

[Home](#) > [Journal of Economics and Finance](#) > Article

ESOPs, takeover protection, and corporate decision-making

Published: June 1999

Volume 23, pages 170–183, (1999) [Cite this article](#)[Save article](#) [View saved research](#) >**Journal of Economics and Finance**[Aims and scope](#) →[Submit manuscript](#) →William N. Pugh¹, John S. Jahera¹ & Sharon Oswald²[472](#) Accesses [25](#) Citations [9](#) Altmetric [Explore all metrics](#) →

Abstract

ESOPs have the potential to align the interests of employees and owners and may increase firm value. However, employee ownership may also strengthen the position of entrenched management. The literature predicts that firms newly protected from takeover threat will tend to (1) increase long-term investment and (2) require additional external monitoring, and/or (3) may use leverage as part of an overall antitakeover strategy. We examined firms that have adopted ESOPs and find that firms raise the level of capital expenditures, research and development expenditures, and dividends. (*JEF* G320)

Access this article

Log in via an institution →

Subscribe and save

✓ Springer+

from €37.37 /Month

- Starting from 10 chapters or articles per month
- Access and download chapters and articles from more than 300k books and 2,500 journals
- Cancel anytime

View plans →

Buy Now

Buy article PDF 39,95 €

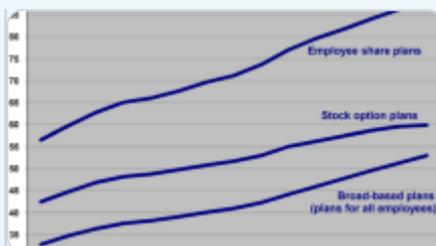
Price includes VAT (Poland)

Instant access to the full article PDF.

[Institutional subscriptions](#) →

Similar content being viewed by others

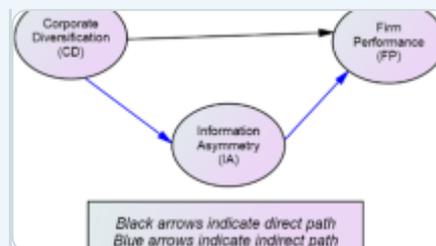
The timing of new corporate debt issues and the risk-return tradeoff



Employee ownership and corporate investment efficiency in Europe

Article | Open access
20 July 2024

Article | 26 June 2017



The diversification-performance nexus: mediating role of information asymmetry.

Article | 07 September 2020

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Business Law](#)

[Corporate Crime](#)

[Corporate Finance](#)

[Corporate Governance](#)

[Mergers and Acquisitions](#)

[Privatisation](#)

References

Agrawal, Anup, and Gershon N. Mandelker. 1990. "Large Shareholders and the Monitoring of Managers: The Case of Antitakeover Charter Amendments." *Journal of Financial and Quantitative Analysis* 25: 143-161.

[Article](#) [Google Scholar](#)

Amihud, Yakov, Jacob Y. Kamin. and Joshua Ronen. 1979. "Revenue vs. Profit Maximization: Differences in Behavior By the Type-of-control and By Market Power." *Southern Economic Journal* 45: 838-846.

[Article](#) [Google Scholar](#)

Amihud, Yakov, Baruch Lev, and Nickolaos Travlos. 1990. "Corporate Control and the Choice of Investment Financing: The Case of Corporate Acquisitions." *Journal of Finance* 45: 603-616.

[Article](#) [Google Scholar](#)

Amihud, Yakov, and Baruch Lev. 1981. "Risk Reduction as Managerial Motive for Conglomerate Mergers." *The Bell Journal of Economics* 12: 101-124.

[Article](#) [Google Scholar](#)

Beatty, Anne. 1994. "An Empirical Analysis of the Corporate Control, Tax and Incentive Motivations for Adopting Leveraged Employee Stock Ownership Plans." *Managerial and Decision Economics* 15: 299-315.

Beatty, Anne. 1995. "The Cash Flow and Informational Effects of Employee Stock Plans." *Journal of Financial Economics* 38: 211-240.

[Article](#) [Google Scholar](#)

Blasi, J.R. 1988. *Employee Ownership Through ESOPs: Implications for the Public Corporation*. New York: Pergamon Press.

[Google Scholar](#)

Brennan, Michael J. 1990. "Latent assets." *Journal of Finance* 45: 709-729.

[Article](#) [Google Scholar](#)

Bruner, Robert F. 1988. "Leveraged ESOPs and Corporate Restructuring." *Journal of Applied Corporate Finance* 1: 554-66.

[Article](#) [Google Scholar](#)

Chang, Saeyoung. 1990. "Employee Stock Ownership Plans and Shareholder Wealth: An Empirical Investigation." *Financial Management* 19: 48-57.

[Article](#) [Google Scholar](#)

Chang, Saeyoung, and David Mayers. 1992. "Managerial Vote Ownership and Shareholder Wealth." *Journal of Financial Economics* 32: 103-131.

[Article](#) [Google Scholar](#)

Chaplinsky, Susan, and Gregory R. Niehaus. 1990. "The Tax and Distributional Effects of Leveraged ESOPs." *Financial Management* 19: 29-38.

[Article](#) [Google Scholar](#)

Dann, Larry Y., and Harry DeAngelo. 1988. "Corporate Financial Policy and Corporate Control: A Study of Defensive Adjustments in Asset and Ownership Structure." *Journal of Financial Economics* 20: 87-127.

[Article](#) [Google Scholar](#)

DeAngelo, Harry, and Edward M. Rice. 1983. "Antitakeover Charter Amendments and Stockholder Wealth." *Journal of Financial Economics* 11: 329-360.

[Article](#) [Google Scholar](#)

Dempsey, Stephen J., and Gene Laber. 1992. "Effects of Agency and Transaction Costs on Dividend Payout Ratios: Further Evidence of the Agency-Transaction Hypothesis." *Journal of Financial Research* 15: 317-321.

[Google Scholar](#)

Dempsey, Stephen J., Gene Laber, and Michael S. Rozeff. 1993. "Dividend Policies in Practice: Is There an Industry Effect?" *Quarterly Journal of Business and Economics* 32: 3-13.

[Google Scholar](#)

Dhillon, Upinder S., and Gabriel Ramirez. 1994. "Employee Stock Ownership and Corporate Control: An Empirical Study." *Journal of Banking and Finance* 18: 9-26.

[Article](#) [Google Scholar](#)

Easterbrook, Frank H. 1984. "Two Agency-Cost Explanations of Dividends." *American Economic Review* 74: 650-659.

[Google Scholar](#)

Freiman, Howard A. 1990. "Understanding the Economics of Leveraged ESOP." *Financial Analyst Journal* 46: 51-55.

[Article](#) [Google Scholar](#)

Friend, Irwin, and Larry H.P. Lang. 1988. "An Empirical Test of the Impact of Managerial Self-interest on Corporate Capital Structure." *Journal of Finance* 43: 271-281.

[Article](#) [Google Scholar](#)

Israel, Ronen. 1991. "Capital Structure and the Market for Corporate Control: The Defensive Role of Debt Financing." *Journal of Finance* 46: 1391-1409.

[Article](#) [Google Scholar](#)

Jarrell, Gregg A., and Annette B. Poulsen. 1987. "Shark Repellents and Stock Prices: The Effect of Antitakeover Amendments Since 1980." *Journal of Financial Economics* 19: 127-168.

[Article](#) [Google Scholar](#)

Jensen, Michael C. 1986. "Agency Costs of Free Cash Flow, Corporate Finance, and Takeovers." *American Economic Review* 76: 323-329.

[Google Scholar](#)

Kim, Wi Saeng, Jae Won Lee, and Jack Clark Francis. 1988. "Investment Performance of Common Stocks in Relation to Insider Ownership." *Financial Review* 23: 53-64.

[Article](#) [Google Scholar](#)

Kim, Wi Saeng, and Eric H. Sorensen. 1986. "Evidence on the Impact of the Agency Costs of Debt on Corporate Debt Policy." *Journal of Financial and Quantitative Analysis* 21: 131-144.

[Article](#) [Google Scholar](#)

Linn, Scott, and John McConnell. 1983. "An Empirical Investigation of the Impact of Antitakeover Amendments on Common Stock Prices." *Journal of Financial Economics* 11: 361-399.

[Article](#) [Google Scholar](#)

Lloyd, William P., John S. Jahera, Jr., and Daniel E. Page. 1985. "Agency Costs and Dividend Payout Ratios." *Quarterly Journal of Business and Economics* 24: 19-29.

[Google Scholar](#)

Lloyd, William P., John S. Jahera, Jr., and Steven J. Goldstein. 1986. "The Relationship Between Returns, Ownership Structure, and Market Values." *Journal of Financial Research* 13: 214-225.

[Google Scholar](#)

Lutz, Sandy. 1994. "Epic ESOP Participants Hit a Home Run With Sale." *Modern Healthcare* January 17: 3.

[Google Scholar](#)

Manoocheri, G.H., and B. Jizba. 1990. "How to Use ESOPs as an Effective Tool in Corporate Strategy." *Journal of Compensation and Benefits* 4: 272-277.

[Google Scholar](#)

McWilliams, Victoria B. 1990. "Managerial Share Ownership and the Stock Price Effects of Antitakeover Amendment Proposals." *Journal of Finance* 45: 1,627-1,640.

[Article](#) [Google Scholar](#)

Meulbroek, Lisa K., Mark L. Mitchell, J. Harold Mulherin, Jeffrey Netter, and Annette Poulsen. 1990. "Shark Repellents and Managerial Myopia: An Empirical

Test." *Journal of Political Economy* 98: 1,108-1,117.

[Article](#) [Google Scholar](#)

Nasar, Sylvia. 1989. "The Foolish Rush to ESOPs." *Fortune* (September 25) 120: 141-150.

[Google Scholar](#)

National Center for Employee Ownership. 1989. *The Structure and Implementation of ESOPs in Public Companies*. Research Paper. National Center for Employee Ownership. Oakland, CA.

[Google Scholar](#)

Nyman, S., and A. Silberston. 1978. "The Ownership and Control of Industry." *Oxford Economic Papers* 30: 74-101.

[Google Scholar](#)

Park, Sang Y., and Moon H. Song. 1995. "Employee Stock Ownership Plans, Firm Performance, and Monitoring By Outside Blockholders." *Financial Management* 24: 52-65.

[Article](#) [Google Scholar](#)

PR Newswire. 1989.

Pugh, William N., Daniel E. Page, and John S. Jahera, Jr. 1992. "The Effect of Antitakeover Charter Provisions on Corporate Decisionmaking." *Journal of Financial Research* 15: 57-67.

[Google Scholar](#)

Pugh, William N., John S. Jahera, Jr., and Daniel E. Page. 1995. "The Influence of

Antitakeover Charter provisions on Capital Structure Decisions.”*Advances in Financial Planning and Forecasting* 6: 1-14.

[Google Scholar](#)

Rozeff, Michael S. 1982. “Growth, Beta and Agency Costs as Determinants of Dividend Payout Ratios.”*Journal of Financial Research* 5: 249-259.

[Google Scholar](#)

Rice, Bob, and Bob Spring. 1989. “ESOP at the Barricade: Polaroid Uses a Novel Anti-takeover Defense.”*Barrons* (February) 69: 38-39.

[Google Scholar](#)

Rosen, Corey M. 1989. “Employee Stock Ownership Plans: Myths, Magic and Measures.”*Employee Relations Today* 16: 189-195.

[Google Scholar](#)

Rosen, Corey M., and K.J. Klein. 1983. “Job-creating Performance of Employee-owned Firms.”*Monthly Labor Review* 106: 15-19.

[Google Scholar](#)

Rosen, Corey M., and M. Quarrey. 1987. “How Well is Employee Ownership Working?”*Harvard Business Review* 65: 126-128, 132.

[Google Scholar](#)

Ryterband, Daniel J. 1991. “The Decision to Implement an ESOP: Strategies and Economic Considerations.”*Employee Benefits Journal* (December) 16: 19-25.

[Google Scholar](#)

Scherer, F. 1988. "Corporate Takeovers: The Efficiency Arguments." *Journal of Economic Perspectives* 2: 69-82.

[Google Scholar](#)

Scholes, Myron S., and Mark A. Wolfson. 1990. "Employee Stock Ownership Plans and Corporate Restructuring: Myths and Realities." *Financial Management* 19: 12-28.

[Article](#) [Google Scholar](#)

Smith, Clifford W., Jr. 1986. "Investment Banking and the Capital Acquisition Process." *Journal of Financial Economics* 15: 3-31.

[Article](#) [Google Scholar](#)

Stein, Jeremy C. 1988. "Takeover Threats and Managerial Myopia." *Journal of Political Economy* 96: 61-80.

[Article](#) [Google Scholar](#)

Stulz, Rene M. 1988. "Managerial Control of Voting Rights: Financing Policies and the Market for Corporate Control." *Journal of Financial Economics* 20: 25-54.

[Article](#) [Google Scholar](#)

U.S. General Accounting Office. 1986. *Employee Stock Ownership Plans: Benefits and Costs of ESOP Tax Incentives for Broadening Stock Ownership*, Report #GAO/PEMD-87.

Author information

Authors and Affiliations

Department of Finance, Auburn University, 36849-5245, Auburn, Alabama

William N. Pugh & John S. Jahera

Department of Management, Auburn University, 36849-5245, Auburn, Alabama

Sharon Oswald

Rights and permissions

[Reprints and permissions](#)

About this article

Cite this article

Pugh, W.N., Jahera, J.S. & Oswald, S. ESOPs, takeover protection, and corporate decision-making. *J Econ Finan* **23**, 170–183 (1999). <https://doi.org/10.1007/BF02745951>

Issue date

June 1999

DOI

<https://doi.org/10.1007/BF02745951>

Keywords

[Corporate Control](#)

[Target Firm](#)

[Dividend Policy](#)

[Takeover Target](#)

[Hostile Takeover](#)

Search

Search by keyword or author



Navigation

Find a journal

Publish with us

Track your research

