Dissertation Titled: Essays on Mergers and Acquisitions

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Abstract

Mergers and acquisitions present interesting avenues to study different aspects of corporate finance, corporate governance, managerial behavior and market responses. In this thesis, we study mergers and acquisitions from three difference angles spread out in three fairly detailed essays. In the first essay, we study the impact of two conflicting forces, namely, high promoter holdings and lack of debt-funding, on the method of payment choice and its impact on bidder returns. We study the short run effects of M&A announcements on acquiring firm's shareholder wealth. The analysis of abnormal returns indicates that the M&A announcements in India display positive effects on shareholder wealth, irrespective of the method of payment. Cash deals display positive abnormal returns, and in some event windows we observe significant positive abnormal returns for stock-deal bidders, as well. This phenomenon is contrary to the wealth-effect predictions of the information asymmetry models, and also contrary to the extant evidence that suggests that M&A deals do not create value for acquirer's shareholders. We offer pseudo-cash deal and ownership hypotheses to explain this anomaly. The promoter holdings and availability of internal funds are important factors that determine the choice of payment method in Indian mergers and acquisitions.

The second essay investigates corporate risk-taking through the lens of principal-principal conflicts. The classical agency theory centres on the problems arising from dispersed ownership,

and focuses on aligning the interests of principals and managers. In emerging markets, we have two sets of principals, the promoters with significant shareholdings and other dispersed shareholders. By default of its design, the concentrated ownership structure may help mitigate the problems arising out of conflicts between principals and agents, but might give rise to new set of problems in the form of principal-principals conflicts. India, where firms are largely organized as business groups or family businesses, with complex cross-holdings and pyramidal structures, presents a distinctive venue to test the presence of such conflicts. Our primary focus is to test if the principal-principal conflicts transpire in the form of risk aversion when Indian bidders seek to merge or acquire. We observe that Indian bidders resort to risk-aversion only when promoters hold majority stake. We argue that in business group firms this happens due to 'tunnelling distortion', whereas in standalone firms, this occurs due to 'portfolio concentration'.

The third essay is on merger waves in emerging markets, with India as a case in point. The preferred mode of payment in M&A deals in emerging markets is cash, primarily due to high ownership concentration. Such markets are characterised by institutional voids, such as lack of investor protection, under-developed debt markets and lack of access to bank funding for M&A deals. These features close-out equity and debt mis-valuation routes for merger waves to occur in these markets. However, conscious policy decisions (often deregulatory) at the aggregate and the industry level give impetus to firms in some industries to restructure, and such restructuring at the industry level generally clusters in time, causing merger waves. Moreover, there are certain behavioural causes like herding, envy and hubris, which can also drive merger waves. We observe that industry-shock thesis embedded in the neo-classical explanations and the 'anchor acquirer' hypothesis embedded in the behavioural theory explain merger waves at the industry level. Additionally, we have lead an inquiry in to the ethnic background of promoter-managers in the context of merger waves, and have studied its impact on bidder returns, and have also analysed the herd behaviour of bidders at the aggregate level.