Deregulation and Liberalization,

Business Cycles and Performance of Indian Industry

D. Tripati Rao

Associate Professor, Business Environment Area, Indian Institute of Management Lucknow, Prabandh Nagar, Off Sitapur Road, Lucknow 226013,

e-mail: tripati@iiml.ac.in

Sachin Bhatia

Business Associate, Barings Equity Private Limited, New Delhi

Keywords: Firms' performance, business cycles, S-C-P framework, discriminants

Abstract. Over two decade of Indian economic reforms aimed at removing the barriers to competition and access to new technology by Indian Industry. We examine the structural changes these market-friendly measures brought to Indian Industry by analysing inter-firm variations in performance. This is to understand how well firms across industries have adapted to these deregulatory measures over business cycles, that is, how firms have responded to and performed over the business cycles. In the structure-conduct-and-performance (S-C-P) framework, using step-wise discriminant analysis, we find that debt ratio, export intensity, gross fixed assets growth, and advertising, marketing and distribution expenses are the statistically significant discriminant variables that acted as principal discriminants between pre- and post-deregulation periods. Further, comparing the short-term impact of liberalization measures with the long-term over a decade-and-half of the post-liberalisation period, we find that new investment, export intensity, gross fixed assets growth, capital output ratio, employee cost, advertising, marketing and distribution expenses and sales growth are the statistically significant discriminants that differentiate the 1991-93 and 2005-07 period. We also find that our results predict Indian economic slowdown.