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Anti-takeover Protection and Earnings Management: The Eternity Poison Pills Effect

ABSTRACT

Objective: This study aims to investigate whether eternity poison pills influence the earnings management level of Brazilian public companies.

Method: We collect data from the bylaws obtained on the website of the Brazilian Securities and Exchange Commission, aiming to identify the use of poison pills and "eternity" clauses by 235 non-financial companies. The information needed to estimate discretionary accruals using the Jones Modified model, and the control variables included in the econometric model, were obtained through the Bloomberg® database. For the data analysis, we use quantile regression, considering the outliers present in the sample.

Originality/Relevance: This study fills a gap in the literature regarding the effect of eternity poison pills on discretionary accruals, given that this relationship has not been explored in the Brazilian context. Thus, it is relevant for investors and regulators because it provides evidence on the effects of implementing this anti-takeover mechanism.

Results: The main results provide novel evidence on the relationship between poison pills and earnings management in the Brazilian context, demonstrating that this anti-takeover device, when associated with an "eternity" bylaw clause, is positively related to discretionary accruals.

Theoretical contributions: It contributes theoretically by showing that the managerial entrenchment caused by the adoption of poison pills with "eternity" clauses may reduce the accounting information quality, shedding light for investors and regulators about this effect of implementing this anti-takeover mechanism.

Keywords: Poison Pills; Earnings Management; Anti-takeover Devices.

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1 INTRODUCTION

The focus of implementing poison pills in the US market is to preserve rights and interests of minority shareholders, avoiding changes in the control of companies, and leading to higher financial returns (Maestri, 2011). Several empirical studies corroborate this perspective (Ge & Kim, 2014; Jiraporn, 2005; Zhao & Chen, 2008a), demonstrating that poison pills, among other anti-takeover mechanisms, tend to align the interests of managers and shareholders, promoting value creation and mitigating earnings management.

However, in the Brazilian context, instead of protecting minority shareholders, poison pills may force them to be permanently linked to a controlling group, which is highly unlikely to change (Martins, 2015). This choice benefits the group of controlling shareholders through the ability to reduce dividend payout and to raise the financial compensation of top executives associated with this group, in line with Small, Kwag, and Li (2015), who evidence that adopting anti-takeover devices may proportionate managerial entrenchment, and therefore raise the earnings management level.

This may occur due to particularities of the poison pills adopted by some Brazilian public companies, such as very low trigger percentages and excessively high premiums. However, the most aggravating point in this context is the fact that these companies may also include in their bylaws an "eternity" clause for their poison pills, preventing the change or removal of the poison pills (Ambrozini, Pimenta, & Gaio, 2015). This is a relevant difference from the US market, where poison wills are usually valid for a 10-year span (Schepker, Oh, & Patel, 2016).

The adoption of poison pills with "eternity" clauses (eternity poison pills) by public companies in Brazil may be influenced by factors that promote managerial entrenchment, such as CEO duality, ownership concentration, board independence (Florackis & Ozkan, 2009), and the shares repurchase (Vafeas, 1997). When entrenched, managers may be more prone to manage earnings intending to obtain own benefits, once reputation penalties related to this discretionary practice may be lower than those for non-entrenched managers, who face less security in their positions (Banko, Frye and White, 2013).

Moreover, the predominant ownership structure is different in the Brazilian and American scenarios: in the former, firms tend to have highly concentrated ownership structures, while in the latter, the capital tends to be more disperse (Martins, 2015; Vieira, Martins, & Fávero, 2009). Considering this fact, associated with the possibility of including an "eternity" clause and its incentives for managerial entrenchment, this study aims to investigate whether eternity poison pills influence the earnings management level of Brazilian public companies.

The main results of this study evidence that eternity poison pills tend to reduce accounting information quality, given the positive relationship between the adoption of this anti-takeover device and discretionary accruals. This finding may be useful to investors, boards and regulators, as it indicates that this behavior should be mitigated.

We expand the knowledge on the effects of eternity poison pills in the Brazilian context. Although there is evidence for the theoretical-conceptual aspects and legal provisions applicable to the poison pills adoption (Vieira et al., 2009), the number and the particularities of Brazilian poison pills (Ambrozini, Pimenta, & Gaio, 2015), as well as the effects of this anti-takeover device in executive compensation (Azevedo & Nakao, 2019) and earnings management (Portulhak, Theiss, Kühl, & Colauto, 2017), previous studies have not analyzed the influence of eternity poison pills with "eternity" clauses on earnings management.

We highlight that this study differs from Portulhak et al. (2017) by analyzing, in an exploratory way, the relationship between discretionary accruals and eternity poison pills.

Therefore, this research assumes that adopting this anti-takeover device favors managerial entrenchment and, consequently, influences earnings management.

Finally, given the divergent positions about the effect of the adoption of poison pills on earnings management – previous studies have found them to be positive (Small et al., 2015), negative (Ge & Kim, 2014; Jiraporn, 2005; Zhao & Chen, 2008a) or unrelated (Portulhak et al., 2017) – we present new evidence for this debate.

2 LITERATURE REVIEW

2.1 Poison Pills

Over the years, mergers and acquisitions have been a trend in the business world. In this sense, considering that the company's involvement in these operations may imply the loss of control of the current management (Moura & Beuren, 2017), managers have been struggling against takeover threats by adopting poison pills (Huang, Wang, & Zhou, 2013; Schepker & Oh, 2013).

Poison pills are anti-takeover mechanisms which are activated when a potential acquirer accumulates a certain percentage of shares with voting rights from a target-company (Rhee & Fiss, 2014) or when he makes a tender offer for a specific percentage of these shares, given that boards may implement a poison pill in a brief period after the offer of the potential acquirer, without the company's shareholders approval (Sunder, 2013).

Considering that poison pills are usually triggered after an event capable of changing the current control structure of the company, Jarrell, Brickley and Netter (1988) assert that these devices confer to the current controlling shareholders the rights to acquire additional shares of the ongoing enterprise (flip in) or new shares from the company in which the merge occurs (flip-over), both happening in terms advantageous for the shareholders, imposing relevant losses to potential acquirers by raising the cost for the takeover.

Besides being widely used by US firms to protect the interests of minority shareholders, given the predominance of companies with dispersed capital (Maestri, 2011), poison pills have also been included in the Brazilian companies' bylaws (Ambrozini et al., 2015).

According to Martes (2014), the increase in the adoption of poison pills is due to the consolidation of the special corporate governance listing segments. This phenomenon led to changes in the ownership concentration level in the Brazilian market because of requirements of more capital dispersion. Despite this, Martins (2015) notes that concentrated ownership structures, defined as those with a group or a single shareholder holds the control of the firm, still predominates in the country.

Therefore, considering this capital concentration and that poison pills used by Brazilian companies are distinct from those used in the United States, since the former usually demand that the potential acquirer perform a tender offer to buy all the target company shares, meeting several price and payment parameters (Leal, Carvalhal, & Iervolino, 2015), we infer that the adoption of this anti-takeover mechanism in Brazil is focused on promoting managerial entrenchment, instead of preserving the rights and interests of the shareholders (Maestri, 2011; Martes, 2014).

Another fact that supports this perspective is the inclusion of "eternity" clauses in the bylaws. These clauses prevent the modification or removal of poison pills from the bylaws, imposing sanctions on shareholders who vote for its exclusion, such as the obligation of

making a tender offer to acquire the total number of shares from that company (Ambrozini et al., 2015).

In this vein, Caton and Goh (2008) suggest that anti-takeover devices, such as poison pills, may promote incentives for the occurrence of agency conflicts, as entrenched managers might make decisions that benefit themselves at the expense of the interests of the shareholders.

Agency conflicts are explained by Agency Theory, which considers the possibility of diverging interests between shareholders and managers (Jensen & Meckling, 1976). From this perspective, Sunder (2013) asserts that the very act of adopting a poison pill may elevate the agency conflict due to manager's discretion. Moreover, it can be seen that managers also have discretion concerning the accounting practices adopted by the firm, given that they may use earnings management to show stakeholders a suitable result related to the economic performance of the company, in line with the interests of the preparers of accounting information, as described by Schipper (1989).

Based on the possible influence of poison pills over the earnings management level, we verify that some studies have been carried out, both in international context (Ge & Kim, 2014; Jiraporn, 2005; Small et al., 2015; Zhao & Chen, 2008a), and in the Brazilian context (Portulhak et al., 2017). Analyzing these researches, we verify that there is no consensus on the effects of poison pills over the earnings management level. In the Brazilian context, Portulhak et al. (2017) affirm that adopting this anti-takeover device does not influence the practice of earnings management, as it was not identified any significant relationship between the adoption of poison pills and discretionary accruals.

On the other hand, in the international scenario, Small et al. (2015) demonstrate the positive and significant influence of anti-takeover devices over discretionary accruals, increasing the earnings management level, although Ge and Kim (2014), Jiraporn (2005), and Zhao and Chen (2008a) evidence that the adoption of those mechanisms tend to mitigate earnings management, considering the negative relationship between these devices and discretionary accruals.

Thus, the literature suggest that poison pills may have two distinct effects on earnings management, given the exacerbating effect, in which these devices positively influence discretionary accruals, or a mitigating effect, when poison pills are negatively associated with discretionary accruals, proportionating a reduction on the earnings management level.

Based on the mitigating effect perspective, there is the hypothesis that poison pills tend to align the interests of managers and shareholders, leading to the value creation and the reduction of earnings management (Zhao & Chen, 2008a).

This fact occurs because the presence of anti-takeover devices diminishes the pressure faced by managers to demonstrate higher financial and economic performance in the short term. Thus, they feel safer to develop a long-term planning aiming to maximize firm value for the shareholders, without the need to engage on earnings management practices due to pressures coming from the market for corporate control (Ge & Kim, 2014).

However, considering the perks of the poison pills adopted by Brazilian public companies, such as very low triggers, exceedingly high premiums and the possibility of including "eternity" clauses, which prevents the removal of poison pills from the bylaws (Ambrozini et al., 2015), it is likely that the focus of the adoption of this provision in the Brazilian context has been the promotion of managerial entrenchment, which may lead to exacerbating earnings management.

2.2 Hypothesis development

The managerial entrenchment effect considers that anti-takeover devices proportionate the maintenance of inefficient managers in their positions, leading to value destruction for shareholders. This occurs because these mechanisms promote managerial entrenchment, which aggravates agency conflicts, as managers feel safer to make decisions aimed at obtaining own benefits, disregarding the interests of the shareholders (Jensen & Ruback, 1983).

In the Brazilian context, including an "eternity" clause together with the poison pill signals managerial entrenchment, given that it turns the removal of the poison pill impracticable by requiring the shareholder who votes for the change or removal of this anti-takeover device to carry out a tender offer to acquire all the shares of the company, paying a premium in addition to the price of the shares, as defined in the bylaw (Azevedo & Nakao, 2019).

In this sense, we note that Brazilian public companies that adopt poison pills may also prevent bylaw reforms by imposing a permanent model of managerial control through the inclusion of "eternity" clauses. Thus, it is possible that the focus of the adoption of this mechanism in the Brazilian context has strayed from the initial purpose of safeguarding shareholders' rights and interests and began to favor the managers' self-serving behavior, who intend to guarantee their continuity in the company (Maestri, 2011).

Protected in their current positions against hostile takeovers, managers may make decisions to obtain own benefits, disregarding the shareholders' interests (Caton & Goh, 2008). Therefore, it is likely that managers of Brazilian public companies that adopt eternity poison pills may be more prone to engage in discretionary practices, such as earnings management, reporting to stakeholders suitable results about the financial performance of the company, in order to meet particular interests.

According to Banko, Frye, Wang and White (2013), entrenched managers may be more likely to manage earnings, given that reputational penalties related to this discretionary practice may be lesser than those imputable to the non-entrenched ones, who face less security in their current positions. Following this view, we consider that entrenchment is a motive for managers to get involved in earnings management practices to obtain own benefits.

Recent studies corroborate this perspective, showing that managerial entrenchment caused by anti-takeover devices promotes the maintenance of the managers' positions, even if they get involved in shareholder expropriation activities (Small et al., 2015; Sunder, 2013).

Hence, considering that adopting eternity poison pills signal managerial entrenchment (Azevedo & Nakao, 2019), and considering that the protection from potential threats from the market for corporate control causes managers to be more likely to manage earnings (Hwang & Lee, 2012; Zhao, Chen, & Yao, 2009), our hypothesis is a follows:

H_1: Eternity poison pills are positively associated with earnings management practices.

3 METHODOLOGICAL PROCEDURES

3.1 Data collection and sample composition

We collected data from the bylaws found on the Brazilian Securities and Exchange Commission website to verify whether the companies listed on [B][3] have poison pills in the disposal of shareholding control section, and whether these devices are linked to an eternity

clause. In addition, we obtained the financial data from the Bloomberg® database.

We analyzed the 2010-2016 period, after the mandatory adoption of International Financial Reporting Standards, considering that the convergence process to international standards has led to an increase in the accounting information quality, as it allowed managers to adopt more flexible accounting policies, in which the substance over form prevails (Sousa, Sousa, & Demonier, 2016).

The initial sample was composed of 416 companies listed on [B]^3. However, in line with previous research (Cunha & Piccoli, 2017; Ge & Kim, 2014; Portulhak et al., 2017; Small et al., 2015), we exclude companies in the financial sector (banks, financial institutions and insurance companies) since these companies have specific equity and operational structures. Further, we exclude companies with missing data to estimate the earnings management level or the control variables inserted in the econometric model, remaining 235 companies in the final sample, as shown in Table 1.

Table 1
Sample composition

Total companies listed on [B]^3	**416**
(-) Companies in the financial sector	(68)
(-) Companies without lagged data to estimate accruals (*t*-1)	(6)
(-) Companies without data to estimate total accruals (TA)	(57)
(-) Companies without data to estimate market-to-book (MTB)	(34)
(-) Companies with negative equity to estimate MTB	(16)
(=) Final Sample	**235**

We highlight that, to avoid the survival bias, it was unnecessary that companies have available data throughout the time window. Thus, our analyses are based on unbalanced data panel.

3.2 Empirical model

In order to investigate whether poison pills influence the earnings management level of companies listed on [B]^3, we estimate the following quantile regression model:

$$DA_i = \beta_0 + \beta_1 Poisonpill_i + \beta_2 Poisonpill\ x\ EP_i + \sum_{j=1}^{4} \phi_j\ Controls_i + \varepsilon_i \qquad (1)$$

Where: DA_i = discretionary accruals of the firm *i;* $Poisonpill_i$ = dummy for the presence of the poison pill in company *i;* $Poisonpill\ x\ EP_i$ = interaction between the variable *Poisonpill* and the dummy for the presence of the eternity poison pill (*EP*) in company *i*.

The $\sum_{j=1}^{4} \phi_j\ Controls_i$ are: MTB_i = ratio of market value (enterprise value) to book value of company *i;* Lev_i = leverage ratio of company *i*; $Perf_i$ = profitability of company *i*; $Size_i$ = company size; ε_i = regression error term.

We use the quantile regression due to the strong presence of outliers, and to mitigate another common problem in accounting and finance research, which is the elevated heterogeneity between firms (Leal, Girão, Lucena, & Martins, 2017). Regarding the presence of outliers, we highlight that we first tried to winsorize the dataset at 1% level, however, because of the persistence of outliers, we used quantile regression instead of winsorization.

Besides the advantage of the non-sensitivity of quantiles to outliers, the quantile regression can also reveal a more complete picture about the variable's behavior at different

quantiles (Conyon & He, 2017; Nguyen, Rahman, & Zhao, 2018). Thus, in line with Nguyen et al. (2018), we estimate the models considering the quantiles 0.10, 0.25, 0.50, 0.75 and 0.90.

To estimate the discretionary accruals, obtained through the difference between total accruals and non-discretionary accruals, we used the Jones Modified model, proposed by Dechow, Sloan and Sweeney (1995). This choice is based on the view that, unlike the models proposed by DeAngelo (1986), Healy (1985) and Jones (1991), the Jones Modified model controls for the possibility that the credit sales recognition is subject to earnings management, which allows an increase in the model's effectiveness (Dechow et al., 1995).

Finally, we consider that although the advantages and disadvantages of this model have already been discussed by Dechow, Ge and Schrand (2010), Dechow, Hutton, Kim & Sloan (2012), DeFond (2010), Kothari, Leone and Wasley (2005), among others, no alternative approach offers a superior solution, as described by Consoni, Colauto and Lima (2017).

Regarding the independent variables of Model (1), the dummy *Poisonpill* aims to capture the influence of this anti-takeover device on the earnings management level. Furthermore, considering that the adoption of eternity poison pills can positively influence on the earnings management level of Brazilian public companies, we included the interaction term between *Poisonpill* and *EP* (*Poisonpill x EP*) dummies.

This may occur since eternity poison pills provide incentives for managerial entrenchment, as they prevent the poison pills removal, leading inefficient managers, or those who may be involved in expropriation activities, to feel safe in their current positions. The correlation between these variables was also considered to justify the interaction term. Thus, through the Phi correlation, since both variables are dichotomous, it was verified that there is a moderate correlation (0.4020), significant at the 1% level, between *Poisonpill* and *EP*.

Finally, in line with previous studies that investigated the influence of poison pills on earnings management practices, we include control variables that may be related to discretionary accruals, as a proxy for earnings management, as shown in Table 2.

Considering that growing companies tend to have higher levels of discretionary accruals (Burgstahler, Hail, & Leuz, 2006; Othman & Zeghal, 2006), we include the Market-to-book (*MTB)* in the model to control for the companies' growth opportunity. According to Dechow, Ge, Larson and Sloan (2011), this occurs since the growth opportunity is considered as an incentive or parameter for executives to manage the firms' results.

Concerning the Leverage, companies with a high financial leverage may be considered more likely to present higher earnings management levels to avoid potential losses, such as debt-covenant violation, as described by Chen and Zhang (2014).

We insert Profitability as a control variable since managers may be motivated to engage in earnings management practices to show stakeholders a favorable firm performance, aiming to maintain their reputation or the reputation of the company (Kothari et al., 2005).

Finally, we include the natural logarithm of total assets, as a proxy for company size, since large companies tend to have more sophisticated control systems, as well as being subject to higher monitoring by investors and analysts. Thus, it is less likely that managers of large companies will engage in earnings management activities, when compared to managers of smaller companies (González & García-Meca, 2014).

Table 2
Summary of variables included in the econometric model

Variable	Measurement Form	Previous Studies	Expected Sign
DA	Estimation based on the Jones Modified model	Ge and Kim (2014); Huang et al. (2013); Jiraporn (2005); Zhao and Chen (2008a); Zhao and Chen (2009).	Dependent
Poisonpill	1 for companies that have poison pill in their bylaws, 0 otherwise	Ge and Kim (2014); Jiraporn (2005); Small et al. (2015); Zhao and Chen (2008a); Zhao and Chen (2008b).	+/-
Poisonpill x EP	Interaction term between the dummies poison pill and EP, being 1 for companies that have poison pill and EP in their bylaws, 0 otherwise	-	+
MTB	Ratio of market value to book value	Ge and Kim (2014); Hwang and Lee (2012); Zhao and Chen (2008a); Zhao and Chen (2008b); Zhao and Chen (2009).	+/-
Lev	Ratio of total liabilities to total assets	Bona-Sánchez, Pérez-Alemán and Santana-Martín (2011); Hwang and Lee (2012); Portulhak et al. (2017); Small et al. (2015).	+
Perf	Ratio of operating income to total assets	González and García-Meca (2014); Hwang and Lee (2012); Sincerre, Sampaio, Famá and Santos (2016); Small et al. (2015); Zhao and Chen (2008a).	+
Size	Natural logarithm of total assets	Chen and Zhang (2014); Ge and Kim (2014); González and García-Meca (2014); Hwang and Lee (2012); Jiraporn (2005); Zhao and Chen (2008a); Zhao and Chen (2009).	-

4 RESULTS PRESENTATION

4.1 Descriptive analysis

Table 3 shows that the mean discretionary accruals of the analyzed companies are negative, converging with other studies conducted in the Brazilian context (Cardoso, Souza, & Dantas, 2015; Cunha & Piccoli, 2017; Domingos, Ponte, Paulo, & Alencar, 2017; Dutra & Costa, 2014).

Table 3
Descriptive statistics of the variables inserted in the econometric model

Variable	N	Mean	Standard Deviation	Minimum	Maximum
AD	1312	-0.1591	0.2436	-2.3627	0.9888
Poisonpill	1312	0.2288	0.4202	0	1
Poisonpill x EP	1312	0.0458	0.2091	0	1
MTB	1312	2.4993	4.6456	-33.2887	44.8174
Lev	1312	0.8321	2.1128	0.0130	43.1245
Perf	1312	0.0518	0.1494	-1.8102	2.2118
Size	1312	7.8254	1.8531	2.0663	13.7103

Note. The sample includes 184 observations in 2010, 184 observations in 2011, 193 observations in 2012, 191 observations in 2013, 192 observations in 2014, 186 observations in 2015, and 182 observations in 2016.

This finding shows that, on average, managers engaged in earnings management practices to reduce the reported results during this period of economic crisis, as evidenced by Barbosa (2017) and Lopes, Costa, Carvalho and Castro (2016). Thus, based on this process of anticipated recognition, it becomes possible to demonstrate, in the post-crisis period, a better result through the discretionary *accruals* reversal.

Regarding the variables *Poisonpill* and *Poisonpill x EP*, our results show that, on average, approximately 24% of the companies have *poison pills* in their bylaws, which corresponds to 55 companies. Of these companies, 10 have special clauses that prevent the removal of *poison pills* from the bylaw, as shown in Table 4.

Table 4
List of companies that adopt eternity poison pills

Company	Bylaw Section	Trigger percentage
BrasilAgro	Art. 45 - § 11º	20%
Brazil Hospitality Group	Art. 40 - § 11º	35%
Diagnósticos da América	Art. 40/Art. 41 - § 8º	15%
Fertilizantes Heringer	Art. 41 - § 11º	20%
Indústrias Romi	Art. 59 - § 8º	15%
Iochpe-Maxion	Art. 48/Art. 49 - § 11º	15%
Odontoprev	Art. 37/Art. 39 - § 8º	15%
Profarma Dist. de Produtos Farmacêuticos	Art. 41 - § 11º	20%
Positivo Tecnologia	Art. 32/Art. 34/Art. 42 - § 15º	10%
Tecnisa	Art. 38 - § 14º	20%

Regarding the text of eternity poison pills, all of them converge to the view that the shareholder which votes to change or remove this clause will have to carry out a tender offer for the acquisition of all the shares issued by the company, as defined in the bylaw.

Concerning the control variables, our results show that the companies have growth opportunities, with a mean *MTB* of 2.4923 and a mean leverage ratio of 0.8321. However, as described by Martins, Miranda and Diniz (2017), we cannot infer that this leverage ratio is high or low in isolation, since, as a comparison parameter, aspects related to the debt quality, such as maturity and interest rates, should be analyzed, as well as checking the firm's sector average.

Through the descriptive statistics of the variable *Perf*, we find that the analyzed companies are reaching a positive profitability level. However, although being positive, the average profitability of the companies present in the sample is low, considering the value of 0.0518, which may be due to the last years economic crisis. Concerning *Size*, our results show that the companies have, on average, a natural logarithm of total assets of 7.8254.

4.2 Econometric analysis

In order to identify multicollinearity problems, we perform Spearman correlations between quantitative variables, as they were non-normally distributed according to the Shapiro-Wilk test. In addition, we employ the Phi correlation to estimate the relationship between the dichotomous variables *Poisonpill* and *Poisonpill x EP*.

Table 5 shows that there is no evidence of multicollinearity, since no strong correlations were found between the explanatory variables. Most of the correlations between these variables are weak (|correlation coefficient| <0.39), except for the *Poisonpill* and *Poisonpill x EP* variables, which are moderate, possibly due to the interaction between poison pills and eternity poison pills.

Table 5
Correlation matrix

Variable	*DA*	*Poisonpill*	*Poisonpill x EP*	*MTB*	*Lev*	*Perf*	*Size*
DA	1						
Poisonpill	0.0858**	1					
Poisonpill x EP	0.0961***	0.4020***	1				
MTB	0.1989***	0.1565***	-0.0336	1			
Lev	-0.1139***	0.0370	-0.0418	0.1723***	1		
Perf	0.2361***	0.0220	-0.0664***	0.4337***	-0.1538***	1	
Size	0.0565**	0.0447	-0.0261	0.2961***	-0.0184	0.1906***	1

Note. *** Statistically significant at 1%. ** Statistically significant at 5%. * Statistically significant at 10%.

The discretionary accruals are positively correlated with poison pills, in line with the view that these anti-takeover devices can be positively associated with earnings management practices (Small et al., 2015). Further, the results also show that discretionary accruals are positively and statistically correlated with the variable *Poisonpill x EP*, which is an initial evidence that eternity poison pills are positively associated with the practice of earnings management, as proposed in the research hypothesis.

Table 5 also shows that the earnings management level changes in conjunction with the growth opportunity, profitability and firm size, due to the positive and statistically significant correlation coefficients. These results are in line with international evidence, which shows that discretionary accruals are positively correlated with market-to-book (Bona-Sánchez et al., 2011), and with profitability and firm size (González & García-Meca, 2013).

On the other hand, in line with Chen and Zhang (2012), our results show that the discretionary accruals and leverage behave in a contrary way, in view of the negative and statistically significant correlation. This inverse behavior was also identified in the correlation between eternity poison pills and profitability, demonstrating that, in the Brazilian context, the managerial entrenchment is negatively related to the company's performance.

The positive correlation between the poison pills adoption and the market-to-book is in line with Ge and Kim (2013), which show that the adoption of anti-takeover devices is positively correlated with firm growth opportunity. Similarly, we find that market-to-book changes in conjunction with leverage, profitability and size, considering the positive and statistically significant correlation coefficients.

Finally, corroborating Ge and Kim (2014) and González and García-Meca (2013), we find that firm profitability and size tend to vary together, due to the positive correlation and statistically significant coefficient, while profitability and indebtedness behave inversely, considering the negative correlation coefficient.

Table 6 results show that *Poisonpill* is not significantly associated with discretionary accruals in most quantiles, except for the quantile 25, which is the only one that has a statistically significant relationship. In this sense, considering that this evidence was not consistent across all the estimated models, overall results show that the simple adoption of poison pills does not have a significant influence on the earnings management level.

However, this finding does not indicate that companies are not involved in earnings management practices, since this variable is not statistically different from the base group (companies that do not adopt poison pills), except for companies in the quantile 75.

Table 6
Quantile regression estimation results

	Dependent variable: *DA*				
	Q(0.10)	Q(0.25)	Q(0.50)	Q(0.75)	Q(0.90)
Poisonpill	0.0134	0.0402*	0.0169	-0.0005	-0.0167
	(0.0336)	(0.0206)	(0.0147)	(0.0148)	(0.0319)
Poisonpill x EP	0.1139*	0.0856**	0.0659**	0.0694**	0.1118*
	(0.0675)	(0.0413)	(0.0296)	(0.0297)	(0.0640)
MTB	0.0020	0.0027	0.0027**	0.0036***	0.0051*
	(0.0028)	(0.0017)	(0.0012)	(0.0012)	(0.0026)
Lev	-0.0694***	-0.0179***	-0.0121***	-0.0154***	-0.0142**
	(0.0062)	(0.0038)	(0.0027)	(0.0027)	(0.0058)
Perf	0.5461***	0.4278***	0.3595***	0.3075***	0.2432***
	(-0.0887)	(0.0543)	(0.0389)	(0.0391)	(0.0841)
Size	-0.0040	0.0060	-0.0034	-0.0069**	-0.0192***
	(0.0071)	(0.0043)	(0.0031)	(0.0031)	(0.0067)
Constant	-0.3544***	-0.3279***	-0.1472***	-0.0016	0.2005***
	(0.0582)	(0.0355)	(0.0255)	(0.0256)	(0.0551)
Pseudo R2	0.0819	0.0691	0.0556	0.0435	0.0425
Observations	1312	1312	1312	1312	1312
Firms	235	235	235	235	235

Note. *** Statistically significant at 1%. ** Statistically significant at 5%. * Statistically significant at 10%.

On the other hand, our results show that the adoption of this anti-takeover device, when combined with an "eternity" clause, has a positive influence on discretionary accruals, in line with our hypothesis that eternity poison pills are positively associated with earnings management practices. This occurs since the variable *Poisonpill x EP* is positively and significantly associated with discretionary accruals across all quantiles, showing that the way of implementing this anti-takeover mechanism influences on the increase of earnings management level.

In addition, it is relevant to highlight the cumulative effect of eternity poison pills, comparing them with the base group (constant). The base group, represented by companies that do not adopt poison pills, is negatively and significantly associated with discretionary accruals in the 10, 25, 50 and 90 quantiles, signaling that companies in these quantiles could be involved in earnings management practices aiming to reduce the discretionary accruals level, such as income minimization or income smoothing.

In this sense, adding the betas of the *Poisonpill x EP* and of the constant, we find that the values in the quantiles 10, 25 and 50 are close to zero, which suggest that the eternity poison pills are mitigating the negative discretionary accruals in these quantiles, as well as increasing the discretionary accruals in the 75 and 90 quantiles, similar to earnings management patterns that aim to report higher levels of positive discretionary accruals, such as income maximization.

Regarding the control variables, our results show that *Perf* has positive and significant coefficients, at the 1% level, across all quantiles. Similarly, *Lev* also has significant coefficients across all quantiles, with negative coefficients. Finally, *MTB*, as a proxy for growth opportunities, has positive and significant coefficients in quantiles 50, 75 and 90, while *Size* has a negative and statistically significant relationship with discretionary accruals only in quantiles 75 and 90.

In order to identify whether the variables coefficients are statistically different between the quantiles, we perform the Wald test, in which the H_0 is that the difference

between the quantiles is equal to zero. These results are shown in Table 7.

Table 7
Wald test results

Variable	Quantile Groups						
	Q(0.10) Q(0.25)	Q(0.25) Q(0.50)	Q(0.50) Q(0.75)	Q(0.75) Q(0.90)	Q(0.10) Q(0.50)	Q(0.50) Q(0.90)	Total
Poisonpill	1.34	1.04	3.47*	0.35	0.01	1.00	1.06
Poisonpill x EP	0.41	0.13	0.02	0.17	0.57	0.19	0.30
MTB	0.08	0.00	0.43	0.42	0.05	0.76	0.37
Lev	1.73	0.13	1.81	0.07	1.53	0.22	1.60
Perf	0.67	1.73	0.68	0.93	1.29	2.91*	1.55
Size	3.41*	5.54**	0.80	2.86*	0.01	3.63*	2.51**

Note. *** Statistically significant at 1%. ** Statistically significant at 5%. * Statistically significant at 10%.

Based on the Wald test results, we reject the null hypothesis for *Poisonpill* (between quantiles 50 and 75) and *Size* in most quantile groups, and in Total, showing that these variables have statistically significant differences between the quantiles.

Regarding *Size*, this variable could disturb the residuals if we estimate a linear regression. However, we used quantile regression as a solution to the outlier's problem of the dependent variable.

5 DISCUSSION

Despite the legal literature show that poison pills, in the Brazilian context, are used to promote the managerial entrenchment (Maestri, 2011; Martes, 2014; Martins, 2015), we cannot infer that the simple adoption of this anti-takeover device has a significant influence on the earnings management level since the *Poisonpill* variable does not have a significant influence on the earnings management level in most quantiles.

In this vein, we consider that this evidence expands and corroborates Portulhak et al. (2017), which shows that the adoption of poison pills by Brazilian companies listed in the Novo Mercado segment does not have a significant effect on earnings management level.

Compared to the international context, this finding differs from previous empirical studies since they found a significant relationship between poison pills and discretionary accruals, whether this relationship is positive (Small et al., 2015) or negative (Ge & Kim, 2014; Jiraporn, 2005; Zhao & Chen, 2008a).

However, we highlight that this divergence may occur due to differences between the capital markets, since the North American is more developed than the Brazilian one (Portulhak et al., 2017; Vieira et al., 2009), as indicated by the number of companies investigated by previous studies in the international context.

Besides more complete samples and longer time series, these findings may diverge because of differences in the ownership structure of the companies, since Portulhak et al. (2017) and Vieira et al. (2009) show that in the Brazilian stock market, companies have predominantly concentrated control, different from the American context, in which the ownership is predominantly dispersed.

However, we find that eternity poison pills differ from poison pills in most quantiles since they have positive and statistically significant coefficients. This evidence is in line with the hypothesis that eternity poison pills are positively associated with earnings management

practice.

Based on this finding, we suggest that the managerial entrenchment provided by the adoption of eternity poison pills may lead to reducing the accounting information quality of Brazilian public companies, considering the positive association between the adoption of this anti-takeover device and earnings management practices.

Under the exacerbating effect view, this evidence corroborates Small et al. (2015) findings, which show that the adoption of anti-takeover devices, such as poison pills, can provide incentives to increase the earnings management level.

Regarding the control variables, the positive and statistically significant coefficient of *MTB* converges with previous studies (Dechow et al., 2011; Zhao & Chen, 2008a; Zhao & Chen, 2009) that show that *MTB* is positively associated with the earnings management level. This result suggests that the greater the company's growth opportunities in these quantiles, the greater the possibility for managers to engage in earnings management practices to maintain this market expectation.

Concerning *Lev*, our results suggest that companies with high financial leverage are prone to reduce its earnings management levels, which opposes Bona-Sánchez et al. (2011) and Small et al. (2015) findings that more leveraged firms tend to have higher earnings management levels.

A possible cause to the negative influence of *Lev* on the earnings management level is due to companies with higher leverage, which may be exposed to increasing levels of institutional monitoring, decreasing the likelihood that the company will engage in earnings management practices, as described by Becker, DeFond, Jimbalvo and Subramanyam (1998).

Perf behaved as expected, corroborating previous studies (González & García-Meca, 2014; Kothari et al., 2005; Sincerre et al., 2016) that suggest that profitability positively influences discretionary accruals, considering the relevance of managers presenting a suitable company's performance to stakeholders.

Finally, the positive and statistically significant coefficient of *Size* suggests that, because of the greater monitoring by investors and analysts, large companies (quantiles 75 and 90) tend to have lower earnings management levels, corroborating the findings of González and García-Meca (2014).

6 CONCLUDING REMARKS

Considering that studies which investigate the influence of poison pills on the earnings management level of Brazilian companies are scarce, and due to the particularities of this anti-takeover device, when compared to poison pills used by American public companies, such as eternity poison pills, our study investigated whether eternity poison pills influence on earnings management.

Our results suggest that the simple adoption of poison pills does not influence the earnings management level of Brazilian companies. However, in an exploratory way, we find that eternity poison pills differ from poison pills, since they are positively and significantly associated with discretionary accruals across all quantiles, which corroborates our research hypothesis.

This new evidence regarding the relationship between eternity poison pills and earnings management can shed light to investors and regulators by signaling that the adoption of this anti-takeover device is associated with the reduction of the company's accounting information quality, due to its positive association with the earnings management level.

This evidence is based on the view that managers are protected from the market of corporate control with the adoption of eternity poison pills since they prevent the removal of the anti-takeover device. Thus, under the exacerbating effect view, we consider that this managerial entrenchment provides incentives for managers for engaging in earnings management practices.

Our study contributes theoretically by signaling that poison pills, when combined with "eternity" clauses, can lead to agency conflicts. This occurs since the adoption of these anti-takeover devices provides incentives for managers to engage in earnings management practices because entrenched managers could make decisions without focus on shareholder wealth, but aiming to obtain own benefits, such as reductions in the dividend payment to shareholders and increases in executive compensation.

We consider that these results can be used as a basis for future research since the possible Brazilian stock market evolution may lead to new perspectives about the relationship between poison pills adoption and earnings management practices. Thus, we suggest that further researches investigate how corporate governance mechanisms, whether internal or external, may moderate the effect of eternity poison pills on the earnings management level since some of them can mitigate this effect, such as board independence, board interlocking, and audit quality. Finally, we also suggest that future studies investigate the determinants of the poison pills adoption by Brazilian companies, as well as whether these factors are convergent with the determinants of the adoption of eternity poison pills.

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Proteção Anti-takeover e Gerenciamento de Resultados: O Efeito das Poison Pills com Cláusulas Pétreas

RESUMO

***Objetivo**: Este estudo tem por objetivo investigar se as poison pills com cláusulas pétreas exercem influência no nível de gerenciamento de resultados das companhias abertas brasileiras.*

***Método:** A coleta de dados foi realizada a partir dos estatutos sociais obtidos no sítio eletrônico da Comissão de Valores Mobiliários (CVM), visando identificar a utilização de poison pills e cláusulas pétreas por 235 companhias não financeiras. As informações necessárias para a estimação dos accruals discricionários por meio do modelo Jones Modificado e as variáveis de controle inseridas no modelo econométrico foram obtidas por meio da base de dados Bloomberg®. Para a análise de dados, optou-se pela regressão quantílica, tendo em vista os diversos outliers presentes na amostra.*

***Originalidade/Relevância:** Esta pesquisa preenche uma lacuna na literatura no que concerne ao efeito das poison pills com cláusulas pétreas sobre os accruals discricionários, já que essa relação ainda não foi explorada no contexto brasileiro. Assim, torna-se relevante porque fornece a investidores e reguladores indícios dos efeitos da implementação desse mecanismo anti-takeover.*

***Resultados:** Os principais resultados apresentam novas evidências acerca da relação entre as poison pills e o gerenciamento de resultados no contexto brasileiro, ao demonstrar que esse dispositivo anti-takeover, quando aliado a uma cláusula estatutária pétrea, apresenta-se positivamente relacionado com os accruals discricionários.*

***Contribuições teóricas**: Contribui com a literatura ao sinalizar que o entrincheiramento gerencial propiciado pela adoção das poison pills com cláusulas pétreas pode influenciar a redução da qualidade das informações contábeis reportadas pelas companhias, esclarecendo investidores e reguladores sobre o efeito da implementação desse mecanismo anti-takeover.*

***Palavras-chave**: Poison Pills; Gerenciamento de Resultados; Dispositivos Anti-Takeover.*

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