



California Corporate & Securities Law

True Or False? Golden Parachutes Benefit Shareholders

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Golden parachute arrangements are often included in discussions of anti-takeover devices. For example, the late Harold Marsh, Jr. in his magnum opus, *Marsh's California Corporation Law*, discusses golden parachutes in a section entitled "Defenses of Control".

Can it be that golden parachutes actually have the opposite effect?

A recent study by Professor [Eliezer Fich](#), [Ahn Tran](#), and [Ralph Walkling](#) concludes "yes, but":

We show that relatively more important parachutes benefit target shareholders by increasing the likelihood that a merger is completed. However, our results also suggest that inappropriately designed parachutes create a conflict of interest between target CEOs and target shareholders at the onset of a merger. In our study, this conflict manifests as moral hazard. Indeed, our analyses indicate that as target CEOs become more insulated from personal losses due to relatively larger parachutes, target shareholders obtain less favorable acquisition terms.

Their study, "On the Importance of Golden Parachutes" is available for download on the [Social Science Research Network](#).

The leading California decision addressing the validity of golden parachutes is *Gaillard v. Natomas Company*, 208 Cal. App. 3d 1250 (1989). Interestingly, the Court of Appeal seems to have anticipated the conclusions of Professors Fich, Tran and Walkling – recognizing the valid functions of golden parachutes as well as the potential for executive self-dealing.

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