

## **Determinants of Inter-Industry Variations in Mergers and Acquisitions: Empirical Evidence from Indian Manufacturing Sector**

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*In the context of economic reforms and subsequent increase in number of Mergers and Acquisitions (M&A) in the Indian corporate sector in the 1990s, the paper attempts to identify the determinants of inter-industry variations in the incidence and extent of M&A. It finds that the decisions for M&A across industries are determined by various structural aspects of the market and other business strategies of the firms. While the possibility of M&A to take place is higher in the industries with larger market or greater selling efforts by the firms and lower minimum efficient scale of operation, the extent of these activities varies across industries directly with market size, rate of growth of sales, firms' selling efforts and technology strategies, but inversely with minimum efficient scale of operation. However, the degree of sellers' concentration does not have any significant influence either on the incidence or on the extent of M&A, implying that they are not aimed at gaining greater market power and, therefore, may not be necessarily detrimental to the consumers' interest.*

### **I Introduction**

The process of economic reforms in India in the 1990s has resulted in many important changes in the industrial policy in general and competition policy in particular.<sup>1</sup> The basic object of these policy changes is to facilitate increasing competition required for efficient functioning of the market forces (rather than state

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The author is thankful to Prof. Rakesh Basant, Prof. Sebastain Morris, Prof. S.P. Kashyap, Prof. S.N. Sau and Dr. Bhagirath Behera for their comments and suggestions. Thanks are also due to Subhendra Nath Saha for extending help in sourcing and compiling the dataset. Usual disclaimers apply.

<sup>1</sup> In the new policy regime, while the restrictions on mergers, acquisitions and entry of large firms under the Monopolies and Restrictive Trade Practices Act (MRTPA) are removed, the entry restrictions on private sector enterprises under the Industries Development and Regulation Act (IDRA) and the shareholding and business restrictions on Multinational Corporations (MNCs) under the Foreign Exchange Regulation Act (FERA) are relaxed substantially. These changes in the competition policies are accompanied by deregulatory measures such as reduction in the scope of industrial licensing, simplification of procedural rules and regulations, reduction of areas reserved exclusively for the public sector and small-scale enterprises, divestment of equity of public sector undertakings, enhancing the limits of foreign equity participation in domestic industrial undertakings, removal of restrictions on foreign technology participation, etc. Besides, investment and trade-related liberal measures were also introduced in the 1990s.