

Entrepreneurial orientation: A missing link in the relationship between executive compensation and enterprise profitability

Sicheng Luo

National Sun Yat-Sen University

ABSTRACT

Although executive compensation system is seen as influencing subsequent firm operating performance, prior studies have produced inconsistent results on their relationship. The mediation that governs this effect, particularly of top management team shared-fate rewards by adopting time horizons, has remained largely unexplored. The overall legitimacy crush of this mechanism could be more intricate than previously assumed. Given that agency theory and entrepreneurial orientation theory have conceptually constrained, the author incorporates an important firm-level strategic orientation which captures an firm's strategy-making philosophy that are entrepreneurial in nature, namely, entrepreneurial orientation, as a critical intervening factor by which executive pay is converted into organizational outcome. The empirical research based on a survey in Taiwan. The findings show that TMT long-term incentive plan has a significant and positively effect on entrepreneurial orientation while entrepreneurial orientation is significantly related to firms' return on equity. In addition, these results suggest that entrepreneurial orientation mediates the relationship between top management team LTIP and firms' financial performance. The study contributes to executive compensation literature and entrepreneurial orientation theory by reconciling the performance consequences of executive pay and identifying the incentive-based antecedent of firms' strategic choices. The author also discusses the implications of these results.

Keywords: Entrepreneurial orientation (EO), long-term incentive plan (LTIP), Top management team (TMT)