Defensive Repurchases: The Managerial Entrenchment versus Shareholder Interests

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ABSTRACT

This paper examines the relation between the *ex ante* takeover probability and firm's stock abnormal return and operating performance in explaining the managerial incentives for the defensive open-market share repurchase. We find a significantly negative relation between a firm's takeover probability and its stock abnormal return and operating performance response to announcements of open-market repurchase. This evidence supports the managerial entrenchment hypothesis that repurchasing firms generate a lower performance for firms with high takeover probability. The results are more pronounced for the CEOs of repurchasing firms with larger private control benefits or with more protected by antitakeover provisions. Furthermore, these findings hold even after controlling for other potentially influential variables. Our paper provides a better understanding of the managerial incentives for announcing open-market repurchase, as well as provides a new way to explain post-repurchase long-run stock abnormal return and operating performance.

Keywords: Share Repurchases, Takeover Defense, Managerial Entrenchment, Shareholder Interests, Private Control Benefits, Entrenchment Index

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