The Role of Capital Markets and the Reform of Corporate Governance in Taiwan — for Transformation to Knowledge-based Economies

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The Role Played by Different Sources of Capital in Knowledge-Based Economy (KBE)

- **Venture Capital (VC)**
  Positive relation with long-term performance of venture enterprise

- **Stock Investment**
  depends on short-term volatility of stock market
The goal of VC is more consistent with that of venture enterprise

V.S.

The goal of stock investor (or banker) is less consistent with that of venture enterprise
• Evaluation of enterprise performance:
  (1) VC: close interaction
  (2) fund manager: financial statements
  (3) bank:  —  asymmetric information
    —  hard to audit profitability and risk
    —  short of incentive to provide value-added services (::* fixed interest revenue)
• VC has advantages in
  (1) Integrating all kinds of resources
  (2) Value-adding and raising productivity
  (3) Effectively auditing the enterprise (corporate governance):

    a. — terminate reinvestment
    — segmented investment
b. Using variety of innovative financial tools to unite the benefits of VC and enterprise e.g., convertible preferred stocks, venture lease, mezzanine financing, leveraged buyout, etc.

c. VC has the performance pressure to raise funds in the future
Some Other Fund Raising Channels for KBE

- Taiwan Technology Marketplace (TWTM)
- Angel club (enterprise in related field or individual investor from related industry) greatest support in the early enterprise stage
• China Hi-tech Property Exchange
• Increasing role of
  ECB
  GDR, ADR, TDR,…

(notice: future impact incurred by volatility of USD)
Reform of Corporate Governance (CG) in Taiwan

• Started since early 1980s ———
  for the transformation from traditional labor-intensive industries to high-tech
  :: high-tech companies need to share ownership with scientists, engineers, and managers
  :: trend towards separation of ownership and control
• Enhanced after the Asian Crises in 1997 and accession to the WTO

• Greater transparency of CG is needed for enterprises to control risk.

• SFI, TSE, and TAISDAQ introduced the system of independent directors and independent supervisors (Code of Best Practice)
• Legal basis of CG in Taiwan

(1) Company Law

— protect present and future shareholders and creditors

(2) Securities and Exchange Law

— enhance the regulation of disclosure and transparency toward listed companies