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Corporate Governance Mechanisms, Information Transparency, and Firm Performance: A Study of Taiwan's Listed Companies

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ABSTRACT

The focus on corporate governance in Asian economies intensified following major U.S. accounting scandals and the 2008 financial crisis. These events sparked a demand for stricter regulations and prompted regional governments to adopt best practice principles to discipline corporate behavior. While theoretical foundations are solid, the empirical relationship between corporate governance and firm performance remains a subject of significant debate. In light of Taiwan's increasing number of listed companies and the introduction of new governance frameworks, this research investigates the impact of corporate governance on the performance of public firms in Taiwan. The study finds that corporate governance significantly influences firm performance, though correlations across variables are not consistently positive. Furthermore, the analysis demonstrates that financial disclosure and transparency have a positive and significant effect on performance. These findings serve as a guide for investors and companies to assess critical governance elements and refine policy development.

KEYWORDS: **Corporate Governance, Firm Performance, Taiwan Listed Companies, Financial Disclosure and Transparency**

1. Introduction

Over the past few decades, a series of high-profile accounting scandals has shaken global markets, from U.S. cases like Enron, WorldCom, and Lehman Brothers to Asian firms such as Japan's Toshiba and China's Meierya. Alongside the 2008 financial crisis, these events are widely attributed to corporate misconduct, covert accounting practices, and insufficient governance regulations. These failures have seriously eroded investor trust, discouraged investment, and disrupted market stability. This pattern underscores how limited transparency and weak oversight mechanisms foster agency problems and moral hazard. As a result, organizations worldwide have made the implementation of robust internal controls and governance structures a core priority to enhance performance and prevent future scandals.

Corporate governance refers to the system of principles, laws, and procedures that shape how companies are managed and controlled, establishing a foundation for transparency and fairness between firms and their shareholders. It consists of both internal and external mechanisms that allocate responsibilities and mitigate conflicts of interest. International organizations such as the OECD and World Bank have recognized governance as a critical tool for addressing institutional crises. According to the OECD, corporate governance enables businesses to fulfill executive responsibilities while safeguarding the rights of shareholders and stakeholders. These global standards emphasize effective governance frameworks, equitable shareholder treatment, transparency, and board accountability to strengthen investor confidence. In Taiwan, the Financial Supervisory Commission (FSC) introduced the "Codes and Practices of Corporate Governance for Listed and OTC Companies" in 2003 to

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reinforce governance and elevate the international standing of the Taiwanese market.

The relationship between corporate governance and firm performance remains a subject of significant debate. While some scholars argue that well-governed firms are positively correlated with firm performance and shareholder wealth, others suggest that superior governance does not always lead to better results. However, it is generally believed that a well-governed company attracts more investors and balances ownership and control effectively. In contrast, poor governance can lead to bankruptcy and serious agency costs. Taiwan presents a unique case for study because its emerging market features distinguish it from Western economies like the U.S. and the UK. While Western firms typically have dispersed ownership, Taiwanese companies tend to have more concentrated ownership, often utilizing pyramids and cross-shareholdings. Since business practices vary across countries, it is crucial to investigate how these specific governance mechanisms influence firm performance in the Taiwanese context.

This study aims to discover which corporate governance factors substantially impact the performance of Taiwanese listed firms and determine the primary drivers of governance practices. The analysis examines 12,215 observations from the Taiwan Stock Exchange between 2006 and 2020. It focuses on the correlation between components such as board size, independent directors, CEO duality, ownership concentration, institutional shareholding, and performance measures, including ROA, ROE, and Tobin's Q. Furthermore, the paper explores the impact of financial disclosure and transparency variables on firm performance, utilizing a targeted sample of 5,947 observations from 2004 to 2012. Through this empirical analysis, the study seeks to address the challenges in Taiwanese corporate structures and provide a guide for investors and policymakers.

2. Theory and Hypothesis Development

Numerous theoretical frameworks, including agency theory, stewardship theory, the convergence-of-interest hypothesis, the entrenchment hypothesis, and the strategic alignment hypothesis, have evolved to address the fundamental challenges of corporate governance. For academic researchers and graduate students interested in corporate governance, this text provides an analysis of the relationship between shareholders and management in public companies. By implementing rigorous supervision and control mechanisms, firms appropriately allocate rights and responsibilities between these parties to enhance corporate value and protect shareholder interests. Building on these frameworks, this section outlines the essential constructs that underpin the empirical analysis and the hypotheses proposed in this study. The main content is as follows: the exploration of internal and external governance mechanisms, their operational definitions, and the expected relationships with firm performance based on prior research.

The evolution of corporate governance is intrinsically linked to the limited liability company structure, which consists of two primary parties: owners and executives. Generally, owners provide the necessary capital but do not participate in daily operational decision-making. To ensure continuity, owners delegate authority to executives and provide incentives to encourage the pursuit of long-term growth; this framework is built upon the foundational principle of the separation of ownership and management.

Agency theory posits that this separation can lead to opportunistic behavior. While managers are expected to maximize shareholder value, their personal goals may diverge, resulting in conflicts of interest. To mitigate these agency problems, firms may empower minority shareholders to monitor controlling interests or utilize contractual agreements to ensure executives act in the shareholders' favor. However, these mechanisms result in agency costs. Implementation is further complicated by the fact that many shareholders lack a comprehensive understanding of complex operations, making it difficult to evaluate executive decisions, while the costs of supervision may exceed the potential benefits to the shareholders.

In the specific context of Taiwan, scholars have identified several areas requiring improvement, such as corporate governance culture, board functionality, shareholder participation, and information disclosure. Consequently, it is vital for firms to integrate both internal and external governance mechanisms to resolve principal-agent conflicts and enhance productivity. This study focuses on internal mechanisms—including board size, independent directors, CEO duality, ownership concentration, and institutional shareholding—alongside external mechanisms, specifically financial disclosure and transparency.

2.1 Board Size and Firm Performance

The board of directors serves as a fundamental pillar of a company's internal corporate governance. Board size is widely considered a critical factor influencing organizational effectiveness and overall business value. It functions as a decisive element in the directors' capacity to supervise and control management. Acting on behalf of shareholders, the board is empowered to make strategic decisions aimed at maximizing shareholder interests.

The impact of board size on firm performance has been a subject of extensive academic debate with competing perspectives. Proponents of larger boards argue that a higher number of members provides a broader pool of professional skills and specialized knowledge. Such boards can facilitate efficient work allocation, rapid information acquisition, and the generation of innovative ideas, ultimately enhancing the effectiveness of corporate supervision.

However, according to agency theory, an excessive number of directors can diminish the efficacy of the communication and monitoring process. Large boards frequently encounter a fragmentation of opinions, which often results in decision-making delays. Empirical evidence from the U.S., the U.K., and Malaysia supports the view that board size is negatively associated with firm performance. Research suggests that a board size of ten or fewer is often the most appropriate for providing effective supervision and increasing internal productivity. Smaller boards are generally easier to manage and control, potentially improving performance by reducing the frequency of operational errors. In contrast, while larger boards may ensure a diversity of resources, they are prone to significant communication challenges and weakened group cohesion.

Given that an oversized board often leads to coordination failures and reduced efficiency, this study anticipates a detrimental effect on firm outcomes. Therefore, the first hypothesis is proposed as follows:

H1: There is a negative relationship between board size and firm performance.

2.2 Independent Directors and Firm Performance

The impact of independent directors on corporate performance is a subject of ongoing academic investigation, though empirical results have occasionally been inconsistent. From the perspective of agency theory, director independence is considered crucial for

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resolving conflicts of interest that emerge between agents and principals. While all directors, whether executive or non-executive, share equal legal responsibility for the board's functions, the specific system of independent directors is explicitly designed to enhance the quality of corporate governance.

In the context of Asian economies, the prevalence of family-owned businesses often results in boards being controlled by a single family group. This concentration of power can lead to decisions that prioritize family interests over those of other stakeholders, creating significant agency conflicts and governance imbalances. Independent directors mitigate these risks by providing external expertise and an objective perspective, which are essential for overseeing complex operations and protecting the interests of minority shareholders.

Extensive empirical research supports the view that a higher representation of independent directors has a beneficial influence on firm performance. By successfully monitoring corporate decisions and defending shareholder rights, independent directors serve to increase overall firm value. Although a minority of studies have found negligible or even negative impacts, the prevailing theoretical consensus emphasizes their role as a vital defense against managerial entrenchment.

Given that independent directors are expected to improve oversight and operational results, this study proposes the following hypothesis:

H2: There is a positive relationship between the presence of independent directors and firm performance.

2.3 CEO Duality and Firm Performance

The chairman of the board and the chief executive officer (CEO) constitute the board's leadership structure and play pivotal roles in corporate governance. Together, they determine business targets and strategic tactics that fundamentally impact a firm's future performance and profitability. CEO duality describes the circumstance in which a single individual serves concurrently as both the CEO and the Chairman of the board of directors.

The impact of this structure is a subject of ongoing theoretical debate. According to Agency theory, CEO duality has a detrimental influence because it enables the CEO to pursue private interests while compromising the board's supervisory authority, potentially worsening firm performance. For instance, when a CEO sits on the board that determines executive pay, they can influence their own remuneration, creating a clear conflict of interest. Furthermore, a dual role makes impartial supervision difficult, as it is challenging for an individual to monitor themselves, thereby reducing overall monitoring effectiveness. Consequently, separating these positions is often recommended to limit executive authority and strengthen the board's supervisory capacity.

Conversely, stewardship theory suggests that managers act as the best stewards of the companies they manage. Proponents of duality argue that this structure improves the efficacy of communication between the CEO and executives and facilitates faster decision-making. It may also mitigate certain agency costs by ensuring the CEO's interests are perfectly aligned with those of the Chairman.

Empirical research on CEO duality and performance has yielded mixed results, with studies finding positive, negative, or no significant relationship depending on the performance proxies used. However, given the potential for reduced independence and weakened oversight in a dual-leadership structure, this study anticipates that such a concentration of power will negatively affect firm outcomes. Therefore, the following hypothesis is proposed:

H3: There is a significantly negative relationship between CEO duality and firm performance.

2.4 Ownership Concentration and Firm Performance

Corporate governance in Asian economies is characterized by unique structural challenges, most notably a high concentration of ownership. Unlike the dispersed ownership structures typical of American and British firms, enterprises in many Asian countries—particularly in Taiwan—are frequently dominated by a single family or a small group of majority shareholders. This distinct landscape has led to a robust academic debate regarding how such concentration fundamentally affects corporate performance and market valuation.

Theoretical perspectives on ownership concentration are divided between two primary schools of thought. Proponents of high concentration, such as Shleifer and Vishny (1997), argue that a high degree of ownership can actually assist businesses in performing better and rising in value by providing major shareholders with a strong incentive to monitor management effectively. Similarly, Joh (2003) found that ownership concentration had a positive effect on the accounting performance of listed companies in Korea.

Conversely, some evidence suggests that highly dominant family-controlled firms may exhibit lower financial performance compared to those with less concentrated structures. This is often attributed to the "second-type" of agency problem, where majority owners and top managers may collude to fulfill their private interests at the expense of minority shareholders.

However, within the specific institutional environment of Taiwan, the concentration of ownership is considered an essential indicator of share distribution stability and long-term performance. Given that major shareholders in Taiwan are often deeply involved in operations and have a vested interest in the firm's growth, this study anticipates that higher ownership concentration will align interests and enhance corporate outcomes. Therefore, the following hypothesis is proposed:

H4: There is a significantly positive relationship between ownership concentration and firm performance.

2.5 Institutional Shareholding and Firm Performance

Shareholder activism has emerged as a critical mechanism where external shareholders actively participate in corporate decision-making to maximize their interests. This perspective is consistent with the "efficient monitoring hypothesis," which posits that institutional investors possess greater professionalism and expertise compared to minority shareholders. Consequently, these institutions have a stronger motivation to supervise management, particularly when their shareholding levels are significant.

In the context of Asian economies, where companies often face high capital demands, institutional investors play a vital role in providing necessary funding for survival. Their substantial financial stakes create a powerful incentive to monitor managerial behavior closely to ensure higher returns on investment. Such effective supervision can improve decision-making efficiency, reduce asymmetric information between agents and shareholders, and ultimately enhance the overall value and governance quality of the firm.

While some empirical studies have noted mixed results—such as varying impacts between foreign and domestic institutional ownership in markets like India or China—the prevailing view suggests that as the shareholding ratio of these investors increases, so

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does their authority to influence business development directly. Therefore, institutional shareholding is viewed as a strategic tool for enhancing corporate governance and driving firm performance.

Given that institutional investors provide both capital and professional oversight, this study proposes the following hypothesis:

H5: The shareholding ratio of institutional investors has a significantly positive relationship with firm performance.

2.6 Financial Disclosure, Transparency, and Firm Performance

Financial accounting information serves as the primary output of corporate accounting and external reporting systems, designed to provide market participants and regulators with essential data regarding a company's financial status. By employing professional auditors to offer objective opinions and adequately disclose accounting information to investors and the public, firms establish an effective and transparent channel for communicating their economic situation. Conversely, unsatisfactory disclosure quality can impede investor decision-making and lead to significant evaluation inaccuracies.

While developed economies in the West and Central Europe have prioritized transparency as a core task of corporate governance, listed companies in Asian markets have historically exhibited inferior disclosure and transparency systems. Establishing high transparency provides distinct benefits: it enhances investor knowledge and increases the willingness to invest, which in turn boosts stock value and improves business performance. However, disclosure also involves direct financial costs; companies facing financial distress or limited resources may find it challenging to invest in high-quality information release.

Empirical research supports the value of transparency; for instance, voluntary disclosure has been found to be positively associated with firm value. Furthermore, accurate and transparent disclosure is recognized as a fundamental principle that helps companies operate more efficiently by ensuring that share prices truly reflect intrinsic value. Given that increased transparency reduces information asymmetry and enhances investor confidence, this study anticipates a positive impact on corporate outcomes.

Therefore, the following hypothesis is proposed:

H6: Financial disclosure and transparency have a significantly positive relationship with firm performance.

3. Data and Methodology

Corporate governance is fundamentally designed to protect the interests of stakeholders, and a robust framework is essential to achieving this objective. In pursuit of these standards, Taiwan established the Corporate Reform Task Team and introduced the Policy Statement and Action Plan for Strengthening Corporate Governance in 2003. This initiative launched a series of regulatory amendments, including the adoption of the Company Law in 2005, the passage of the Securities and Exchange Act in 2006, and the issuance of the Corporate Social Responsibility Code in 2010. Through these continuous reforms, Taiwan has sought to facilitate a superior environment for corporate management and strengthen governance guidelines.

3.1 Sample Selection and Data Source

This research investigates listed companies in Taiwan, focusing on annual data spanning the period from 2006 to 2020. All relevant data were collected from the Taiwan Economic Journal (TEJ). To ensure the integrity and comparability of the dataset, the following sampling criteria were applied:

1. Industry Exclusions: Companies within the financial, insurance, trust, and securities sectors were excluded because their financial structures differ significantly from traditional industries.

2. Data Integrity: Samples that were delisted during the study period or those with incomplete financial information regarding key governance variables were removed from the study.

3.2 Research model

While a considerable body of literature has examined the development of corporate performance across various international contexts, empirical research specifically focused on Taiwan remains relatively scarce. Given that Taiwan possesses unique corporate governance characteristics and institutional structures, this study aims to further investigate and understand the impact of specific governance components on business performance within this distinct market.

In this study, firm performance is measured by three key indicators: Return on Assets (*ROA*), Return on Equity (*ROE*), and Tobin's Q. The primary independent variables represent core corporate governance mechanisms, including board size, the number of independent directors, CEO duality, ownership concentration, and institutional shareholding ratio. Furthermore, a variable for financial disclosure and transparency is introduced to explore its incremental impact on performance results.

This study develops two regression models, model 1 discusses the relationship between board size *(BS)*, independent directors *(indep)*, CEO duality *(dual)*, ownership concentration *(topshare)*, institutional shareholding *(institut)*, and operating performance (*ROA*, *ROE*, and Tobin's Q), and model 2 incorporates variables for financial disclosure and transparency *(trust)* and explores the changes in significance and correlation between the variables.

3.3 Dependent variables

Operating performance in academic research is typically analyzed using various financial indicators, including ROA, ROE, EPS, and Tobin's Q. Previous literature demonstrates diverse methodologies; for instance, Elsayed (2007) utilized ROA as a primary operating performance indicator, while Chueh et al. (2014) employed ROA, net income (*NI*), and EPS as financial performance indexes to examine correlations with corporate governance components.

In this study, firm performance (*Per*) is represented by three distinct measures: Return on Assets (*ROA*), Return on Equity (*ROE*), and Tobin's Q. The definitions for these metrics are as follows:

1. Return on Equity (ROE) is calculated as ROE = (Net Income / Average Shareholders' Equity) x 100%. This serves as an essential indicator of the rate of return a company earns for its shareholders and is viewed as a key benchmark for long-term investment.

2. Return on Assets (ROA) is calculated as ROA = (EBIT / Total Assets) x 100%. This ratio helps managers and investors evaluate the efficiency of a company's management in generating revenue from its assets.

3. Tobin's Q Ratio (TobinsQ) is calculated as Tobin's Q = Equity Market Value / Equity Book Value. This ratio measures the relationship between a company's market valuation and its intrinsic value or replacement cost.

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3.4 Independent Variables

3.4.1 Board Size (BS)

Smaller board sizes are often associated with less diverse backgrounds, which may facilitate more effective management, monitoring, and expedited decision-making. This streamlined structure can enhance the reliability of a company's earnings expectations while improving effective communication and organizational coherence. Jensen (1993) argues that as board size increases, "free-riding" problems may emerge, severely reducing monitoring effectiveness and prolonging the decision-making process. Similarly, Hermalin and Weisbach (2003) suggest that a larger number of board members can diminish the effectiveness of business performance. In this study, board size is measured as the sum of directors and supervisors, including the chairman, vice chairman, managing directors, and general directors.

3.4.2 Independent Directors (Indep)

It is widely accepted that a board of directors should consist of individuals possessing specific characteristics and key capabilities, including a strong sense of responsibility, awareness of the corporate mission, and the ability to address complex issues. Independent directors play a vital role in maintaining corporate goodwill, enhancing board independence, and supervising managers to ensure transparent financial disclosure. Research by Bhagat and Black (1999) found that among 957 of the largest listed companies in the U.S., half maintained independent boards. Such independence is considered essential for the normal operation of the board; therefore, this study utilizes the number of independent directors as a primary governance variable.

3.4.3 CEO Duality (dual)

CEO duality refers to a leadership structure where the CEO concurrently serves as the Chairman of the board. While this combined role can improve communication efficacy and accelerate decision-making, critics argue it prevents impartial self-monitoring and reduces board independence. Brickley, Coles, and Jarrell (1997) note that there is no universal consensus on the superior leadership style, as both duality and separation offer distinct advantages and disadvantages. Firms often adopt the style most beneficial to their specific business nature; for instance, Dey, Engel, and Liu (2009) suggest that firms requiring higher information sharing may correlate positively with duality, whereas it may negatively correlate with the level of agency costs. This study measures duality as a dummy variable, assigned a value of 1 if the CEO is also the Chairman, and 0 otherwise.

3.4.4 Ownership Concentration (topshare)

Concentrated ownership and cross-shareholdings are prevalent features of Taiwanese corporate structures. Family shareholding is particularly common in Asian markets; according to a survey by Ernst & Young, families control nearly 85% of enterprises in Asia, representing 33% of the total market value. In Taiwan, the majority of family-owned enterprises are managed by majority shareholders who hold controlling stakes. Research by La Porta (1998) across 49 countries indicates that controlling shareholders are often concentrated within families, with an average ownership of 46% held by the three largest shareholders. Furthermore, approximately 76% of Taiwanese firms are controlled by a single family. Consequently, ownership concentration is a vital indicator of stability and performance and is measured here by the percentage of shares held by top shareholders.

3.4.5 Institutional Shareholding Ratio (Institut)

Governments worldwide have recently advocated for shareholder activism to expand the rights of institutional investors. Unlike dispersed individual investors, institutional investors typically hold substantial capital, providing them with greater power and incentive to oversee management and protect shareholder interests. Their concentrated voting power enables more active performance monitoring. Moreover, institutional investors are often viewed as more professional than minority shareholders, offering greater expertise and access to information. In many Asian contexts, these legal investors are essential for providing the capital necessary for firm survival. This paper evaluates institutional shareholding based on the percentage of shares controlled by institutional entities.

3.4.6 Financial Disclosure and Transparency (trust)

Comprehensive financial statements, including income statements, cash flow statements, and balance sheets, serve as the basis for company-specific information required by investors and regulators. Adequate and fair disclosure is the only way for investors to accurately judge performance and avoid biased decisions. This study utilizes the Taiwan Securities and Futures Commission's Information Transparency Assessment System (ITAS) as a benchmark. ITAS ratings are converted into a seven-level numerical model for this research: A++ (7), A+ (6), A (5), A- (4), B (3), C (2), and C- (1).

3.4.7 Firm Size (LnTA)

LnTA is defined as the natural logarithm of total assets. Extensive literature suggests that firm size has a positive impact on financial performance. Empirical evidence indicates that larger firms often experience less information asymmetry and lower costs of capital. Furthermore, as firm size increases, greater opportunities for business growth typically lead to an increased need for working capital. Therefore, firm size is included as an essential control factor that may significantly affect corporate performance.

4. Empirical Results

4.1 Descriptive Statistics

Table 1 presents the descriptive statistics for the variables utilized in the regression analysis. Preliminary examination of the database revealed that the maximum and minimum values for Return on Assets (ROA) and Return on Equity (ROE) exhibited dramatic disparities. To mitigate the influence of extreme outliers and ensure the robustness of the results, both variables were winsorized at the 1st and 99th percentiles.

The analysis of dependent variables indicates that the average ROE is 7.156%, while the median stands at 7.76%, suggesting that a significant portion of the sampled firms performed above the mean. The wide range of ROE, from a minimum of -53.74% to a maximum of 41.9%, underscores the substantial impact of individual firm operating performance on shareholder returns. Similarly, ROA displays a notable spread between its minimum (-13.71%) and maximum (33.52%) values. In contrast, Tobin's Q exhibits the least variance among the performance proxies, with a mean of 1.152 and a range between 0.03 and 25.55.

Regarding the independent variables, the mean value for CEO duality is 0.454 with a median of 0, indicating that approximately 45% of the sampled firms feature a director who concurrently serves as the Chairman. Ownership concentration (topshare) averages 22.428%; however, the range from 0% to 96.56% demonstrates that shareholding distribution varies significantly across the market, with over-concentration being a pronounced characteristic in certain

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enterprises. A similar pattern of extreme variation is observed in institutional shareholding, which averages 3.492% but spans from 0% to nearly 100%. Conversely, other governance and control variables, such as board size (mean =9.392), independent directors (mean = 1.743), and firm size (mean = 15.921), exhibit more stable distributions without significant statistical biases.

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Median	Min	Max
BS	12215	9.392	2.436	9	2	31
indep	12215	1.743	1.352	2	0	6
dual	12215	0.454	0.498	0	0	1
topshare	12215	22.428	12.839	20.15	0	96.56
institut	12215	3.492	6.807	0.62	0	99.71
ROA	12215	9.392	8.241	8.66	-13.71	33.52
ROE	12215	7.156	14.111	7.76	-53.74	41.9
TobinsQ	12215	1.152	0.927	0.9	0.03	25.55
LnTA	12215	15.921	1.417	15.73	9.757	22.025

4.2 Correlation Analysis

Statistical analysis reveals that the strongest relationship within the dataset occurs between the two accounting-based performance measures, ROA and ROE, which share a correlation coefficient of 0.808. However, since all coefficients in the matrix remain below the unity threshold, the results indicate that the intercorrelations between variables are not excessively high, suggesting that the constructs maintain a sufficient degree of independence.

4.3 OLS Regression Results for Model 1

The baseline analysis for this study is conducted using the Ordinary Least Squares (OLS) estimation method, a standard approach in corporate governance literature. As presented in Table 2, the results for Model 1 indicate that the F-statistics for all performance measures are statistically significant at the 1% level ($p < 0.001$), confirming that the collective set of independent variables possesses reliable explanatory power for firm performance. Regarding the goodness of fit, the R2 values indicate that the model accounts for approximately 4.74%, 4.20%, and 5.94% of the variance in ROA, ROE, and Tobin's Q, respectively. While these values are relatively low, they are consistent with empirical findings in cross-sectional studies of corporate governance where idiosyncratic firm factors often contribute significantly to performance volatility.

The results in Column 1 examine the determinants of Return on Assets (ROA). The coefficients for independent directors (indep), institutional shareholding (institut), and firm size (LnTA) are positive and statistically significant at the 5% level, suggesting that enhanced external monitoring and larger firm scale contribute to higher asset efficiency. Conversely, CEO duality (dual) exhibits a significant negative relationship with ROA, providing empirical support for agency theory's contention that concentrated leadership may hinder operational performance. Notably, while the coefficients for board size (BS) and ownership concentration (topshare) are positive, they fail to reach statistical significance, indicating a less definitive impact on ROA within this specific model.

In Column 2, the regression analysis for Return on Equity (ROE) reveals a similar pattern. Independent directors, ownership concentration, institutional shareholding, and firm size all demonstrate positive and significant associations with ROE. Consistent with the findings for ROA, CEO duality remains a significant negative predictor of performance (beta = -2.422, $p < 0.05$). This suggests that reducing the dual role of the CEO is associated with an increase in shareholder returns. Board size again appears insignificant in explaining variations in ROE, further suggesting that the mere number of directors may be less critical than the board's composition and independence.

Finally, Column 3 details the results for Tobin's Q, representing the market-based valuation of the firm. The findings illustrate that board size, independent directors, ownership concentration, and institutional shareholding all maintain a significant positive relationship with market value. Interestingly, while CEO duality continues to exert a negative influence, its effect on Tobin's Q is not statistically significant. Furthermore, firm size demonstrates a significant negative impact on Tobin's Q, which may reflect the market's tendency to assign higher growth premiums to smaller, more agile firms compared to their larger counterparts. Taken together, the empirical evidence from Model 1 underscores that independent directors, institutional shareholding, and firm size are the most robust drivers of operating performance and market valuation in Taiwanese listed companies.

Table 2: OLS regression results for model 1

	(1) *ROA*	(2) *ROE*	(3) *TobinsQ*
BS	0.037 (1.155)	0.007 (0.132)	0.011*** (2.984)
indep	1.148*** (16.329)	1.254*** (10.383)	0.097*** (12.386)
dual	-1.878*** (-9.780)	-2.422*** (-7.345)	-0.008 (-0.389)
topshare	0.008 (1.381)	0.055*** (5.572)	0.004*** (6.447)
institut	0.140*** (12.206)	0.125*** (6.369)	0.014*** (10.627)
LnTA	0.401*** (7.191)	1.475*** (15.392)	-0.134*** (-21.570)
cons	0.845 (0.949)	-19.153*** (-12.535)	2.887*** (29.034)
N	12215	12215	12215
F-test	101.17	89.16	128.6
Prob>F	0	0	0
R^2	0.0474	0.042	0.0594

Source from: Complied by this study (*t* statistics in parentheses * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$)

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4.4 OLS Regression Results for Model 2

This paper then added another variable – the financial disclosure and transparency (trust) to set up a second regression model (Table 3) and examine the changes between the two regression models. The information disclosure evaluation system started in 2003 and has experienced several changes during the period between 2003 and 2004; only the companies with more transparent information disclosure were announced. From 2005, the evaluation systems were divided into 5 grades, which are A+, A, B, C, C-, and the list of "companies with more voluntary transparent information disclosure" was reported; and the list of companies with improved evaluation results was released in the following year. Since 2011, the A++ grade has been added, and the list of "companies with more voluntarily transparent information disclosure" has no longer been released. Moreover, the list of improved companies was not announced in 2012. Therefore, the yearly data of financial disclosure and transparency are also collected from the Taiwan Economic Journal (TEJ), but for the reasons mentioned above, the data can only be collected between 2004 and 2012. Therefore, this study eliminates some missing values, and this paper collects the yearly data of financial disclosure and transparency from 2006 to 2012, finally ending up with 5,947 observations.

Turning to the OLS regression outcome for model 2 (Table 3), the financial disclosure and transparency (trust) are added to the model. The evidence shows that the p-value associated with the F value (prob>F) is 0, which means that the group of independent variables can be used to reliably explain the firm performance results. In this case, the R-squared is 7.5%, 5.31%, 6.55% for ROA, ROE, and Tobin's Q, respectively. This reveals that approximately six percent of the variance can be explained by independent variables. In addition, column (1) in Table 3 explains the relationship between corporate governance variables and ROA. It can be seen that the number of independent directors (indep), ownership concentration (topshare), institutional shareholding (institut), the financial disclosure and transparency (trust), and firm size (LnTA) have a noticeably positive relationship with ROA. Therefore, the null hypothesis (H0) can be rejected. However, the problem of CEO duality (dual) has a considerably negative (β=-1.425) effect on ROA. Thus, we have to accept the null hypothesis (H0) and cannot reject the alternative one (Ha). Finally, it is apparent from the table that board size (BS) is negatively and insignificantly related to ROA. Turning to column (2) in Table 3, we continue to explore the changes to ROE from the inclusion of the financial disclosure and transparency variable. Similarly, the number of independent directors (indep),ownership concentration(topshare), institutional shareholding (institut), the financial disclosure and transparency (trust), and firm size (Lnsize) have a considerable impact on ROE. Moreover, CEO duality (dual) has the same result compared to model 1 OLS regression. It can be noted that CEO duality (dual) still has a negative and remarkable (β=-2.493) association with ROE. The board size (BS) also shows no significant and negative connection with ROE. The last column in Table 3 displays that almost all variables, such as the number of independent directors (indep), CEO duality (dual), ownership concentration (topshare), institutional shareholding (institut), and the financial disclosure and transparency (trust), are all notable and positively correlated to Tobin's Q. However, when we include the financial disclosure and transparency (trust) variable, in this case, the effect of board size (BS) is positive but insignificant. Besides, the correlation between firm size (Lnsize) and Tobin's Q is still negative and substantial (β =-0.086). It is concluded that the number of independent directors (indep), CEO duality (dual), ownership concentration (topshare), institutional shareholding (institut), the financial disclosure and transparency (trust), and firm size (LnTA) always have a stronger influence on business performance.

Table 3: OLS regression results for model 2

	(1) *ROA*	(2) *ROE*	(3) *TobinsQ*
BS	-0.030 (-0.744)	-0.104* (-1.657)	0.005 (1.415)
indep	1.397*** (14.755)	1.451*** (9.936)	0.081*** (9.157)
dual	-1.425*** (-4.909)	-2.493*** (-5.566)	0.054** (2.007)
topshare	0.025*** (2.872)	0.088*** (6.575)	0.005*** (6.171)
institut	0.150*** (8.972)	0.178*** (6.932)	0.013*** (8.221)
trust	0.503*** (5.661)	0.577*** (4.209)	0.031*** (3.712)
LnTA	0.200** (2.507)	0.826*** (6.700)	-0.086*** (-11.510)
cons	2.992** (2.424)	-9.543*** (-5.010)	2.067*** (17.900)
N	5947	5947	5947
F-test	68.81	47.54	59.51
Prob>F	0	0	0
R^2	0.0750	0.0531	0.0655
Adj R^2	0.0739	0.0519	0.0644

Source from: Complied by this study (*t* statistics in parentheses * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$)

5. Conclusion

Corporate governance serves as a fundamental cornerstone for institutional stability, providing a robust mechanism to align the interests of management with those of stakeholders while mitigating the risks associated with information asymmetry. In the long term, insufficient governance leads to market disorder and diminished investor confidence, manifesting in depressed valuations and capital flight. This study investigates the impact of both internal and external governance mechanisms on the performance of listed companies in Taiwan, utilizing a dual-regression framework to analyze 12,215 observations spanning from 2006 to 2020. By introducing a secondary model that incorporates financial disclosure and transparency variables (trust), this research provides a comprehensive assessment of how information quality modulates the relationship between traditional governance indicators and corporate outcomes.

The empirical findings from Model 1 demonstrate that independent directors, institutional shareholding, and firm size exert a statistically significant and positive influence on ROA and ROE. Conversely, CEO duality consistently presents a negative correlation with profitability, supporting the agency theory perspective that a

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concentration of power at the executive level can hinder supervisory efficacy. When the external transparency variable is introduced in Model 2, the importance of financial disclosure becomes evident, showing a significant positive association with firm performance. Interestingly, the inclusion of transparency reinforces the significance of independent directors as the most robust and stable predictor of corporate success across all performance metrics. While market-based performance, measured via Tobin's Q, is enhanced by board size and ownership concentration, the analysis ultimately suggests that a governance configuration characterized by the separation of leadership roles, enhanced board independence, and high institutional involvement leads to superior economic value.

Despite the significant insights provided by this research, corporate governance in Taiwan continues to face evolving challenges that necessitate ongoing regulatory reform. The establishment of audit committees and the further strengthening of internal control systems remain vital for the continued development of the Taiwanese capital market. From a policy perspective, the collaboration between governmental bodies and corporations is essential to fostering a culture of transparency that transcends mere compliance. This study suggests that firms should prioritize the recruitment of independent directors and encourage institutional investment to improve market valuations. Furthermore, the findings indicate that reducing ownership-management conflicts through structured disclosure can effectively stabilize a firm's financial trajectory.

Moving forward, this field offers numerous avenues for further inquiry. While this study focuses on primary governance indicators, future research could explore the influence of director and supervisor share pledges, executive compensation structures, and the frequency of audit committee meetings. Moreover, the transition from accounting-based performance to market volatility or stock price movements could provide a broader perspective on governance efficacy. In light of the unprecedented disruptions caused by the COVID-19 pandemic, future investigations should also consider the resilience of governance structures during global crises. Specifically, industry-specific analyses within the technology, aviation, and manufacturing sectors would be instrumental in understanding how governance helps firms navigate supply chain shifts and changing consumer behaviors. By expanding the scope of governance variables and accounting for macroeconomic shocks, subsequent studies can continue to refine the understanding of how best practice principles sustain long-term corporate growth.

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