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An Empirical Investigation of Poison Pill Use in the Banking Industry

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Oral Presentation O10.1

AN EMPIRICAL INVESTIGATION OF POISON PILL USE IN THE BANKING INDUSTRY

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This study examines the use of poison pill plans, which are defensive measures adopted by a business to thwart a hostile takeover. Contrary to the arguments that a poison pill plan serves to entrench a management team, this research demonstrates that it modestly improves operating performance the year after the pill is adopted by a bank. There are two hypotheses explaining poison pill adoptions: (1) Managerial Entrenchment and (2) Shareholder Interest. This study specifically examined these hypotheses in the banking industry between 1986 and 2003. Performance improvements support the Shareholder Interest hypothesis and were noted in publicly held banks that adopted poison pills as compared with a peer group that did not adopt defensive strategies. The results of this research contradict the popularly held belief that the adoption of a poison pill plan has a significant negative effect on a firm's operating performance.