Board of Directors’ Advanced Study and Company Performance in Taiwan’s High-Tech Industry—Can Directors be Well-Trained to Enhance Corporate Governance?

Dr. Fu-Huei Yang, Diwan College of Management, Taiwan

ABSTRACT

In addition to the independent directors’ regulation in Taiwan, a newly recruited director of TSEC listed companies is advised to take at least 12 hours of training for the recruiting year and at least 3 hours for each of the following years of tenure to enhance director competencies and director behavior for board effectiveness. This is a new approach of enhancing corporate governance from a human resource development perspective. In this study, there were no significant relationships between board training hours and the company’s financial performance as measured by ROA, ROE, and EPS. A TSEC-listed high-tech company’s performance cannot be assessed by board training hours collected from the Market Observation Post System (M.O.P.S.). Effective board training needs to be explored.

INTRODUCTION

The breakthrough news of corporate debacles, such as the Enron and World.com scandals (U. S. A.) in the early years of the 21st century has awakened companies to understand that business philosophy and strategy need to be re-focused to sustain an enterprise. The recent financial market catastrophes started with the subprime mortgage mess in the U.S. in 2007, followed by Lehman Brother’s bankruptcy (2008), Citigroup and other large banks’ filing bailouts in U.S. and European countries (2008) shocked people into believing that the world economy might soon collapse. Although the effectiveness of the world economy derives from the synergy of politics, legislation, and social factors; basically, it is the result of how enterprises utilize natural resources. For the past 20th century, U.S. capitalistic enterprises were effectively built and led by CEOs and boards of directors and were regarded as a model imitated by enterprises of Europe, Japan, and other countries in the world. Consequently, the study of corporate governance has focused on the board structure approach, particularly the independence of directors and the separation of the CEO and chair (Leblanc & Gillies, 2003).

Since Berle and Means (1932), the U.S. academic community has been exploring the issues of corporate governance. The topic caught on with Asian countries in the wake of the 1997 Asian financial crisis. In order to encourage directors’ continuous learning and training for directors’ competences and board effectiveness, Taiwan Securities Exchange Corporation (TSEC) conducted and promulgated the “Guideline for Promotion of Advanced Study by Directors and Supervisors of TSEC/GTSM Listed Companies” (TSEC, 2006). In the guideline, a newly recruited director of TSEC listed companies is regulated to take at least 12 hours training courses during the year of recruitment and at least 3 hours for the next year and later during the tenure.

Therefore, the board training guideline was enacted to enhance corporate governance effectiveness and company performance to avoid the disasters of corporate scandals that could cause investors enormous losses and affect their confidence in the investment market. In this study, the board training provision was examined to demonstrate its relationship to board effectiveness and company’s financial performance.

Purpose of the Study

The purpose of this quantitative study was to examine the relationship between board members’ training and company performance in terms of ROA, ROE, and EPS in TSEC electronic companies.
Research Question

The research question was, Are there relationships between board training hours and financial performance of TSEC listed electronic companies in terms of ROA (return on total assets), ROE (return on equity), and EPS (earnings per share)?

Significance of the Study

This study has the potential to contribute to the implementation of corporate governance regulations, to board training, and to the effectiveness of boards of directors for Taiwan’s high-tech companies from a human resource development perspective. Moreover, this study initiated corporate governance research away from a legal or financial approach toward a managerial approach focused on the growth of directors’ competencies.

LITERATURE REVIEW

Corporate governance has been commonly recognized as a public policy issue in the United States. This idea finds its origin in Berle and Means’ (1932) classical theory of agency problems: how could corporate managers, as agents of shareholders, be induced to manage corporate assets in the best interests of their principals (Salacuse, 2003)? The major theories that guided this study consist of corporate governance systems, board structure, board process, and board effectiveness. Additionally, Taiwan’s corporate governance regulation related to independent directors and directors’ training, and Taiwan’s high-tech industry profile were reviewed.

Corporate Governance Systems

In 2004, Banks introduced his contemporary theory of corporate governance models, based on his qualitative phenomenological studies about different types of shareholding structure (concentrated or diffuse), use of various governance mechanisms (internal and external), as well as relationship and interest focuses (long-term or short-term). The theory generalizes three major corporate governance models: the market model which is executed in the U. S., UK, Australia, Canada, and several other countries; the relationship model which is found in Japan, Germany, Italy, the Netherlands, and France, among others; and the hybrid model which is found in various developing nations (such as Indonesia, Thailand, Malaysia, Korea, and Mexico). In addition to governance models, Banks classifies two different types of boards of directors: the single board system and the dual board system.

Under a single board system, the board of directors—generally nominated on an individual basis through an internal committee and/or executive management recommendations, and elected by shareholders—acts as an independent monitor of company management. It is commonly used by companies in countries such as the U.S., Canada, the UK, Japan and Korea (Banks, 2004).

The dual board system consists of two bodies: the supervisory board and the management board. The supervisory board, acting as agent of the shareholders, is responsible for appointing, supervising and advising members of the management board, and developing fundamental corporate strategy. The management board is equivalent to the executive management team in companies, and is headed by a chairperson corresponding to the CEO in the single board system. This system is commonly used by companies in Germany, Austria, the Netherlands, and certain other Continental European countries.

Impact of Board Structure and Board Process on Board Effectiveness

Leblanc and Gillies (2003) reported several empirical studies in their review of the literature and concluded that independence is not a major factor in corporate performance. The findings were that a vast majority of respondents were overwhelmingy the view that a relationship does exist between corporate governance and the financial success of the corporation. Yet researchers, at least with respect to board structure, have not been able to demonstrate this empirically (Leblanc & Gillies, 2003).
Based on this study, Leblanc and Gillies developed a board effectiveness rather than a board structure approach to corporate governance reform. They claimed, ‘The fact is that, in spite of all the discussion, writing and analysis, there has not been a great deal of research on ‘how boards actually work,’ ‘how they make decisions,’ or on ‘how directors interact with each other’” (Leblanc & Gilles, 2003, p. 5). In sum, it is board effectiveness, not board structure, that must be analyzed, for it is the effectiveness of the board in the decision-making process that finally determines corporate performance (Leblanc & Gilles, 2003).

Leblanc and Gillies (2003) defined board membership as how directors come to be recruited onto a board, the balance of competencies of existing members, and the methods that are taken to remove a director from a board (e.g., director tenure or retirement). According to Leblanc and Gillies, board process is defined as how directors make decisions and the behavior of the individual directors themselves. Their interactions based on the behavioral characteristics are the most important factor in the board process. Finally, Leblanc and Gillies concluded that the missing link in establishing the relationship between board structure, board membership, and corporate performance may be an understanding of the activity called board process.

**Regulations of Independent Directors and Directors Training in Taiwan’s Corporate Governance**

The independent director and supervisor system are significant parts of corporate governance in Taiwan. As regulated by Taiwan’s Company Act, a public limited company is required to have a board of directors with at least 3 directors and 2 supervisors (Company Act, 2006, Chapter V, Section 4). The listing regulations stipulate that a company applying for listing the first time must have no fewer than five directors and set aside certain seats for independent directors and supervisors (Taiwan Securities and Exchange Act, 2006, Article 26-3).

Those provisions also specify the qualifications and independent status of such directors and supervisors. Until the enactment of the amended “Securities and Exchange Act” in 2006, all the listed companies were required to appoint independent directors not fewer than two in number and not fewer than one-fifth of the total number of directors. Additionally, a listed company had to establish either an audit committee or a supervisor. Besides implementing the independent directors system, in order to enhance director competencies and director behavior, a newly recruited director of TSEC listed companies is advised to take at least 12 hours of training for the recruiting year and at least 3 hours for each of the following years of tenure.

**Taiwan’s High-Tech Industry**

For the past two decades, remarkable growth of the high-tech industry has contributed to Taiwan’s prosperous economy until the recent world-wide economic crisis. Taiwan became known as one of the leading IT hardware manufacturers, including products such as semiconductors, communication hardware, TFT-LCDs, and notebook computers, among others. According to Cheng (2006), the production value of Taiwan in some electronic products, such as notebook PCs, LCD monitors, and PDAs, has dominated the world with an average of more than 70 percent of the total market shares.

Therefore, it is worth investigating the factors of corporate governance that may lead to the success of Taiwan’s high-tech industry. Directors’ training regulated by the government to strengthen director competencies and behaviors that can impact director effectiveness and board effectiveness was selected for this research.

**Theoretical Framework**

The schematic model that follows depicts the anticipated relationships among the major theories and variables in this study.
RESEARCH METHODS

The research design is non-experimental, quantitative, descriptive, and bivariate correlational research using secondary analysis of data. The secondary data of the number of board training hours, and company performance in terms of ROA, ROE, and EPS were obtained from the TSEC official website and publicly disclosed information of listed companies reported to TSEC. The design examined the relationship between the number of board training hours and company performance.

Based on the literature review, no study was found to examine the relationship between the number of board training hours and company performance, although board members’ training of listed companies had already been regulated by TSEC in 2002, and the number of board members’ certified training hours had already been required to be reported to the same authority.

Population

The target population was the electronic public companies, regarded as the hi-tech industry, currently listed on the Taiwan Stock Exchange Corporation (TSEC). As of May 8, 2008, there were 330 electronic companies listed on TSEC (TSEC, 2008).

The entire accessible population of TSEC electronic companies was used to analyze board training, and company performance. Data required for examining the question are disclosed and renewed every month on the TSEC website.

Instrumentation

The Taiwan Stock Exchange Company (TSEC) provides a Market Observation Post System (M.O.P.S.) that discloses listed companies’ public information for the stock investor. In the Corporate Governance section of M.O.P.S., the number of independent directors as of the end of the year, since 2002 when the regulation was implemented, can be searched; in this case, the data at the end of 2007 were used. The financial reports of listed companies can be searched through linking to the individual company’s website. Company code, company name, existence of independent directors, number of independent directors, number of board training hours, ROA, ROE, and EPS of the individual listed electronic company were collected from website information.

Board Training Hours (Independent Variable)

Board members of listed TSEC companies are advised by CGBP regulations to “participate in training courses”; hence, board training is supposed to be related to corporate governance, board effectiveness, and company performance. To measure board training, all of the board members’ training hours taken through certified training institutions and reported to TSEC were used in this study. On M.O.P.S. of TSEC, board members’ training hours are disclosed, posted,
and updated when board members take the certified training courses regarding corporate governance. By using the official database, the reliability and validity of the data were not examined.

**Financial Performance Indicators (Dependent Variables)**

In this study, to measure the dependent variable of company performance for the research question, return on total assets, return on equity, and earnings per share were selected.

\[
\text{ROA} = \frac{(\text{Net Income} + \text{Interest Expense} \times (1 - \text{Income Tax Rate}))}{\text{Average Total Assets}}
\]

\[
\text{ROE} = \frac{\text{Net Income}}{\text{Average Stockholders' Equity}}
\]

\[
\text{EPS} = \frac{(\text{Net Income} - \text{Preferred Dividends})}{\text{Weighted Average Number of Common Shares Outstanding}}
\]

According to TSEC Regulation Governing Information Reporting by Listed Companies (2005), each listed company is required to report its audit or review report prepared by a certified public accountant (CPA) and provide the name of the CPA. Therefore, by using the official database, the reliability and validity of the CPA audited data of ROA, ROE, and EPS on the listed company’s annual report were not examined, assuming that the CPA reports were accurate.

**Data Analysis**

To examine if there were relationships between board training hours and financial performance of the TSEC listed electronic companies in terms of ROA, ROE, and EPS, bivariate correlations were used for analysis. The significance level for the relationships was set at \( p < .05 \).

**RESULTS**

Of the 330 companies, P.O.F.C. company (Code 2496) was excluded due to the abnormal ROE (-939.58), which was unreasonably beyond the normal range between -1 and 100. As a result, 329 companies were tested. The descriptive statistics and Pearson correlations are shown as follows (Tables 1 and 2).

<table>
<thead>
<tr>
<th>Financial Measure</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>BTHS</td>
<td>75.04</td>
<td>135.91</td>
<td>329</td>
</tr>
<tr>
<td>ROA</td>
<td>8.80</td>
<td>10.70</td>
<td>329</td>
</tr>
<tr>
<td>ROE</td>
<td>11.68</td>
<td>19.42</td>
<td>329</td>
</tr>
<tr>
<td>EPS</td>
<td>3.15</td>
<td>4.72</td>
<td>329</td>
</tr>
</tbody>
</table>

BTHS: Board training hours  
ROA: Return on total assets  
ROE: Return on equity  
EPS: Earnings per share

<table>
<thead>
<tr>
<th>Financial Measure</th>
<th>ROA</th>
<th>ROE</th>
<th>EPS</th>
</tr>
</thead>
<tbody>
<tr>
<td>BTHS</td>
<td>0.06</td>
<td>0.08</td>
<td>0.02</td>
</tr>
<tr>
<td>ROA</td>
<td>.89(**)</td>
<td>.75(**)</td>
<td>.66(**)</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**

Board training hours and ROA, ROE, and EPS were not correlated at the 0.05 level. As a result, the research question was not supported by the correlation analysis.

**DISCUSSION**

Board members’ training is implemented in order to reinforce directors’ business capabilities, which should lead to an enhancement of board effectiveness and company performance. Using correlation analysis for the research question, the number of board training hours has no relationship with the company’s financial performance.
It is impossible to have an effective board without effective directors. There are three factors that determine whether a director is effective: 1) director independence, 2) director competences, and 3) director behavior (Leblanc & Gillies, 2003). Measures of director competencies include the directors’ general, functional, firm-specific, and board-specific knowledge and skills. Relational, social, and intellectual capacity or capability may also be included as competencies (Huse, 2005). With regard to director behavior, according to Sundaramurthy and Lewis (2003), the dynamism of actual board behavior and corporate governance is rooted in various learning and influencing loops (as cited in Huse, 2005). The learning processes take place at various levels: societal and institutional, organizational, group, and individual (Huse, 2005).

Additionally, the diversity and specialty of directors’ job requirements and recruiting sources are much different from those of common employees and managers; hence, they need to be trained for required competencies by creative thinking and arrangement. Hours of open lectures counted and posted on the website by the examined companies were apparently not sufficient to develop required competencies for the directors as this research illustrates.

Custom-made training programs that are well-designed to accommodate a company’s board training to its needs may be effective for the advanced study of directors. For example, different contents may be necessary for the service industry, the manufacturing industry, the finance industry, the high-tech industry, and the non-high-tech traditional industry. Diversified training methods using lectures, case studies, problem-solving processes, role plays of directors, and simulations of board meetings may all add value to the training that is offered and may more positively affect the behavior of the board members, contributing to improved financial performance of the company.

CONCLUSIONS

Board member training is implemented to reinforce directors’ business capability and, thereafter, to enhance board effectiveness and company performance. In this study, there were no significant relationships between board training hours and the company’s financial performance.

According to Leblanc and Gillies’ (2003) study of corporate governance through interviewing Respondents, including regulators, shareholders (both institutional and retail) and corporate directors, the vast majority overwhelmingly thought that there would be a relationship between corporate governance and the financial success of the corporation. Therefore, the missing link between corporate governance and company performance may be the board’s processes (referring to the board’s decision-making procedures) and effectiveness, rather than just board structure (Lablanc & Gillies, 2003).

Due to the increasing complexity and speed of the business model in the era of globalization, it is possible that most directors may not be able to fulfill their duties without continuous advanced study. Properly managed job-related diversity at the board level might also improve board effectiveness and the quality of board decision making (Ramirez, 2003). The chairs of nominating committees should select directors not on the basis of their external profiles and relationships to existing board members, but rather on the basis of competencies, behavioral characteristics, and their fit with the strategic direction of the firm. However, it is yet unknown, empirically, whether this selection process will make a difference in the financial performance of the company.

RECOMMENDATIONS FOR PRACTICE

Because board members’ backgrounds, recruiting sources, and job specifications are different from those of the company’s employees and management executives, effective training for them needs to be developed with those specific differences in mind. The general lecturing courses that are typical today may, in fact, be unnecessary and not helpful in developing the competencies of the board members. Rather, it may be necessary to develop customized programs that cover exactly what directors need for effective advanced study.

In the custom-made programs, special needs and problems of individual companies may be solved through the deliberate design of training content, for example, service industries and manufacturing industries, traditional industries and hi-tech industries, levels of internalization, and so on. The customized programs can also be designed on the basis
of varied training methods, such as role playing of the directors, simulation of board meetings, and case studies and problem solving of business ethics, and so on. Additionally, academic institutions, such as universities, colleges, and research centers, need to be encouraged to establish graduate studies of corporate governance for boards of directors.

**RECOMMENDATIONS FOR FUTURE RESEARCH**

The corporate governance literature has begun to examine closely the behavioral aspects and group processes that underlie board dynamics, but more studies regarding board processes are needed, particularly by using a qualitative method or a mixed method.

Effective board training needs to be explored in terms of the content of training programs, such as subject design, training methods, evaluation of training, and motivation of training. In particular, to meet the individual company’s requirement, custom-made training programs might be better than generalized courses, which were mostly adopted and reported by the companies examined in this study. Such programs need to be developed and then tested, using the design applied in this present study. In general, besides training hours, more measures examining the effectiveness of directors’ training are needed for advanced study.

To measure company performance in this study, only three financial indicators (ROA, ROE, and EPS) were used. There are other criteria that may be used for future study from financial dimensions, such as P/E ratios, market value of stocks, or corporate social responsibility index under the hybrid corporate governance system.

**REFERENCES**


