

[Home](#) > [Journal of Business Ethics](#) > [Article](#)

The unethical exploitation of shareholders in management buyout transactions

| Varia | Published: July 1990

| Volume 9, pages 595–602, (1990) [Cite this article](#)[Journal of Business Ethics](#)[Aims and scope](#) →[Submit manuscript](#) →[E. P. Schadler¹](#) & [J. E. Karns¹](#) **210** Accesses **18** Citations [Explore all metrics](#) →

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.



This is a preview of subscription content, [log in via an institution](#) to check access.

Access this article

[Log in via an institution](#) →

[Buy article PDF 39,95 €](#)

Price includes VAT (Poland)

Instant access to the full article PDF.

Rent this article via [DeepDyve](#)

[Institutional subscriptions](#) →

Similar content being viewed by others



Buy-Out of the Oppressed Minority's Shares in Joint Stock Companies: A Comparative Analysis of...

Article | 07 February 2018



Shareholder Proponents as Control Acquirers: A British, German and Italian Perspective on the Regulator...

Article | 19 October 2018



Mergers and Acquisitions: Share Deal vs. Asset Deal – Risks and Impediments

Chapter | © 2020

References

Berle, A. A. and G. C. Means: 1932, *The Modern Corporation and Private Property* (The Macmillan Company, New York).

Beaver, W. H.: 1981, 'Market Efficiency', *Accounting Review*, 23-37.

Black, H. C.: 1979, *Black's Law Dictionary* (West Publishing Company, St. Paul, Minnesota).

[Google Scholar](#)

Bowie, N. E.: 1988, 'Fair Markets', *Journal of Business Ethics* 7, 89-98.

[Google Scholar](#)

Clarkson, K. W., Miller, R. L., Jentz, G. A. and F. B. Cross: 1989, *West's Law Review* (West Publishing Company, St. Paul, Minnesota).

[Google Scholar](#)

Fama, E. F.: 1970, 'Efficient Capital Markets: A Review of Theory and Empirical Work', *Journal of Finance*, 383-417.

Gilson, R. J.: *The Law and Finance of Corporate Acquisitions* (The Foundation Press, Inc., Mineola, New York).

Gilson, R. J. and R. H. Kraakman: 1984, 'The Mechanism of Market Efficiency', *Virginia Law Review*, 549-644.

Irvine, W.: 1988, 'Corporate Democracy and the Rights of Shareholders', *Journal of Business Ethics* 7, 99-108.

[Google Scholar](#)

Larner, R. J.: 1966, 'Ownership and Control in the 200 Largest Nonfinancial Corporations, 1929 and 1963', *American Economic Review*, 144-55.

Parkman, A. M., B. C. George and M. Boss: 1988, 'Owners or Traders: Who are the Real Victims of Insider Trading?', *Journal of Business Ethics* 7, 965–71.

[Google Scholar](#)

Author information

Authors and Affiliations

School of Business, East Carolina University, Greenville, N.C., USA

F. P. Schadler & J. E. Karns

Additional information

Frederick P. Schadler, Assistant Professor of Finance at East Carolina University, in Greenville, North Carolina. Research interests include security issuances, investment banking, and ethical issues related to securities regulation. He has presented papers at regional and national meetings and has published in the Journal of Financial and Strategic Decisions and the Memphis State University Law Review.

Jack E. Karns, an Associate Professor of Business Law at East Carolina University. Research is directed toward corporate law, securities, and government regulation of business issues including ethical considerations. He has published in numerous legal journals including the Dickinson, University of Richmond, and Memphis State University Law Reviews.

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Schadler, F.P., Karns, J.E. The unethical exploitation of shareholders in management buyout transactions. *J Bus Ethics* **9**, 595–602 (1990). <https://doi.org/10.1007/BF00383215>

Issue Date

July 1990

DOI

<https://doi.org/10.1007/BF00383215>

Keywords

- Capital Market
- Investor Protection
- Reasonable Doubt
- Personal Gain
- Shareholder Wealth

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research