A Study on the Relationship between Economic Environment and CEO Pay of MNCs:The Mediating Impact of Firm Performance

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ABSTRACT

The study on the Chief executive officer (CEO) compensation has received tremendous attention academically and practically. Since the subprime mortgage crisis is a that was triggered by a dramatic rise in mortgage delinquencies and foreclosures in the United States, many banks and associated corporations have been bankrupted or facing business downsizing. Facing the financial crisis and business downturns, however, the CEO compensations do not seem to be affected by such downturn. Therefore, I am motivated to discuss and discover whether economic environment could affect CEO compensation.

Based on a sample of 125 firms in the USA electrics industrial sectors of the S&P 500 list, I investigated the data from the Compustant and ExecuComp databases. I used annual reports of each company in order to examine the compensation model and test the hypotheses.

The study finds that there are significant associations between economic environment and firm performance. The results indicate that there are highly significant relationships between economic growth rate and CEO compensation. Moreover, this study finds that the relationships between unemployment rate and CEO compensation are not necessarily significant, and that the relationships between firm performance and CEO compensation are not necessarily positively significant. Finally, the results for testing the mediating effect indicate that firm performance is not always able to mediate the relationship between economic environment and CEO compensation. These evidence-based findings provide the boards of directors and the practitioners with advanced knowledge in terms of strategizing CEO compensation as a tool to achieve better firm performance.

Keywords : CEO compensation、firm performance、economic growth rate、unemployment rate

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