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The unethical exploitation of shareholders in management buyout transactions

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Abstract

The accurate pricing of securities in the capital markets depends upon the markets being both efficient and fair. In management buyout transactions (MBOs), the price bid by inside managers enhances the efficient pricing of securities but raises a reasonable doubt about the fairness to existing shareholders. This study addresses this fairness question in MBOs and offers short-term and long-term legal alternatives which allow both the efficiency and fairness criteria to be met. In the short-term the case law established in the *Basic v. Levinson* decision for merger negotiation disclosures should be applied to MBO transactions. Over the longer horizon, legislative changes should be made to existing securities laws. Applying the investor protection principles of the 1933 and 1934 securities acts to MBO transactions will suppress the temptation of managers to extract shareholder wealth for their personal gain.

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