

**IS THE ANTITAKEOVER PROVISION POISONOUS OR PRESCRIPTIVE FOR SHAREHOLDERS?
EVIDENCE FROM THE RESCISSION OF POISON PILL PROVISIONS**

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ABSTRACT

We examine the market reactions to the termination announcement of poison pill and find that firms experience significant positive stock returns surrounding the poison pill rescission. The empirical evidence is consistent with the managerial entrenchment hypothesis. We interpret the results as evidence to support that the managers use poison pill to protect the incumbent management team instead of maximizing shareholder wealth. We also find that the abnormal return associated with the poison pill rescission announcement is negatively related to the firm's Tobin's q . We interpret this result as evidence that the poison pill provision is less likely to be used as the managerial entrenchment device for high q firms. Lastly, the cross-sectional regression results are also consistent with the management entrenchment hypothesis and support the disciplinary role of takeover.

Keywords: *poison pill, management entrenchment, agency problem*