

Comprehensive Disclosure of Compensation and Firm Value: The Case of Policy Reforms in an Emerging Market

Her-Jiun Sheu, Huimin Chung, Chih-Liang Liu ✉

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Abstract

Abstract: We set out in the present study to examine the market value of comprehensive disclosure of information relating to the compensation paid to directors and executives. Under the theory of self selection, firms with higher levels of board independence will tend to provide comprehensive disclosure of compensation, thereby leading to lower agency conflicts. Since the authorities in Taiwan chose to adopt a policy of gradual enforcement of compensation disclosure, firms are provided with discretion with regard to any greater levels of transparency that they may choose to provide. We therefore exploit this unique natural experimental setting to examine the effects of compensation disclosure on market value. The evidence indicates that the market provides a higher valuation only to those firms which elect to voluntarily disclose comprehensive information on their compensation practices. However, we also find that even where such disclosure is in excess of the minimum mandatory requirements, lower levels of transparency in the overall disclosure of compensation practices are of very little help with regard to the creation of market value.

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