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Golden Parachutes and the Wealth of Shareholders

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Abstract

Golden parachutes (GPs) have attracted substantial attention from investors and public officials for more than two decades. We find that GPs are associated with higher expected acquisition premiums and that this association is at least partly due to the effect of GPs on executive incentives. However, we also find that firms that adopt GPs experience negative abnormal stock returns both during and subsequent to the period surrounding their adoption. This finding raises the possibility that even though GPs facilitate some value-increasing acquisitions, they do have, on average, an overall negative effect on shareholder wealth; this effect could be due to GPs weakening the force of the market for control and thereby increasing managerial slack, and/or to GPs making it attractive for executives to go along with some value-decreasing acquisitions that do not serve shareholders' long-term interests. Our findings have significant implications for ongoing debates on GPs and suggest the need for additional work identifying the types of GPs that drive the identified correlation between GPs and reduced shareholder value.

Keywords: [Golden parachute](#); [Executive Compensation](#); [corporate governance](#); [Acquisitions](#); [takeovers](#); [acquisition takeover](#); [acquisition likelihood](#); [acquisition premiums](#); [agency costs](#); [managerial slack](#); [Dodd-Frank](#); [Executive Compensation](#); [Acquisition](#); [Corporate Governance](#); [Business and Shareholder Relations](#);

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