

# Golden Hellos Surge as CEOs Get Jumbo Signing Bonuses

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More U.S. companies are luring top executives with multimillion-dollar “golden hello” signing bonuses, undeterred even as high-profile flameouts such as [Ron Johnson](#)’s short tenure at [J.C. Penney Co.](#) expose the risks.

The number of companies making upfront payments surged to more than 70 this year from 41 in all of 2012, according to governance-advisory firm GMI Ratings Inc. J.C. Penney fired Johnson in April, 17 months after giving him a signing bonus of \$52.7 million in shares to recruit him from Apple Inc.

J.C. Penney highlights the pitfalls of a practice that can reward executives who haven’t done any work yet to the detriment of shareholders. Golden hellos, mostly paid in options and stock grants, got costlier amid rising stock markets after the recession ended in 2009. Among the biggest this year: Zynga Inc.’s \$45 million package to attract game-industry veteran [Don Mattrick](#) as chief executive officer.

“Investors should be skeptical of golden hellos, which represent pay decoupled from performance and provide no retention incentives,” said [Lucian Bebchuk](#), a Harvard Law School professor in Cambridge, Massachusetts, who has researched CEO pay. “Equity incentives that have not vested yet should best be viewed as ones that have not been earned yet.”

Investors have so far paid less attention to golden hellos than to the large severance payouts known as golden parachutes. They should be concerned: [J.C. Penney](#) shares slumped 50 percent during Johnson’s tenure, while Hewlett-Packard Co. dropped 46 percent under [Leo Apotheker](#), ousted in 2011 just 10 months after getting \$8.6 million in signing bonus and relocation benefit. In total, Apotheker was entitled to about \$34.7 million in cash and stock for less than one year’s work.

## Perform First

“The incentive should be they will come to the company and perform and be rewarded,” said [Jon Luther](#), chairman of Arby’s Restaurant Group Inc. and former Dunkin’ Brands Inc. CEO.

Candidates for high-level positions who asked for signing bonuses to take jobs at companies where Luther was a board member have been rejected in favor of those who didn’t, the executive said, declining to identify the companies and candidates for confidentiality reasons.

Luther said he never asked for such a bonus to take a job, and was never offered one: “I said I’ll get it done and you can take care of me when I succeed.”

Golden hellos are often a sign of other compensation dysfunctions, said [Greg Ruel](#), a GMI senior research consultant. Companies cited by GMI for giving out upfront payments are graded a D in average for their overall pay practices -- on a scale of A to F. Take Chesapeake Energy Corp. and

Best Buy Co., two companies that have been flagged by GMI for a golden hello: They also failed so-called say-on-pay votes in recent years, prompting changes in their compensation practices.

### **Thornton's Bonus**

In April, the same month as Johnson's ouster, golden hellos were brought into the spotlight by Barrick Gold Corp. investors including Canada's six largest pension funds. They opposed an \$11.9 million welcome package in cash to co-Chairman [John Thornton](#), the former Goldman Sachs Group Inc. president.

"This is the kind of situation where you are not getting anything in advance but yet you have to pay upfront for the hopes and the aspirations of what will be delivered down the road," [Robert Gill](#), a Toronto-based fund manager at Aston Hill Financial Inc., which manages C\$8 billion (\$7.7 billion) of assets including Barrick shares, said in an interview this month. "We don't like that. We don't think that's commensurate with how the industry should remunerate people."

GMI decided to include golden hellos as a possible negative mark in its rating system in April because of evidence the payments were increasing, Ruel said. In 2011, S&P 500 companies awarded 34 signing bonuses, a 26 percent jump from 2009, GMI found. The surprising gain prompted the governance firm to look beyond the index. The payouts have risen even as CEO turnover fell to the lowest since at least 2004 last year.

### **Outside CEOs**

Companies often justify golden hellos by saying they cover for compensation that new CEOs had to forgo for leaving their previous employers. The payments partly explain why hiring an outside CEO costs about a third more than promoting from within, according to Chris McGoldrick, a senior research analyst at compensation tracker Equilar Inc.

Board compensation committees will have to weigh that reality as they search to fill CEO vacancies at [Microsoft Corp.](#), Lululemon Athletica Inc. and even J.C. Penney, which is seeking a replacement for its current interim CEO. Last year, about 26 percent of new S&P 500 CEOs were hired outside the company, according to executive recruiter Spencer Stuart.

"The board has to decide if they want to pay the freight to move the CEO from one job to another," said [David Larcker](#), a professor at the Stanford Graduate School of Business who has done research on executive compensation. "It's up to the board to make sure it's good for shareholders. I consider a request for cash a red flag, though."

### **'Highly Desirable'**

Barrick founder and Chairman [Peter Munk](#) told investors who opposed Thornton's bonus at the April shareholders' meeting that he needed the former banker, "a highly desirable, well-known commodity," to secure access to governments and protect against resource nationalism.

"I do realize Thornton has a big name but now he really has to deliver," said Gill, the Aston Hill fund manager.

The board is in the process of strengthening governance practices through the addition of independent directors and improvements to executive compensation, [Andy Lloyd](#), a spokesman for the Toronto-based gold producer, said in an e-mail.

At Plano, Texas-based retailer J.C. Penney, Johnson got his November 2011 signing bonus, in restricted stock, to make up for what the executive had to leave at Apple, where he had led retail operations. Johnson couldn't be reached for comment. [Kristin Hays](#), a J.C. Penney spokeswoman, declined to comment.

### **Too Soon**

Sometimes golden hellos do pay off for investors. Best Buy's shares have more than doubled since the consumer-electronics retailer lured [Hubert Joly](#) as chief executive in 2012 with a welcome package including a \$3.5 million cash bonus and equity grants and options valued at almost \$13 million.

For Zynga, a San Francisco-based social-gaming pioneer whose games have faded in popularity, it's too soon to tell. Although the stock has risen since Mattrick came on board in July and worked at cutting expenses and engineering a turnaround, it still trades at less than half the 2011 IPO price. Dani Dudeck, a Zynga spokeswoman, declined to comment.

Same goes for Chesapeake and health insurer WellPoint Inc., which awarded signing bonuses to their new CEOs this year.

"The board has to be careful not to fall in love with any one candidate," said [James Post](#), a corporate governance and ethics professor at Boston University School of Management. "You have to look for a good candidate at a good price, not a good candidate at any price."