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Abstract
In Taiwan, the companies that attempt to apply for initial public offering have been demanded to set up the independent directors and independent supervisors since 2002. The existing listed companies have also been demanded to meet the same regulation from 2007. However, no any papers as far as we know have ever analyzed the pros and cons of the new policy in detail. Thus, we use the ordinary least square method to investigate the impact of setting up the independent directors and supervisors on corporate governance and corporate performance. The samples in this study consist of the listed companies in Taiwan stock exchange and OTC market. The empirical results show that the system of the independent directors and supervisors can significantly enhance corporate governance score. The influence of the independent directors is even stronger than that of the independent supervisors on governance. In addition, setting up independent directors and supervisors bring out benefits on market performance and accounting performance, particularly on return on equity (ROE). On the other hand, the setting of audit committee has significantly negative effect on the corporate governance and corporate performance of the listed companies while significantly positive effect on the OTC companies. This study also finds that the longer the tenure of the independent directors is, the more effective the corporate governance is; however, it could impair the corporate performance. Also, there is a negative correlation between the share ratio of the independent directors and the corporate governance. The higher the educational level of independent directors and supervisors in the listed and the OTC companies, the better corporate governance and performance of the company. Longer tenure of the independent directors is helpful to enhance the market return for the OTC companies,, while it is reverse for the listed companies. Furthermore, the influence of the number of the independent directors and supervisors for the listed companies is less significant than the OTC companies. For the professional background , it helps improve corporate performance of the listed companies to hire the independent directors and supervisors with professional knowledge related to finance, accounting and law.
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