



Hands in the Cookie Jar? The Case of Management Buyouts¹

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Abstract: This paper investigates the effects of managerial ownership on shareholder wealth gains in management buyouts to study whether target managers expropriate public shareholder interests when they buy out a firm. We find that the transaction premiums are negatively associated with the buyout managers' stock holdings, but not with their option holdings. This evidence indicates that acquiring managers, using their corporate power associated with their stock holdings, pursue their own interests at the expense of public shareholders, and that their interest in the post-buyout firm dominates their interest associated with their options. We also find that the transaction premiums are not associated with the non-buyout managers' stock and option holdings.

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Most academic studies on management buyouts (MBOs) have documented substantial wealth effects from buyouts for public shareholders. For instance, Kaplan (1989) reports an average premium of 45.9% for 76 MBO transactions during 1980-1986. Previous research focuses on the sources of wealth gains

¹ Management buyouts are encompassed in leveraged buyouts (LBOs). In the literature, LBO and going-private are used interchangeably, as both refer to a transaction in which the publicly traded shares of a firm are bought out by a group of private investors and the firm is then converted to private ownership. Management buyouts occur when the private investor group consists of or includes incumbent managers. For a detailed review on management buyouts, see Amihud (1989) and Palepu (1990).