Chapter 1

Introduction

Mergers and acquisitions are a regular and much noted feature in the present global corporate environment. Among the primary motives behind mergers identified by the literature are a firm's need to improve market coverage, garner promotional profits, expand production without price reduction, acquire capacity at reduced prices, obtain real or pecuniary economies of scale, rationalize production using complementary inputs, and diversify into new products and markets. (Jervis, 1971). Consolidation can also be used as a means of restructuring and enhancing a firm's equity base in order to gain access to credit, improve cash flow and exploit tax advantages. The relative importance of these motives would differ between firms in any particular economy and between one economy and another.

Acquisitions and mergers, although always an important means of corporate growth during the post-Independence period, became much more prominent during the early nineties in the Indian corporate sector. The policies of economic liberalisation adopted during those years triggered a sharp increase in mergers between domestically owned companies and between domestically owned companies and companies under foreign ownership.

The principal objective of this thesis is to analyse the motives behind and the consequences of the merger process during the nineties. The thesis consists of six chapters. An attempt has been made in the first chapter to characterise the nature of
merger activity and highlight some theoretical and empirical observations on merger activity available from the literature in other contexts. The second chapter focuses on the regimes of industrial policy in India since independence and how they have affected the strategies of firms, particularly those of the large industrial business houses. The overall trends in mergers and acquisitions in India during the period 1970 to 1995 are analysed in the third chapter. The legal framework governing the merger process has also been delineated in this chapter. The structure of mergers during the 1990s among private corporate manufacturing firms is examined in the fourth chapter. The motives and consequences of mergers and their implications are studied in the fifth chapter. A characterization of the merger movement after liberalisation based on detailed case studies has been attempted in the sixth chapter. The thesis ends with a summary of its principal findings.

Defining Mergers and Takeovers

Mergers or amalgamation, result in the combination of two or more companies into one, wherein, the merging entities lose their identities by being absorbed in the merged activity. No fresh investment is made through this process. However, an exchange of shares takes place between the entities involved in such a process. Generally, the company which survives, is the buyer which retains its identity and the seller company is extinguished (Ramaiya, 1977).

A merger can also be defined as an amalgamation, if all assets, liabilities and stocks of one company are transferred to the transferee company in consideration of payment in the form of equity shares of the transferee company or debentures or cash
or a mix of the above modes of payment. In other words, the survivor acquires the assets as well as the liabilities of the merged company or companies.

An acquisition on the other hand, is aimed at gaining a controlling interest in the share capital of the acquired company. It can be enforced through an agreement with the persons holding a majority interest in the company's management, such as members of the board or shareholders commanding a majority of the voting power or through purchasing shares in the open market or purchasing new shares by private treaty or by making a takeover offer to the general body of shareholders.

A takeover, which is essentially an acquisition, differs from a merger in its approach to business combinations. In the process of takeover, the acquiring company decides the maximum price that is to be offered to the acquired firm and hence takes lesser time in completing a transaction than in mergers, provided the top management of the acquired company is cooperative. In merger transactions, the consideration is paid for in shares whereas in a takeover, the consideration is in the form of cash. However, mergers and takeovers can be treated as similar processes, since in both cases at least one set of shareholders loose executive control over a corporation which they otherwise held. Consolidation, can be described as the fusion of two existing companies into a new company, in which both the existing companies are terminated, with the consequence that the shareholders of both the companies become shareholders of the new company.

Management buyouts are conducted between existing managers of the corporation and the dominant or controlling shareholders. Through this procedure, the managers approach investment bankers for the funding and through joint
negotiation with the controlling interests, decide on the price of the transaction and the manner of its payment. It can take the form of a leveraged merger, which is effected by resorting to a high degree of borrowing and is often paid for with a combination of cash and securities.

Based on the objective profile of an offer, business combinations such as mergers, acquisitions or takeovers could be categorised as vertical, horizontal, circular or conglomerate mergers (Peter, 1975).

**Vertical combinations**

A vertical combination is one in which a company takes over or seeks a merger with another company in order to ensure backward integration or assimilation of the sources of supply or forward integration towards market outlets. This is done to safeguard the sources of supplies of raw materials or intermediary products, benefit fully from final markets, reduce inventories of raw materials or finished goods and attain economies on working capital investments. The acquirer company gains a strong position due to the imperfect market of its intermediary products and also through control over product specifications. However, these gains must be weighed against the adverse effects of the merger. For instance, firms which have monopoly power in one stage may increase barriers to entry through vertical integration and this would help to discriminate between different purchasers by monopolisation of raw material supplies or distributive outlets (Comanor, 1967).
Horizontal combination

A horizontal combination is a merger of two competing firms belonging to the same industry which are at the same stage of the industrial process. These mergers are carried out to obtain economies of scale in production by eliminating duplication of facilities and operations and broadening the product line, reducing investment in working capital, eliminating competition through product concentration, reducing advertising costs, increasing market segments and exercising better control over the market. It is also an indirect route to achieving technical economies of large scale.

Circular Combination

In a circular combination, companies producing distinct products in the same industry, seek amalgamation to share common distribution and research facilities in order to obtain economies by eliminating costs of duplication and promoting market enlargement. The acquiring company obtains benefits in the form of economies of resource sharing and diversification (Ansoff and Weston, 1962).

Conglomerate Combination

A conglomerate combination is the amalgamation of two companies engaged in unrelated industries. The basic purpose of such an amalgamation is the effective utilisation of financial resources and enlargement of debt capacity through improved financial management so as to service the shareholders by increased leveraging and higher earnings per share and lowering average cost of capital and thereby raising present worth of the outstanding shares. It enhances the overall stability of the
Acquirer company and improves the balance in the company’s total portfolio of diverse products and production processes. Through this process, the acquired firm gets access to the existing productive resources of the conglomerate which result in technical efficiency and furthermore it can have access to the greater financial strength of the present acquirer which provides a financial basis for further expansion by acquiring potential competitors. These processes also lead to changes in the structure and behaviour of acquired industries since it opens up new possibilities (Mueller, 1969).

SOME THEORETICAL ISSUES

Mergers, growth and diversification

Mergers, we have mentioned, are an important means to corporate growth. A firm or a group can be expanded in several possible ways. One way of growth, is through the extension of existing activities by upscaling capacities or establishing a new firm with fresh investment in existing product markets. However, a firm normally faces two major constraints when it seeks to grow within a single market. When the size of the market is small and the rate of expansion is too low, the growth of a set of firms in the same market might affect adversely the growth of other firms. Thus, it could lead to price wars or takeover bids. This, and other constraints such as control by the government over the expansion of firms in particular lines, encourage firms to grow by diversifying into other markets.

Through diversification, firms can increase their sales by either creating new markets for the same product or entering new markets by diversifying into new
product lines. When the present market does not provide much additional opportunity for growth, diversification as a strategy is vital for a firm if it wants to augment its demand base. In practice, diversification is an important way in which firms grow. A firm is said to diversify if it produces new products including intermediate products that are sufficiently different from the existing product lines (Penrose, 1959). Besides, it also diversifies to take account of the changing opportunity costs of its own resources, which might occur when existing markets become relatively less profitable than opportunities for new investments elsewhere. With a growing and reasonably stable industry, a shift can take place in the manufacturing processes, the product profiles and the demand patterns arising out of technological innovations. To reduce this vulnerability, a firm with excellent apparent growth and stability prospects which becomes vulnerable to sudden changes because its product line has a narrow technological and market base, may need to increase its flexibility by broadening this base to new markets and particularly to new areas of technology. For these reasons, during the 1970s, for example, large firms in India and elsewhere had diversified into new fields, related or unrelated to the existing business (Kumar, 1985, p.105).

Growth and diversification can be achieved both internally and externally. Mergers, tender offers and joint ventures are all strategies through which a firm can grow externally. A firm would grow by external expansion when it becomes difficult for a firm to use its resources efficiently for further growth. Mergers do not require any cash outlay and therefore can be considered as the only way of diversifying activities for a firm whose financial position is not strong and whose managerial and technical services are highly specific to existing products (Penrose, 1959).
Economic Motives of Mergers and Amalgamation

The primary objective of most mergers is to improve the market coverage of the leader. Expansion may hinge upon the successful acquisition of a company with customer goodwill, well established brand names, a good sales performance and high margins. It may also be adopted in order to obtain access to know-how or patents for new products or processes that will allow it to extend its range of products to offset unfavorable growth prospects or to keep up with the rate of technological progress in its industry.

It has been suggested that firms regard mergers as an opportunity for immediately increasing capacity and for gaining greater control over the market in a period of expanding and favorable economic conditions (Weston, et.al, 1996, p.285). Mergers, then, are an alternative to purchase of new plants and equipment. Thus businessmen increase the size of their business organizations through mergers during periods of economic prosperity (Roll, 1986).

Another strategic motive for merger is the desire to become large and more efficient. As oligopoly becomes typical in most branches of industry, the importance of size, both relative and absolute becomes more significant. Acquisitions are important instruments for growing, both through absolute and relative size. Horizontal and vertical mergers are important both for market share and market power; and conglomerate mergers for size relative to the economy. Acquiring firms need not have to show superior efficiency and profitability than those they acquire as long as they are big business holders. This is the reason why bigger firms tend to takeover smaller ones. Large sized firms can escape from being acquired even if with
a lower valuation ratio. Horizontal and vertical mergers may also be resorted to because they limit competition in the same product market or in inputs or distribution. In the diversification and conglomerate cases, mergers can reduce risk and confer useful financial and political leverage.

Various financial factors have also been seen as motivating mergers. Since transactions involving stocks of firms are subject to less uncertainty than internal investments in plant and equipment, mergers are seen as preferred over internal investments when there is a need to avoid the greater uncertainty (Weston, et.al, 1996, p.285). Differences in expectations about share prices between stockholders and outsiders become larger in periods of rising stock prices. These valuation differences or "economic disturbances" lead to acquisitions of firms that are low-valued from the viewpoint of outsiders (Gort, 1969). The stock market becomes a vehicle for the managerial pursuit of growth objectives when stock prices rise (Mueller, 1977). Lower interest rates are also seen as leading to more acquisitions, as acquiring firms rely heavily on borrowed funds (Melicher, Ledolter and D.Antonio, 1983). Besides, Becketti (1986) argued that bond purchases are an alternative use for the cash that is used for corporate acquisitions (Weston, et.al, 1996, p.285).

Internationally, companies whose operations are geographically concentrated are aggressively seeking to acquire companies in other countries. In recent times the most significant reason for the internationalisation of the corporate control market is the establishment of a single common European market from 1993, which has prompted many European and non-European companies to merge with or acquire other companies in Europe both as defensive and offensive strategies.
Venkiteswaran, 1993). However, post-liberalisation, companies in countries like India have also been the targets of cross-border mergers.

Most of the motives for international mergers and acquisitions are similar to those of purely domestic transactions, while others are unique to the international arena. Growth, access to technology, advantages in differentiated products, government policy, exchange rates, political and economic stability, differential labor costs, productivity of labour are the major motives which may be attributed to international mergers (Weston, et.al, 1996). Suppose a profitable firm in a slow-growing economy throws off cash flow beyond its internal investment needs, the representative firm can invest this surplus cash in a faster growing economy than in the slow-growing domestic economy. Given that the domestic market of the firm gets saturated or the domestic economy is too small to accommodate the growth of its corporate giants, a firm may decide to go in for international mergers where it can invest its surplus cash to attain higher growth. Leading firms in the domestic market can have lower costs because of economies of scale. Therefore, there is a possibility of merger by medium-sized firms with the overseas firm in order to attain the size necessary to improve its ability to compete with the leading firm.

A technologically superior firm may make acquisitions abroad in order to exploit its technological advantage or a technologically inferior firm acquire a foreign target with superior technology to enhance its competitive position both at home and abroad. International mergers take place in a situation where the acquiring firm brings something to the target that would increase the present value of benefits or the target firm brings something to the acquirer which enables the combined
benefits of the merged firm to be greater than the sum of what the individual firms could have achieved separately. The acquirer can improve its competitive position and profitability both at home and abroad by injecting technology into the acquired firm.

Government policy and regulations in the form of tariffs and quotas can affect the process of international mergers and acquisitions in a number of ways. For example, the huge export surpluses earned by Japan had led to voluntary export quotas coupled with threats of more binding restrictions, which resulted in increased direct investment by Japan in the US. Further, the economic environment arising out of certain government regulations, can greatly increase the time and cost required to build facilities abroad and therefore firms may use merger as a strategic device to enhance the existing facilities.

Economic Implications of Mergers and Amalgamations

The immediate effect of a merger is to increase the degree of concentration, because it reduces the number of firms and thus fewer firms control a major part of the output in the industry. Further, it has been observed that the mergers which increase overall concentration are conglomerate mergers whereas, horizontal and some vertical mergers lead to product concentration as well as overall concentration. If economies of scale are potentially available to two firms, then the merger movement helps to improve efficiency which might promote competition. It has been argued (Schmalensee, 1987) that the cost-reducing effect of a particular proposed merger might probably outweigh its collusion-enhancing effects. On the other hand,
Williamson (1968) argued that a small efficiency gain would generally be offset by a large increase in market power which creates a situation which sets prices above the competitive levels.

Another effect of mergers on competition is the generation of barriers to entry. If economies of scale are realized through merger, then those firms could prevent potential entrants when substantial cost advantages are possible (Bain, 1969). Artificial barriers can be raised or strengthened, if the merger results in a strengthening of product differentiation through legal rights in designs, patents, know how and other means conferring protection from competition by other products or manufacturing processes. Mergers lead to increased efficiencies, if there is overlap in product markets, processes or costly inputs. Such efficiencies and cost savings could flow from economies of scale and scope possible from the larger post-merger operations, greater control over key inputs, product rationalisation, combining marketing, advertisement and distribution or from cutting down overlapping research and development. The larger merged firm will have the resources to engage in substantial non-price forms of competition which is a feature of oligopoly.

Discriminatory pricing amongst customers and predatory pricing against existing competitors are two kinds of behavior that can be practiced in the above situation. This however depends upon the existing legal constraints and upon the possibility of maintaining the short term gains which they bring. This can be turned into long-term gains, only if it is possible to raise barriers to entry. In the short term, the merged firms are expected to produce the same output with a lower expenditure of real resources or a greater output with the same resources. In the long term, the
merged firms are expected to improve efficiency through improved products and processes.

Vertical mergers stay in the same product lines, but takeover more of the processes. They may represent forward integration by manufacturers into consumer markets. Vertical mergers may improve stability, by regularizing the supply of raw materials or by movement toward the markets of the final consumer, thereby decreasing the fluctuations resulting from derived demands. Thus vertical integration can improve stability of sales (Ansoff and Weston, 1962). Vertical integration does not increase market power directly, but joining together two stages of the production process can extend its scope and impact (Kayser and Turner, 1959). The integrated firms may have a leverage over non-integrated rivals, who are competitors in one of the stages of production and suppliers or customers at another. Vertical integration may also improve profit margins, if combining the stages of production results in economies. However such economies must offset the gains from specialisation achieved by a firm, which provides the same products to a number of other manufacturers.

Horizontal mergers offer opportunities for joint economies of selling and advertising efforts. Vertical and horizontal mergers appear to be subgroups of the broader class of what may be termed concentric mergers. It involves a common thread in the relationships between the firms. An increase in each company’s product market strength is one of the consequences of the merger. The number and kinds of
new products that potentially may be developed by the new firms require combinations of the two companies skills and other technological factors.

Conglomerate mergers help achieve all of the objectives of growth, stability, and flexibility of sales and profits. (Ansoff and Weston, 1962). Although conglomerate mergers do not have any immediate impact on concentration levels, the entry of a large diversified firm might set off a defensive reaction amongst other suppliers which leads to mergers among them and thereby to increased overall concentration. It also raises barriers to entry if most of the diversification is based on some area of specialization of the acquiring firm. For instance, if legal protection of some common areas of technology is an important cause of the merger. Efficiency and market power due to conglomerate merger can also constitute a cost barrier to intending entrants. The greater financial strength will enable the acquiring firm to practice predatory and discriminatory pricing and also enable it to move financial resources from one market to another. There can be long term gains from these forms of behavior, as long as the conglomerate is able to drive out competitors and heighten entry barriers. The theory says that a particular conglomerate merger can have pro- or anti-competitive consequences. For instance the acquisition by a very large firm of a leading firm in a concentrated industry is likely to have anti-competitive effects. It is generally believed that competition is inversely related to the levels of concentration of supply in markets. The firms in a concentrated market will take account of each others prices and product promotion policies and the potential of implicit and explicit collusion to reduce competitive forces and maximize profits. Pro-competitive effects are likely to occur in a situation where a conglomerate merger takes place among
small firms in a concentrated industry. A conglomerate merger is considered economically beneficial, if it passes the superior efficiency gains onto consumers either in the form of reduced prices or improved products.

**THE EMPIRICAL EVIDENCE**

**Merger waves in the US**

The practice of merger and amalgamation has been an internationally prevalent feature since the beginning of the 20th century. In reality, corporate acquisitions and mergers have played a dominant role in the economic expansion of major transnational groups. A series of merger waves has been witnessed in many of the market oriented economies.

There have been three major merger waves in the United States during the periods 1887-1905, 1916-1929, and post-world war II. In the US economy, the first merger wave during 1895 to 1904 was characterized by horizontal mergers, which increased concentration in a number of industries. The second wave, 1922-29, also continued with this trend, which led to extension of the existing products. However, the immediate post-war merger boom was relatively smaller. The merger movement during the sixties was dominated by the diversification and conglomerate types (Scherer, 1979). During the eighties, the nature of mergers have been characterized by a return to specialisation and an enormous increase in real sizes. The merger waves in the US, in the eighties and beyond are characterized by the strong relatedness between the businesses of the merging firms unlike the conglomerate
mergers in the sixties and seventies. In constant dollar terms, the mergers during 1988 increased almost four to six times more than the value of mergers in the early seventies. The value of mergers which represented 10 to 15 percent of the investments made in plant and machinery in the seventies, increased to 40-45 percent levels in the later half of the eighties (Weston, et.al, 1996).

The first merger wave resulted in the disappearance of about 3000 independent firms. One of the main characteristics of this merger wave was the simultaneous incorporation of numerous producers into leading firms. The greater majority of the mergers involved consolidation of five or more firms. It was estimated that 15 percent of all employees and plants in manufacturing industry were involved in this process at the turn of the century. (Scherer, 1979). The second merger wave resulted in the disappearance of about 12,000 firms. Out of this, around 14 percent was the result of consolidation of five or more firms. Simultaneous consolidations were rare in most of the mergers and some of the most prominent manufacturing mergers created a new situation, where the entire industry was controlled by two firms instead of one giant. The difference between these two periods can be described as "mergers for monopoly" and "mergers for oligopoly". Observations also showed that the first merger wave led to a high level of market concentration due to the dominance of horizontal mergers while the second wave appeared to have been characterized by a higher incidence of vertical integration and diversified mergers. Anti-trust policies appear to have influenced the third wave significantly, which commenced after world war II. (Scherer, 1979). According to the Federal Trade Commission, 11668 mergers were recorded during the period 1945 to 1965 in the
manufacturing and mining sectors. The period between 1966 to 1968 accounted for an additional 4933 mergers. An analysis of the size of the acquired firm and the market for acquirer and acquired suggests that the acquired firms were considerably smaller than the acquiring and operated in markets which were distinct and hence, it was concluded, that a substantial proportion of mergers in the third wave were of conglomerate type. The overall concentration, as measured by the share of total value added held by the largest 100 companies, increased from 30 percent to 33 percent during the period 1954 to 1970.

The other developed countries such as the UK, Canada, France, Germany and Japan have also witnessed periods of a sharp rise in merger activity, although the US has been the most active mergers market. In the United Kingdom, horizontal mergers were the dominant form between 1954 and 1965 and since then there has been a trend towards diversified merger. The value of assets acquired through diversified merger rose to 33 percent in 1972 from 5 percent in 1966. A continuously rising trend in mergers has been noticed in Germany since 1958, with exceptionally high growth rates in the number of mergers during 1969 and 1970.

**Characteristics of mergers**

From the point of view of our later analysis relating to India, there are two characteristics of mergers in different contexts which have been reported that are worth noting. The first relates to the relative financial performance of acquiring and acquired firms. Paul Levine and Sam Aaronovitch (1981) carried out an analysis of a sample of 154 firms in manufacturing and distribution involved in large mergers in
the UK in 1972, a year of exceptional importance for merger activity. Their univariate analysis of financial characteristics of group averages of acquiring and acquired firms showed that there were significant differences in the valuation ratio and price earning ratio between the AG (Acquiring) and AD (Acquired) firms. The VR (Valuation Ratio) and PER (Price Earnings Ratio) of AG firms were higher than that of AD firms and of the averages for that industry as a whole. AD firms were of smaller size than the average and less liquid than the average. However, there was no evidence of any significant differences in profit related variables such as the RR (Rate of Return), and the EPS (Earning per Share) and in growth rates between AG, AD and all companies. It was also noticed that firms whose valuation ratio falls below one were more vulnerable to bids. An examination of four-firm concentration ratios, showed that there were no significant differences in the market structures facing AG and AD firms. No clear picture emerged from the study by comparing the growth, liquidity and profitability of AG and AD. If there are any common differences, that is based on facts, one observes that AG are less liquid than AD, grow faster and have a high RR. However all performance variables excluding size discriminate poorly as between acquiring and acquired companies (Levine and Aaronovitch, 1981). Taken together, the diversity of the results, it was argued, suggested the pursuit of a general theory of merger activity is not a useful exercise.

Secondly, a study by Lye and Silbertson (1981) found that mergers between firms under a related management where less common than those between firms that were unrelated. The value of subsidiaries acquired was generally lower than the value of independent companies acquired. However, a significant proportion of total
merger activity (23 per cent by number) was subsidiary acquisition over the eleven year period spanning from 1969-79. The average value of companies acquired was low (2.24 million pounds) at 1975 prices, and the value of independent companies acquired was more than twice that of subsidiary companies. In terms of value, the lowest percentage of subsidiary acquisition activity occurred in the best year for mergers generally and the highest percentage in the worst year.

**Mergers and growth**

A comparison made between the merging and non-merging firms of their internal growth rates for seven countries proved that none of those countries showed a rise in internal growth rates of the merged firms. In the case of Holland and United States, a statistically significant relative decline in the growth rates was in fact observed. None of the eleven studies spanning seven countries could show any evidence of increased internal efficiency based on sales data whereas five of eleven have presented evidence suggesting a decline in efficiency (Mueller, 1987)1.

**Financial motives for mergers**

An analysis (Nelson, 1966) based on detrended series has shown that mergers were positively correlated to stock price changes rather than to changes in industrial production in periods of high merger activity (Weston, et al, 1966, p.285). By using

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1. It has been argued that mergers increase value and efficiency and move resources to their highest and best uses thereby increasing shareholder value (Jensen, 1988). Others (Magenheim and Mueller, 1988; Ravenscraft and Scherer, 1988) argued, that companies acquired are already efficient and their subsequent performance after acquisition has not improved (refer, Alexandra Post, 1994, p.216).
regression analysis, it was proved, that merger activity showed a statistically significant relationship to stock prices but not to industrial production. The correlation coefficients were statistically significant, but were larger between mergers and stock prices than between mergers and industrial production (Markham, 1955). Based on a model constructed to explain future merger movements as a function of stock prices and bond yields, it was found that capital market conditions (stock prices and interest rates) with their underlying causes were the major factor behind the aggregate changes in merger activity.

**CONSEQUENCES OF MERGERS**

**Mergers' effects on Concentration**

In different contexts many of the expected consequences of mergers where either corroborated or belied, strengthening the case against any general theory of mergers. Hannah and Kay (1977) have analyzed the effects of mergers on concentration in the UK up to 1970. A substantial increase in concentration has been noticed between 1919 and 1930 accompanied by an acceleration in merger activity, while there was a decline in both concentration and merger activity during the period 1930-1945. During the period 1948 to 1953, concentration increased significantly without a corresponding rise in mergers.

The rise in concentration during the fifties has been attributed entirely to mergers (Markham, 1955). A decline in the overall concentration was predicted during the sixties in the absence of mergers. There were several studies which dismissed the importance of mergers to the aggregate concentration issue, although a large number
of firms (200) were acquired during the 60s. (Weston, et.al, 1996). One of the reasons could be that the internal growth rates of the largest 200 companies were less than the growth in assets for the manufacturing sector. One can expect this kind of mechanism among the largest firms which are in the mature phases of their life-cycle. Another reason for steady concentration could be due to the unprecedented economic growth. (Mueller, 1987). The study inferred that in the absence of mergers, the 100 largest firms in 1978 would have controlled 14 percent less assets than they actually did. Levels of merger activity have accelerated and concentration has risen again since 1978.

Goldberg (1973) measured changes in market shares for 44 companies, concentrated in markets with heavy advertising and found no significant change in their market shares following mergers. Mueller (1985) observed that the companies acquired through conglomerate mergers or involved in horizontal mergers were found to have experienced significant losses in market shares relating to non-merging companies during the period between 1950 and 1972.

In the US, a modest increase in median industry concentration was observed between 1981 and 1989 in the full sample of 695 4-digit industries and a larger increase in median concentration in a sub-sample of 390 4-digit manufacturing industries. This increase in concentration has been seen as the result of mergers and sell-offs during the 1980s which led to increases in industrial concentration across broad samples of US industries (Liebeskind, et.al, 1996, p.53).
Merger's Effects on Profitability

Most of the studies which were carried out to analyse the effect of the early mergers on profitability, concluded that it does not lead to increase in profitability. However, few studies observed that the merging companies' profits fell following the mergers. No evidence exists in the literature, which shows increase in profits and efficiency due to mergers between 1962 and 1972. An examination of the effect of mergers on profitability for six countries showed that mergers had no effect on profitability or led to minor increases for countries like Belgium, Germany, and U.K., whereas it had declined slightly or remained unchanged for countries like France, Holland, and Sweden. (Mueller, 1987). Ravenscraft and Scherer (1988), found that acquired companies are more profitable than similar non-acquired firms and that their profitability declines steadily after they are acquired. This study contained considerable evidence in contradiction with the hypothesis that the profitability of acquired firms is improved by their acquisition. There is some evidence that mergers in the U.K have resulted on average in modest declines in profitability. No consistent pattern regarding changes in efficiency is apparent in the mergers in those group studies which had been carried out in U.K by Cowling and his associates (1979). The two largest investigations of mergers in the U.K reached opposite conclusions. Meeks ,et.al (1981) finds a slight decline in profitability in a study of 1000 mergers occurring since world war II. Another study found a slight increase in profitability for 290 mergers occurring in the three years 1967-69. Studies of mergers in Belgium, West Germany, France, Holland and Sweden recorded an equally inconsistent picture.
Effects on Shareholders Return

Mergers take place to give immediate investor's gain, if two firms with the same stream of earnings have different share prices, or if the firm with the higher price-earnings ratio takes over a firm with a lower ratio. Earnings per share will then rise. However, it was found that the owners of the acquiring company suffered negative returns, which almost exactly matched the positive returns to the acquired firm's shareholders. There was some evidence of immediate investor's gain from the higher average price/earnings ratio for the acquired. However, an examination of financial gains by taking the series of share prices after the takeover announcements and the premium paid has ruled out the validity of inferring financial gains from price earning ratios in the period before the merger.

Mergers, Investment and R&D

The argument that mergers are a form of investment has been repeatedly made (Mueller, 1969). One study (Weston, et.al, 1996, p.284) argued that the decision to merge is an outgrowth of the investment decision of the firm. This argument was empirically proved by showing a positive correlation between merger capitalization per unit of book value and new capital investment per employee at the industry level. Further, the study showed a strong positive correlation between mergers and asset prices, which reflects high expectations of return on future investments. An increase in expected return would raise asset prices and increase investment activity.
Empirical studies in the US, show no clear evidence of either a decline in capital investment or on R&D spending during the post-acquisition period. In contrast, the study by Welch and Bolster (1992), reported that acquired firms experienced an increase rather than a reduction in both R&D and long term capital spending in the post-merger environment (Weston, et.al, 1996). Firms seek to takeover other units which are less efficient than their own, and whose assets can be utilised more profitably. However, this view was not supported in a univariate analysis of profit-related variables by four out of six studies (Paul Levine and Sam Aaronovitch, 1981, p.157).

**Mergers and restructuring**

A study of mergers and acquisitions which took place in US found that many of these transactions resulted in extensive business divestitures and plant closures in target firms (Bhagat, Shleifer and Vishny, 1990). Independent firms restructured their operations by selling lines of business and closing plants (Liebeskind, et.al, 1996, p.53). It has been argued that the major impetus behind mergers during the eighties and beyond was industrial restructuring, despite wide variations across countries in the structure of the market for corporate control. In addition, Bhagat, Shleifer and Vishny (1990), found that over two thirds of the lines of business sold off following hostile takeovers during the 1980s, were bought by other firms in the same industry. Hence, it was concluded, that a primary motivation behind these sell-offs was market consolidation.
This selective survey of the theory and empirical evidence relating to mergers from developed country contexts suggests that the motives and consequences of mergers have varied across time in individual countries and across countries at similar stages of development and phases in time. What the international experience provides us in our study of the merger movement in India, is a set of questions and alternative speculations on mergers and consequences, only some of which can be of relevance. But, crucially, it informs us that the pursuit of a general theory of mergers even in a particular context could be a pointless exercise and that the motives and consequences of mergers could be specific to time, industry and even individual firms.