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ESOPs, takeover protection, and corporate decision-making

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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)

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