



DOES GOVERNANCE TRANSPARENCY LEAD TO MORE SUPPORTIVE FOREIGN INVESTMENT?



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ABSTRACT

Article History

Received: 7 June 2016

Revised: 4 July 2016

Accepted: 30 July 2016

Published: 15 August 2016

Keywords

Corporate governance
Foreign institutional investors
Information transparency and disclosure
Voluntary transparency and disclosure.

This paper attempts to delineate the relationship between a firm's information transparency and disclosure (T&D), by which it can attract more investment from FII (foreign institutional investors), and its associated performance impacted by FII investment. Employing a unique data set of ranking reports of transparency and disclosure of listed firms of Taiwan and the financial databank of the Taiwan Economic Journal, the results of the study show that the stronger the intent of a firm's voluntary disclosure concerning corporate governance, the more shares that FII will hold, which can lead to better performance for the invested firms, suggesting that FII provides resources not only to guard their investments but also to improve firm performance. Beyond regulatory requirement of disclosure, firms should strategize their efforts in disclosing governance information voluntarily; these efforts can generate external resources infusion, and the resources can help improve firm performance.

1. INTRODUCTION

Transparency and information disclosure issues have been paid attention for decades since the cases of World Com and Enron stunned the academia and practitioners of the field of corporate governance. The issues are more complicated when institutional investors or individuals invest in firms listed in stock markets as these investors need sufficient information to evaluate which stocks are worth their investment. Bushman *et al.* (2004) argued that what should be disclosed includes the information concerning major shareholders, management, board, director & officer remuneration, director and officer shareholdings. Availability of information is important to investors, especially while operating in foreign stock markets, because it determines the efficiency of resource-allocation decisions (Bushman *et al.*, 2004).

Hence, the regulatory authorities of emerging economies have regulated firms to disclose more information so that the more disclosed information the more foreign investment to the firms as well as to the countries. However, on the other hand, companies may not disclose all the information they have (Scott, 1994), but rather might purposely cull negative information and distribute positive information to promote a better image. Therefore, in addition to required information disclosure, firms may disclose specific information “voluntarily” to attract foreign investment and strategically to demonstrate the competitive advantages.

Above, in compliance with the regulatory requirement for a firm’s governance, the firm can still exercise discretion about how much information concerning its governance mechanisms to disclose. Governance disclosure includes information about major shareholders, management, boards of directors, directors’ and officers’ remuneration, and directors’ and officers’ shareholdings (Bushman *et al.*, 2004). The disclosure can be a double-edged sword. On the one hand, disclosing more information about a firm’s operations and governance structure makes the firm’s strategy and operations more transparent to investors to earn more investment, both as tangible assets from capital markets and as intangible knowledge from institutional investors (Barney, 1991, 2001; Granovetter, 1985; Peteraf and Barney, 2003). On the other hand, competitors can collect information through the transparent disclosure, and investors may also obtain negative information about the firm, which may affect their investment decisions; that is, more transparency may complicate the decision-making process. Thus, the impacts of information transparency and disclosure (T&D) of corporate governance on attracting investments are still mixed.

FII have played an important role in Asian capital markets, and investment from these institutions can affect emerging economies to a great extent. The withdrawal of foreign investment in these markets would have ignited or worsened the Asian financial crises in 1997 and 2008. In Asia, one firm’s stocks, which are primarily owned by FII, may indicate that this firm has a high level of information T&D. Taiwan used stringent control over investments from abroad, but in 1991, qualified foreign institutional investors (QFII)¹ were permitted to invest directly in Taiwan’s stock market. In the Taiwan market, FII are considered resources to the invested firms, and they should also play a monitoring role in the market, helping other investors avoid risk (Pound, 1988).

Albeit information asymmetric, FII can use their research team and some signals to evaluate a firm. For example, previous research has found that the voluntary appointment of independent outside directors can have a significantly positive impact on firm performance, signaling that the associated better performance is related to the information T&D (Luan and Tang, 2007). The signal is argued to be able to generate a herd investment of FII; that is, more information T&D may help reduce FII information asymmetry, and then trigger more investment and the improvement of firm performance. Thus, this study aims to delineate the relationships among governance transparency, FII investment, and firm performance.

The present study tests a sample from publicly listed firms in the electronics industry in Taiwan and makes three principal contributions to the literature and to business practitioners. First, this study provides evidence to address a firm’s strategies to disclose firm information based on government-regulated requirement and the voluntariness at a firm’s discretion to elaborate on the debate about whether firms’ information T&D can affect the attractiveness of these firms in the eyes of foreign investors. Second, studies investigating foreign investments and firm performance have been largely neglected by researchers in the past. This study fills the gap by testing whether FII investment can affect firm performance. Third, this research investigates the moderating effect of absorptive capacity between FII investment and firm performance. Thus, the findings provide the top management teams and the board with evidence regarding the impact of its efforts for information T&D, not only for sound governance, but also for attracting and utilizing resources for better performance.

¹ The QFII system in Taiwan was replaced by the system of FII in 2003

The remainder of this paper is organized as follows. The following section reviews the literature related to corporate governance, transparency and disclosure, and foreign institutional investors (FII), to form the basis of the hypotheses presented in this study. We then describe the research methods, definitions and measures of variables, and data collection methods used in this study. This is followed by a presentation of the results with a discussion. The final section discusses the implications of the findings, limitations of the current study, and directions for future research.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Corporate governance is a mechanism to manage and monitor a company (Grove *et al.*, 2011; Holm and Scholer, 2010) and also “can be considered as an environment of trust, ethics, moral values and confidence” (Aras and Crowther, 2008). Consolidating corporate governance is an efficient means for firms to resist crisis and enables them to enjoy a premium of their stock from investors, which results in higher stock prices (McKinsey and Company, 2002). Analysts use information about corporate governance practices to assess the reliability of a firm’s performance (Bushman *et al.*, 2004), such as the status and the dynamic of board structure and shares held by board members. Thus, disclosure is an effective and efficient mechanism to ensure better management performance, and firms can raise the performance of corporate governance by increasing information disclosure (Lowenstein, 1996) or the quality of disclosure (Mitton, 2002). Therefore, a high degree of transparency and quality of disclosure should signal sound governance and imply better firm performance.

2.1. Information transparency and disclosure (T&D)

From the perspective of transaction cost economics, foreign institutions cannot monitor and predict what will occur in foreign markets that are unfamiliar to them. They cannot evaluate information about the markets and the firms in the markets (Yang *et al.*, 2012) because of institutional difference. Even though foreign investors possess previous investment experience, they remain in a disadvantageous or vulnerable position in terms of information to evaluate the invested firms due to agency issues (Berglund and Westerholm, 2010). Furthermore, Mitton (2002) argued that firms adhering to better governance and more information T&D in emerging economies would suffer less from financial crises. Hence, T&D of corporate governance helps foreign investors mitigate the risks of their investments.

Thus, information T&D is a primary condition with which investors can evaluate a company (Parum, 2005), and shareholders can reach a better understanding of firms’ management practices through improved T&D practices (Patel and Dallas, 2002). Governance transparency has been emphasized because “beyond financial performance, corporate disclosure encompasses many other dimensions of a firm’s activities or actions” (Cormier *et al.*, 2006). These actions cannot be easily mandated and watched as closely by the regulatory and media communities as financial performance can; however, governance transparency is important, and sound governance transparency indicates better management and monitoring of a firm from a non-financial perspective.

Furthermore, T&D can also mitigate the information asymmetry between firms and what investors know about the firms. Owing to the information asymmetry, investors may have difficulties predicting the performance of firms. Even the performance has been disclosed by requirement of regulatory authorities, investors need more information to evaluate the firms to accurately calculate the value of the firms, such as the status of intangibles, customer satisfaction and corporate governance practices, risk management, product development and reliability, human capital, sustainable development, and so on (Aerts *et al.*, 2007). Thus, information asymmetry also highlights the importance of T&D to a firm and its shareholders.

The issue of information asymmetry is even greater due to cultural distance especially for firms in different countries, (Roth and O’Donnell, 1996). In emerging economies, regulations of recent decades may lessen such problems, and the information provided by financial analysts of FII may

also help reduce information asymmetry (Healy and Palepu, 2001). Hence, a firm's T&D practices are critical, and the practices to be more transparent to the public and the investors can both mitigate information asymmetry (Aksu and Kosedag, 2006) and make it easier for investors to evaluate the firms (Parum, 2005).

Agency theory also supports the need for T&D (Jensen and Meckling, 1976), as agency problems typically occur between the conflicts of agents and principals (Eisenhardt, 1989). If investors do not have sufficient information to evaluate a firm's performance, agency problems are very likely to arise. Therefore, information asymmetry can be mitigated through proper governance mechanisms, and a firm's agency cost can be reduced with information T&D (Chen *et al.*, 2007).

Furthermore, various other incentives may affect the demand of company-specific information (Pope, 2003). For example, minimizing a firm's cost of capital is an incentive for management in disclosure decisions (Richardson and Welker, 2001) because lower capital costs may also benefit firms by increasing stock liquidity (Healy *et al.*, 1999). The fewer a firm's T&D practices are, the lower liquidity the firm will have due to the costs of information asymmetry. Overall, increasing a firm's level of disclosure may reduce its equity capital cost, as information asymmetry and risk between managers and investors are mitigated (Botosan, 1997; Lang and Lundholm, 2000). However, in some cases, firms may strategize the disclosure to reduce the cost of capital or ensure better prices before issuing equities (Lang and Lundholm, 2000). From a strategic perspective, firms may keep some pivotal information away from the public to prevent competition. That is, a firm's decision to disclose may involve both pros and cons (Scott, 1994).

2.2. The Relationship between Information T&D and FII Investment

It is argued that information asymmetry between firms and investors as well as shareholders is more likely to occur in a short-term agency relationship (Eisenhardt, 1989). Such agency problems are common, investors can rely on information provided not only by the corporations themselves, but also by research institutes and mass media. Governance transparency can help FII appraise firms more accurately based on information symmetry. For example, Bailey *et al.* (2006) found that information disclosure can reduce information asymmetry but also lower the financing cost and increase the likelihood of herd investment behaviors. The accuracy, timeliness, and accessibility of the disclosed information may attract investors' attention; that is, the level of T&D is likely to influence investors' decisions.

FII—powerful and representative institutional investors and principals—may not only bring abundant capital, but also monitor their target firms to ensure their earning capability (Martin and Nisar, 2007). Hence, on the one hand, firms with high governance transparency may attract investors' attention; on the other hand, firms with equity that is largely owned by FII are considered to have disclosed more information. Because high governance transparency indicates that sufficient information is provided by firms to investors, the relationship between transparency and investors' intentions is predictable. To avoid default risk, FII may work with professional research teams to choose companies with higher transparency for their investments. Most governments worldwide have established legislation that requires firms to disclose sufficient information in order to prevent information asymmetry between firms and investors, so firms in compliance with the overall T&D (which is mainly mandatory because of the regulations) should be able to reduce information asymmetry in favor of attracting FII investment. Therefore, the following hypothesis is established:

Hypothesis 1a. Firms complying with the government-required T&D will positively correlate with the amount of investments these firms receive from foreign institutional investors.

Although most governments have established the rules related to overall T&D, the more governance transparency a firm provides, the more investments the firm may receive from FII; that is, companies can still voluntarily decide how much information to reveal, given the unregulated fields. Firms with voluntary disclosure can signal to investors that they are willing to disclose more

information than the other firms. Voluntary disclosure can further decrease the extent of information asymmetry and may indicate that a firm is performing well. Thus, compared with overall disclosure, voluntary disclosure attracts more attention from investors (Pownall and Waymire, 1989). Because investors target firms that are easier to monitor, the following hypothesis concerning information T&D on a voluntary basis and investment from FII is established:

Hypothesis 1b. Firms with more initiative to reveal voluntary T&D will acquire a larger amount of investments from foreign institutional investors.

2.3. The Impacts of FII Investment on Firm Performance

It is argued that the more capital a company has, the more flexible it is in terms of operations. From the perspective of resource-based views of the firm (Penrose, 1959; Barney, 1986, 1991), financial capital and/or non-financial capital are important to firm performance (Shaw *et al.*, 2009), and valuable capital confers competitive advantages (King and Zeithaml, 2001). Thus, companies should make efforts to attract more resources to grow and expand their businesses for better firm performance. FII have become a major source of capital and knowledge, but the resource is carefully monitored, and target firms' performance may be scrutinized. Once firms acquire investments from FII, the investors not only bring in capital resources but also provide effective monitoring functions on resource allocation, which in turn leads to better firm performance (Choi *et al.*, 2012). Hence, the following hypothesis is developed for further testing:

Hypothesis 2. Investments in firms from foreign institutional investors will be positively correlated with corporate performance.

Even though increased resources from FII may lead to better firm performance, the condition of the firm can alter this relationship, because the firm has the capability to determine how it plans to use the resources. Thus, firm capability to assimilate and operate outside resources is labeled as absorptive capacity, which is usually intangible (Cohen and Levinthal, 1990). Because FII's target firms can employ resources from investors, factors affecting the performance of international investments can also affect the target firms' performance (Lane and Lubatkin, 1998). Further, capabilities of understanding, assimilating, and applying external knowledge include trust, learning structures, process, strategy, training competence, and cultural compatibility, as discussed by Lane *et al.* (2001). Prior studies show that firms lacking absorptive capacity might face difficulties in acquiring additional resources (Luan and Tang, 2007; Tsai, 2009). Thus, it is important to take the absorptive capacity of firms into account in any discussion of the relationship between the resources from FII and corporate performance and to consider that a firm's absorptive capacity should interact with FII to affect firm performance. Therefore, the third hypothesis is established as follows:

Hypothesis 3. The absorptive capacity of firms will strengthen the relationship between investments in firms from foreign institutional investors and firm performance.

3. DATA AND METHOD

3.1. Data collection and sampling design

We employed data from firms in the electronics industry that are listed by the Taiwan Stock Exchange Corporation (TSEC). Multiple reasons explain the choice of using FII investment in these firms from Taiwan to study the relationships among T&D, FII, and target firm performance. First, with a unique database of annual reports of information T&D of listed firms of Taiwan, we can generate objective evaluation data concerning a firm's governance transparency. Second, Taiwan plays a decisive role in the supply chain of the world's electronics industry, and the electronics industry in Taiwan has been a major target of FII investment. Third, good corporate governance practice is much more important in emerging markets than in developed markets (Aksu and Kosedag, 2006), and FII's vital role in Taiwan's capital markets is growing as daily trading

volumes and invested firms' shares by FII have increased. Therefore, we employ the unique databases and financial data sets of Taiwan's electronics firms to depict the relationship among governance transparency, FII investment, and firm performance.

The data on information T&D were collected from the Securities and Futures Institute (SFI), which was formed by the TSEC. SFI has issued the Corporate Information Transparency and Disclosure Ranking (CITDR) results annually since 2003. This study utilizes data from 2003 to 2008 for T&D, FII investment, and firm performance; the data on information T&D are retrieved from CITDR, and the data on FII investment and the financial data were collected from the Taiwan Economic Journal (TEJ) Financial Databank. After culling missing data, this study employed 241 firms' data to test the proposed hypotheses.

3.2. Method

After collecting data on information T&D, equity, and financial results, we used regressions to test the hypotheses. For Hypotheses 1a and 1b, we adopted regression models to investigate whether the levels of overall T&D and voluntary T&D have a positive effect on FII investment. Further, we used the same procedure to test Hypothesis 2, which argues that FII investment in firms can improve firm performance by allowing the firms to acquire more resources, and Hypothesis 3, which examines the moderating effect of firms' absorptive capacity on the relationship between FII investment and firm performance.

3.3. Measures

3.3.1. Overall T&D

The CITDR results ranked the observed companies using one of the following levels: Grade A+, Grade A, Grade B, Grade C, and Grade C-. For Hypothesis 1a, we employed the average ranked score during the investigation period to measure overall T&D of corporate governance.

3.3.2. Voluntary T&D

In the CITDR reports, firms with voluntary disclosure are identified through several specific items in the evaluation forms of CITDR. The CITDR results expose firms that achieve higher scores on those items. We utilized the results to measure voluntary T&D to test the hypotheses. Firms listed on the annual report that had higher voluntary disclosure were coded 1; otherwise, they were coded 0. Next, we compiled the numbers; the higher the score a firm had, the greater its voluntary disclosure.

3.3.3. FII investment

This study measured this variable according to the compound annual growth rate of FII's investment percentage. We estimated FII's annual investment percentage as the average investment value to the firm and divided it by the total investment value to the firm reported by the TSEC. Next, we computed the annual growth rate and compared it with that of the previous fiscal year. Lastly, we calculated the compound annual growth rate for the investigation period.

3.3.4. Firm performance

We employed the average return on equity (ROE) of the research duration to measure firm performance.

3.3.5. Absorptive capacity

Because the definition of *absorptive capacity* is still equivocal and diversified (Zahra and George, 2002), this study focused on firms' capabilities to assimilate existing knowledge from FII and used research and development (R&D) intensity (R&D investment divided by sales) averaged from data during 2003 and 2008 to generate absorptive capacity (Cohen and Levinthal, 1990).

3.3.6. Firm size

This study also controlled for firm size, because it affects firm performance (Luan and Tang, 2007) and FII investment (Badrinath *et al.*, 1989). We used the average total assets of firms to measure firm size.

3.3.7. Previous firm performance

Firms that previously performed well should affect FII investment decisions. Hence, the present study also controlled for previous firm performance, using the average ROE to control for previous firm performance in the models.

4. RESULTS

4.1. Descriptive statistics and correlation analysis

Table 1 shows the results of the descriptive statistics and correlations among the tested variables in each model. The annual growth rate of FII investment in the electronics industry listed in the TSEC is 0.098%. The average ROE of the sampled firms is 3.91. The overall T&D of corporate governance is approximately 3.14, while the average voluntary T&D is about 0.32; these statistics indicate that the sampled firms have a higher level of governance transparency, but these firms have less intention to disclose information voluntarily. Collinearity diagnostics were utilized to check the existence of multicollinearity, but all the variance inflation factor (VIF) values were under 10, indicating that the multicollinearity should not be significant.

4.2. The relation between T&D of firms and investment of FII

Table 2 shows the results of Model 1 for Hypothesis 1a and Hypothesis 1b. The result fails to support Hypothesis 1a, and this finding reveals that the level of overall T&D within firms is not significantly related to the amount of investments they receive from FII. However, the result supports Hypothesis 1b ($\beta = 0.111$, $p < 0.1$); this finding reveals that firms with more initiatives to voluntarily disclose information are more likely to receive FII investment.

4.3. The relations between FII investment, firm performance, and the moderating role of absorptive capacity

Table 3 shows the results of Model 2 (for Hypothesis 2) and Model 3 (for Hypothesis 3). The result of Model 2 indicates that FII investment in firms can positively affect firm performance, thus supporting Hypothesis 2 ($\beta = 0.135$, $p < 0.05$). Model 3 takes the moderation effect into consideration to further examine how a firm's absorptive capacity interacts with FII investment to affect firm performance. The results indicate that a firm's absorptive capacity fails to significantly moderate the relationship between FII investment and firm performance; therefore, the result fails to support Hypothesis 3.

In sum, information T&D is important in attracting FII investment only when firms have greater intentions to disclose information voluntarily; that is, more information disclosure does not necessarily guarantee more investment from foreign investors, but only information disclosed on a voluntary basis may lead to more investment. Contrary to conventional wisdom, a firm's absorptive capacity not only fails to affect firm performance positively but also fails to interact significantly with FII investment to affect firm performance, although FII investment can improve firm performance.

Table-1. Descriptive statistics and correlations matrix

Variables	Mean	SD	1	2	3	4	5a	5b	6a	6b
1.FII investment	0.098	0.672	-							
2. Firm performance	3.91	33.22	.181**	-						
3. Overall T&D	3.14	0.58	.053	.149*	-					
4. Voluntary T&D	0.32	0.79	.130*	.132*	.608**	-				
5a. Firm Size (2005-2007)	26,549,929	69,877,046	-.097	.029	.221**	.156*	-			
5b. Firm Size (2006-2008)	27,955,403	74,947,878	-.090	.040	.217**	.157*	.994**	-		
6a. Previous firm performance (2005-2007)	9.74	14.44	.190**	.556**	.231**	.220**	.069	.089	-	
6b. Previous firm performance (2004-2006)	9.11	15.45	.092	.481**	.173**	.171**	.079	.095	.899**	-
7. Absorptive capacity	4.13	4.22	-.116	-.019	-.037	-.018	-.057	-.067	.048	.058

Note: p -value is numbers in parentheses, * $p < 0.05$, ** $p < 0.01$. (N=241)

Table-2. Regression Results of Model 1

Dependent Variable: FII Investment	Model 1		
		H1a	H1b
<i>Control Variables</i>			
Firm size	-0.110† (-1.739)	-0.117† (-1.809)	-0.126† (-1.974)
Previous firm performance	0.197** (3.111)	0.190** (2.912)	0.174** (2.691)
<i>Independent Variable</i>			
Overall T&D		0.35 (0.529)	
Voluntary T&D			0.111† (1.702)
N	241	241	241
R-square	0.048	0.049	0.060
Adjusted R-square	0.040	0.037	0.048
F-value	6.006**	4.085**	5.002**

Note: Number in parentheses are t-statistics, † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

Table-3. Regression results of models 2 and 3

Dependent Variable: Firm performance			Model 2	Model 3
			H2	H3
<i>Control Variables</i>				
Firm size	-0.010 (-0.167)		0.005 (0.090)	0.005 (0.088)
Previous firm performance	0.484** (8.458)		0.470** (8.228)	0.469** (8.211)
Absorptive capacity	-0.048 (-0.844)		-0.031 (-0.537)	-0.030 (-0.523)
<i>Independent Variable</i>				
FII investment			0.135* (2.356)	0.129† (1.651)
<i>Interaction</i>				
FII investmentX Absorptive capacity				0.009 (0.109)
N	241		241	241
R-square	0.233		0.251	0.251
Adjusted R-square	0.224		0.238	0.235
F-value	24.038**		19.763**	15.746**

Note: Number in parentheses are t-statistics, † $p < 0.10$, * $p < 0.05$, ** $p < 0.01$

5. DISCUSSIONS

Should firms disclose much information beyond what is required? For firms to pursue better performance, they should take the initiative in disclosing information voluntarily, because this method may attract more resources from FII, and these resources may in turn create better performance. Also, firms that voluntarily disclose more information can differentiate themselves from other firms that only comply with the same requirements as all other firms do.

Based on the aforementioned arguments, the more T&D a firm provides, the greater the investment the firm should receive; however, contrary to these arguments, our findings cast some doubts—that is, complying with government requirements does not significantly help these firms attract more foreign investment. This finding may imply that the government's required disclosure items cause the ranking system to show only general information that might not significantly attract the attention of FII. Also, all firms need to comply with these government-regulated requirements, which do not differentiate between firms following the same set of rules and policies. Furthermore, other factors may affect the amount of investment a firm can attract, and these factors include past firm performance; that is, FII may depend on these firms' track records to make their decisions.

However, T&D on a voluntary basis can reveal different impacts on a firm's ability to attract foreign investments compared to that of firms following only government-regulated requirements; that is, firms with a stronger intention toward voluntary disclosure appeal more to FII, because this intention indicates that the firms are well established and well governed. The results prove that, after controlling for firm size and previous firm performance, voluntary disclosure can positively affect FII investment. This finding also implies the importance of differentiation: firms that make extra efforts to differentiate themselves from others in terms of T&D may benefit.

This study further explored the relationship between the resources from FII and firm performance and found that FII investment can positively affect firm performance; that is, this positive relationship reveals that the greater the proportion of stock held by FII, the better firms will perform. This finding supports resource-based perspectives that once firms acquire investments from institutional investors, the investors not only bring in capital resources but also monitor the

resource allocation to ensure that the resources can be employed more effectively and efficiently, which in turn leads to better firm performance.

Absorptive capacity was expected to show a positive effect on the relationship between FII investment and firm performance; however, the empirical results fail to support this proposition. This finding is likely due to the fact that in the capital market, firms that voluntarily disclose more information than other firms do perform better and become more attractive in the eyes of investors; that is, voluntary T&D may attract resources to help improve firm performance. A firm's absorptive capacity fails to affect firm performance and cannot interact with these resources to affect firm performance. This finding is consistent with the result of Luan and Tang (2007), who found that absorptive capacity is not related to firm performance. The evidence-based findings may further imply that firms in the same industry may consider differential strategies to outperform competitors who may be equipped with similar capabilities.

6. CONCLUSION AND RESEARCH LIMITATIONS

This study aimed to determine whether firms' information T&D would affect investors' investment decisions, especially those of FII, as well as whether these foreign investors' investment would affect firm performance in light of the influence of firms' absorptive capacity. Based on our empirical examination of firms in Taiwan's electronics industry, we discovered mixed results in terms of the relationship between firms' T&D and FII investment decisions. On one hand, a firm's level of disclosure does not attract FII; on the other hand, firms with a greater intent to disclose information voluntarily can attract more FII investment than those firms that voluntarily disclose less can.

Investors have emphasized the importance of corporate governance (Picou and Rubach, 2006). Overall, sound corporate governance encourages the top management teams to implement policies appropriately, enhance corporate performance, and guard the interests of stakeholders. T&D plays a very important role in investors avoiding risks when selecting their investment targets. Moreover, the government can mandate certain compliances, so that investors can avoid or reduce information asymmetry when making their investment decisions. Even though compulsory disclosure requires firms to comply with certain rules and regulations, firms can still exercise discretion to decide how much information they want to reveal.

This study has some limitations that can be regarded as potential issues for future research. First, the samples we used in this study are all firms in the electronics industry in the TSEC as this industry in Taiwan plays a very important role in the worldwide supply chain. Nevertheless, further research concerning similar issues may be applied to different industries, and it may also adopt different indicators when estimating corporate performance.

Second, the variables we employed to measure firms' information T&D was collected from the information transparency ranking results, which show only the comprehensive scores. We could not discriminate between firms' specific scores from the five categories that the system measured. Acquiring more details about the results could allow researchers to achieve superior outcomes.

Last but not least, firms' decisions might be more complicated than simply to disclose or not to disclose. Previous performance might be one of the factors. In other words, there might be some interaction effect between information T&D and previous corporate performance as they relate to FII investment. Hence, in future research, we should further explore the interaction effect between information disclosure and previous corporate performance as it relates to FII investment.

Funding: This study received no specific financial support.

Competing Interests: The authors declare that they have no competing interests.

Acknowledgement: All authors contributed equally to the conception and design of the study.

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