More CEOs receiving ‘golden hellos’ upon company arrival

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Seventy U.S. CEOs have received a signing bonus to come aboard in 2013

What entices a CEO to a new job? Why, the same thing that often entices you or me to a new job: money. And U.S. companies are shelling out the cash in droves to entice top CEOs, even putting money up-front more than ever before.

A study from governance-advisory firm GMI Ratings Inc. shows that more companies are recruiting CEOs through “golden hellos,” or multimillion-dollar signing bonuses that the new CEOs receive without working a day. Seventy different U.S. companies have given out these bonuses in 2013, up from just 41 in 2012.

Most of these bonuses are paid in options and stock grants rather than pure cash. In the largest golden hello this year so far, game company Zynga recruited industry veteran Donald Mattrick to the company through a $45 million package, of which $40 million was stock and options.

However, some say that golden hellos could ultimately be severely damaging to a company. For example, take a look at J.C. Penney. The company gave incoming CEO Ron Johnson a signing bonus of $52.7 million in shares in late 2011, only to fire him in April 2013 after 17 ill-fated months with the company in which shares slumped 50 percent.

“Investors should be skeptical of golden hellos, which represent pay decoupled from performance and provide no retention incentives,” said Harvard Law School Lucian Bebchuk, who has researched CEO pay, to Bloomberg. “Equity incentives that have not vested yet should best be viewed as ones that have not been earned yet.”

Study-author GMI generally agrees with Bebchuk’s sentiment. According to Bloomberg, companies cited by GMI that have given golden hellos have scored an average letter grade “D” on a scale of A to F in their payment practices. GMI senior research consultant Greg Ruel says that golden hellos are often a sign of other payment dysfunctions.

However, it’s unclear whether the trend will slow down any time soon. Last year, 26 percent of new S&P 500 CEOs were brought in from outside the company, according to executive recruiter Spencer Stuart, even though compensation tracker Equilar Inc. estimates that outside hires cost about one-third more than inside hires.