

RFHHA MANAGEMENT TIP OF THE DAY FOR HOSPITAL ADMINISTRATORS 1320

Learn the FM: What is a golden parachute in finance management?

Golden Parachute is a clause in an executive employment contract that provides the executive with a lucrative severance package in the event of their termination, for example in case of a takeover by an acquiring company. May include a continuation of salary, bonus and/or certain benefits and perquisites, as well as accelerated vesting of stock options.

It can be used as a defensive measure used to prevent hostile takeovers. With golden parachutes, employers enter into agreements with key executives and agree to pay amounts in excess of their usual compensation in the event that control of the employer changes or there is a change in the ownership of a substantial portion of the employer's assets.

Top executives are provided with a financial soft landing in the event that a takeover results in discharge. An (unwanted) side effect of a golden parachute is that executives that have not performed well are not being punished.

The company initiating the hostile takeover, on the other hand, will either have to pay this associated increased costs when acquiring the corporation or back off from the takeover.

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