger motives. The merger trends were analyzed with the help of mean, standard deviation, variance, student t test and two-way ANOVA.

The merger motives were analyzed with the help of the statistical tools in SPSS package such as, chi square, Mann Witney U test, t test, Spareman’s rank correlation coefficient method, factor analysis etc.

Research Design:

The present study is undertaken to understand corporate merger trends and their motives in India. The study is empirical in nature and highly data base oriented and hence is organized in to the following chapters:

Chapter -1: Introduction:

The chapter is used to explain the over view of the mergers and acquisitions. It involves review of literature, need for the study, objectives of the study, statement of the research problem, formulation of hypothesis, scope and methodology of the study, sampling, and limitations of the study and research design.

Chapter -2: Conceptual Framework:

This chapter is used to explain the conceptual framework of mergers and acquisitions. The chapter provides meaning of mergers and acquisitions and their types, merger process, problems of M&As in
India, legal aspects of M&As, due diligence, target valuation and methods of valuation, specific sectors of mergers.

Chapter -3: Profile of Sample Firm:

This chapter explains the selection process of sample firms and their characteristics.

Chapter -4: Analysis of Global Mergers Trends:

This chapter will is used to analyze merger trends across various regions of the world such as Global, US, Asia Pacific, European Region.

Chapter -5: Analysis of Mergers Trends in India:

This chapter is used to analyze merger trends in India across manufacturing sector and service sector firms. This covers year-wise and industry-wise trends of merger deals, acquisition deals and also value of acquisitions during the study period.

Chapter -6: Analysis of Merger Motives in India:

This chapter explains the various driving forces of mergers in India or merger motives. The motives are analyzed on the basis of period, sector, method of payment, influence of global mergers trends, type of mergers etc.

Chapter -7: Findings, Suggestions and Conclusions:

This chapter provides a summary of findings of the study, suggestions and conclusions.
References:


