CBR BRIEFING #65

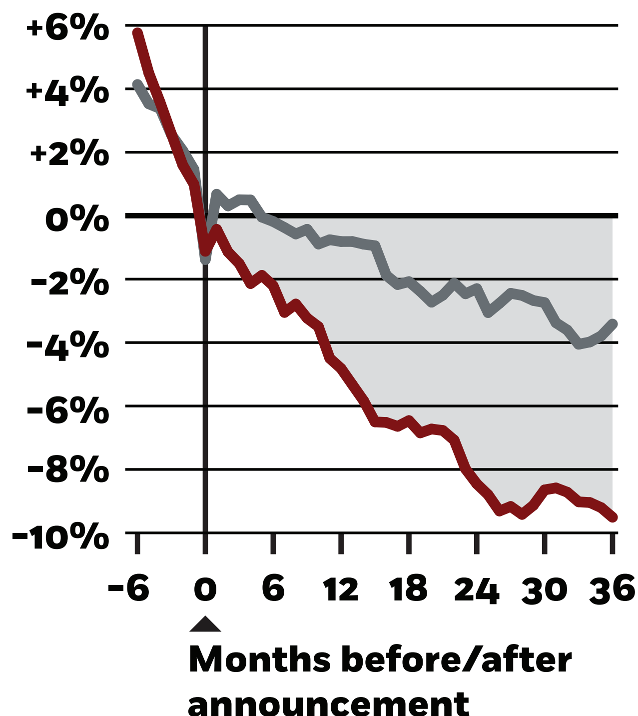
Corporate managers misbehave when shareholders aren't paying attention

➜ Institutional investors usually don't have time to actively monitor all companies they invest in. When shareholders aren't paying attention, managers tend to make investment decisions that benefit themselves but erode shareholder value, according to Chicago Booth's Elisabeth Kempf and her co-researchers.

➜ The more distracted shareholders are, the more likely managers are to announce M&A deals, particularly diversifying acquisitions, the research finds. Managers can detect that shareholders are distracted when they see signs such as decreased meeting requests, diminished news coverage, and conference calls drawing fewer critical questions.

➜ Deals that managers make when investors are distracted tend to be bad for shareholders. The research finds that stock returns of bidding companies with highly distracted shareholders were about 6 percentage points lower 36 months after the deal than those of bidders with less distracted investors.

Acquiring companies' performance after M&A announcements
Cumulative return in excess of expected stock return



Elisabeth Kempf, Alberto Manconi, and Oliver G. Spalt, "Distracted Shareholders and Corporate Actions," *Review of Financial Studies*, May 2017.