Equities

Shark Repellents and Managerial Myopia

January 1, 1990

Critics of hostile corporate takeovers frequently assert that takeover pressure forces managers to sacrifice profitable, but slow-yielding, long-term investments in favor of less-productive short-term investments that offer immediate returns.

Evidence supporting takeover-induced short-sightedness, or myopia, is largely anecdotal, but a new economic model predicts that adopting measures to discourage takeovers — so-called shark repellent — will enable corporate managers to increase profitable long-term investments such as research and development (R&D).

We directly investigate whether takeover threats force managers to focus on the short term by examining expenditures on R&D surrounding the introduction of antitakeover amendments. We find a decrease in R&D/sales following the implementation of antitakeover amendments.

A possible explanation of the reduction in R&D is that antitakeover provisions entrench management and free them from the discipline of the corporate control market. This interpretation is consistent with the stock price evidence that defensive measures harm target shareholders. The finding of declining R&D/sales suggestion that shark repellents may exacerbate, rather than mitigate, managerial myopia.

The information in this paper may contain projections or other forward-looking statements regarding future events, targets, forecasts or expectations regarding the strategies described herein, and is only current as of the date indicated. There is no assurance that such events or targets will be achieved, and may be significantly different from that shown here. The information in this document, including statements concerning financial market trends, is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons.