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**Usefulness of Integrated Reporting Concepts to
Investment Decision-making:
Empirical Evidence from Taiwan**

A thesis

submitted in partial fulfilment

of the requirements for the degree

of

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by

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ABSTRACT

The purpose of this thesis is to extend the knowledge and understanding of integrated reporting and investment decision-making processes, particularly from a non-Western perspective. A review of extant literature identified a dearth of research on integrated reporting and the investment processes of investors in Taiwan. This study contributes to knowledge by providing a greater insight into the usefulness of integrated reporting concepts to Taiwanese investors.

This empirical study is exploratory in nature and adopts an interpretivist methodology approach. Pilot tests were conducted prior to the semi-structured interviews with 16 Taiwanese investors. The research sample reflects a wide range of investment specialities and focuses. The data collected were transcribed, open coded and explored in NVivo, and analysed manually for a deeper understanding of the data and to identify themes. Although the sample is small and diverse, participants are often found to have similar perspectives on investment decision-making and integrated reporting.

The research findings suggest disclosures prepared in accordance with integrated reporting concepts are unlikely to become an essential source of information for Taiwanese investors at present and the near future. None of the participants were aware of integrated reporting or any of its associated developments. The values of Taiwanese investors appear to differ from the values of Western societies, resulting in less demand for non-financial disclosures in Taiwan. Taiwanese investors are primarily focused on financial information and financial value creation. Participants expressed concerns about the practicability and reliability of integrated reporting, but remain welcoming of the idea as it may enhance corporate transparency and provide new information to use in the evaluation of investment targets. However, Taiwanese investors often seek information that is already known, but undisclosed, by corporations. Integrated reporting may generate information that is not directly relevant to investment decision-making. Furthermore, many factors that influence Taiwanese investors are unable to be conveyed through corporate disclosures. Participants also prefer to obtain information from third party sources and direct communication with corporate management over corporate non-financial disclosures.

NOTE TO READERS

This thesis refers to ‘integrated reporting’ as a process that results in integrated reports prepared in accordance with the International Integrated Reporting Framework. Multinational corporations from around the globe have joined the Integrated Reporting Pilot Programme, putting into practice ideas from the Framework (IIRC, 2013b). In Asia, corporations in China, India, Japan, South Korea, Singapore, and Sri Lanka have joined the pilot programme, but there are no Taiwan businesses on the participant list. Although integrated reporting is meant to be a global phenomenon, initial interactions with participants suggest Taiwanese investors are unfamiliar with integrated reporting. This was troublesome for a research set out to investigate the usefulness of integrated reporting. To adapt to circumstances, the researcher first sought to understand investors’ investment decision-making processes, and then ask for their views on integrated reporting. This thesis therefore infers the usefulness of integrated reporting concepts from Taiwanese investors’ current decision-making processes.

While the data collected were being analysed, news emerged suggesting the idea of integrated reporting was present in Taiwan during the data collection period. Despite no official involvement in the pilot programme, FarEasTone (2015), a large Taiwan corporation, announced in June 2015 its release of the first integrated report in Taiwan. This news was unexpected given that participants were ignorant of integrated reporting. The idea of integrated reporting was not widely spread in Taiwan, and this may further suggest a lack of importance of integrated reporting to Taiwanese investors.

A glossary of terms is located at page xii. Readers are invited to refer to the glossary if they encounter unfamiliar investment-related terms. The information contained in Appendices A and G may be used to enhance readers’ understanding of integrated reporting and the research findings. Appendix A provides information about integrated thinking. Although integrated thinking is a core component of integrated reporting, it is not detailed in the main text as the concept is more relevant to the process of preparing integrated reports rather than investors’ investment decision-making. Appendix G lists additional quotations in support of

the findings presented in the text. These could not be included in the text because of the thesis word limits.

Furthermore, in this thesis, ‘investors’ take the position of ‘shareholders’ and these two terms are used interchangeably. Although investors are a key stakeholder group for corporations, this thesis refers to ‘stakeholders’ as ‘non-shareholder stakeholders’.

Readers can obtain edited interview transcripts from the author if desired. For confidentiality reasons, the names of individuals and organisations have been edited out. Please contact this address for more information: pkh4@students.waikato.ac.nz

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LIST OF ABBRIVIATIONS

List of Abbreviations	
ASE	Advanced Semiconductor Engineering Inc.
CGMA	Chartered Global Management Accountant
CPC	Communist Party of China
CSR	Corporate social responsibility
ESG	Environmental, social and governance
GDP	Gross domestic product
GRI	Global Reporting Initiative
IIRC	International Integrated Reporting Council
IR	International Integrated Reporting Framework
KMT	Kuomintang
KPIs	Key performance indicators
MOPS	Market Observation Post System
NGOs	Non-governmental organisations
OTC	Over the counter
PRI	Principles for Responsible Investment
QFII	Qualified Foreign Institutional Investors
SMEs	Small and medium enterprises
SRI	Socially responsible investments
TAIFEX	Taiwan Futures Exchange
TPEX	Taipei Exchange Market
TWSE	Taiwan Stock Exchange
UNEP	United Nations Environment Programme

Abbreviations for Participant Codes	
F	Financial industry
M	Manufacturing industry
R	Retail Investor
T	Technological industry

GLOSSARY OF TERMS

Investor Types and Specialities
<p>Private equity investor: Investors who directly inject capital into businesses. Includes buyout and venture capital.</p> <ul style="list-style-type: none">• Buyout: Direct capital investment to acquire an established business.• Venture capital: Direct capital investment into a start-up business.
<p>Security investor: Traders of financial instruments/securities (e.g., shares, bonds, and debentures) in financial markets. Includes retail investor and institutional investor.</p> <ul style="list-style-type: none">• Retail investor: An individual who buys and sells securities for his or her own account.• Institutional investor: An organisation that buys and sells securities either for clients or for itself. Includes mutual funds, insurance companies, investment trust, dealer, and QFII.<ul style="list-style-type: none">- Investment trust: A publically listed company designed to generate profits for its shareholders by investing in the shares of other companies. Investments are made with clients' funds.- Dealer: A trader of financial instruments for his or her company's own account. Investments are made with the company's own funds.- QFII: Licensed foreign investors who participate in domestic financial markets.
<p>Broker: A professional who arranges the trade of financial securities between a buyer and seller. He or she acts on clients' orders and receives commission when deals are executed.</p>
<p>Investment consultant: A professional who provides a variety of investment services for his or her clients, including: recommendation of investment targets, performance measurement and evaluation, and provision of educational programs.</p>
<p>Investment analysts/researchers: Professionals who prepare investigative reports on investment targets. Each researcher is generally an expert on a specific sector. Includes sell-side analysts and buy-side analysts.</p> <ul style="list-style-type: none">• Sell-side analysts: Analysts who sell research and advice to clients. They provide regular research reports and offer recommendations on the buying, selling, or holding of investment targets.• Buy-side analysts: Analysts who generally work for an institution and provide private recommendations on investment opportunities that aligns with investors' expectations.

Appraisal Methods
<p>Top-down approach: Begins with assessments and forecasts of the macroeconomic environment, and then looks onto specific industries and investment targets.</p> <p>Bottom-up approach: Assesses individual targets and deemphasise the significance of economic and market cycles.</p> <p>Fundamental analysis: Analysis of investment targets' operations to appraise their prospects. Includes assessment on corporate financial statements, product lines, industry trends, competitive environment, and so on.</p> <p>Technical analysis: Analysis of patterns and trends in historical share prices and trading volume to identify the future movement of individual shares or the overall share market.</p> <ul style="list-style-type: none"> • K-line analysis: Analysis of the opening, highest, lowest, and closing price of a security. Compares a security's closing price with its historical price range.
Other Investment Terms
<p>Arbitrage trading: Short-term trading of securities with the aim of making profits by exploiting differences in securities' prices.</p>
<p>Derivatives: Contracts that set the terms of a transaction for a security (e.g., futures and options). Generally traded with the intention of managing price risk.</p>
<p>Discount rate: Interest rate used to determine the present value of future cash flows.</p>
<p>Dividends: A share of corporate profits distributed to shareholders. Can be in the forms of cash dividends or stock dividends.</p>
<p>Due diligence: Research and analysis into a business prior to the signing of a contract.</p>
<p>Gross domestic product: The final monetary value of all goods and services produced in an economy within a period of time.</p>
<p>Holding period: The length of time between the purchase and sale of securities (i.e., the length of time securities are held).</p>
<p>Investment screening: A process of filtering a large set of potential investment targets using predetermined variables.</p>
<p>Investment target: Any investment object that can be invested by investors (e.g., stocks, funds, futures, and businesses).</p>
<p>Listed companies: Companies that fit the requirements of being quoted on a formal exchange for public trading.</p>

Material information: Information that is likely to have an effect on economic decisions, shareholder equity, or the price of securities.

Over the counter: Financial instruments traded by private negotiation between buyers and sellers. A company may not fit the requirement to become listed on a formal exchange, so trades over the counter instead.

Price-earnings ratio: Market price per share divided by earnings per share. Evaluates the multiple of earnings investors are willingness to pay for a share.

Return on equity: Net income divided by shareholders' equity. Evaluates the efficiency of a company at generating profit from the money invested by shareholders.

Revenue breakdown: Identification of the sources of revenue and the contribution of each source to total revenue.

CHAPTER ONE

RESEARCH INTRODUCTION

1.1 Introduction

The International Integrated Reporting Framework (IR) is a voluntary disclosure framework that encourages capital providers to look beyond financial information when making investment decisions (IIRC, 2013a); there is however controversy over the relevance of non-financial disclosures and the concept of sustainability to investment decision-making (Qiu, Shaukay, & Tharyan, 2014). IR aims to become a global business norm and revolutionise corporate disclosures by focusing on the concepts of integrated thinking and corporate value creation¹ (Eccles & Krzus, 2010; IIRC, 2013a, 2014). There is growing academic interests in the area of integrated reporting as IR is a relatively new and unexplored development (Cheng, Green, Conradie, Konishi, & Romi, 2014; de Villiers, Rinaldi, & Unerman, 2014). This research provides an insight into non-Western investors' perspectives of the concepts and ambitions expressed in IR. As IR was initiated in Western economies, the framework is influenced by Western perspectives, values and beliefs (Flower, 2015; Kolk, 2010). The relevance of integrated reporting may vary for investors from different cultural backgrounds as there are considerable differences in their cognitive processes and values (see for example, García-Sánchez, Rodríguez-Ariza, & Frías-Aceituno, 2013; Hofstede, Hofstede, & Minkov, 2010; Nisbett, Peng, Choi, & Norenzayan, 2001). With these notions in mind, the thesis explores the usefulness of integrated reporting concepts to investors in Taiwan. It investigates the relationships between IR and the factors that currently influence investment decisions. The remainder of the

¹ See Chapter Two, Section 2.2 and Appendix A for details on integrated thinking, and Chapter Two, Section 2.2 and 2.3 for details on corporate value creation.

introductory chapter proceeds as follows:

- 1.2 Research Background
- 1.3 Problem Statement
- 1.4 Research Purpose and Objectives
- 1.5 Methodology and Method
- 1.6 Outline of the Thesis
- 1.7 Scope and Limitations

1.2 Research Background

Humanity is confronting several social and environmental challenges, for example, natural resource depletion and climate change. To address such challenges, new decision-making models and reporting systems that centre on the concept of ‘sustainability’ is needed, and IR was developed to fulfil this need (IIRC, 2010). Sustainability became a globally focused concept through the Brundtland Report, which introduced the term ‘sustainable development’ and defined it as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987, p. 43). Castro (2004) identifies the 1992 Earth Summit as a significant milestone for sustainable development. The Earth Summit involved discussions amongst leaders of 172 nations on the environmental issues humanity faces. Although a consensus was formed on the importance and urgency of sustainable development, little progress was made thereafter. In the two decades following the Earth Summit, there has been significant progress in understanding the problems humanity faces and our potential ability to address such problems; however, business-as-usual economic practices have resulted in sustainable development remaining subservient to unsustainable business practices (Gerlagh & Sterner,

2013; MacNeill, 2014). Boehnert (2014) warns that focusing on economic growth encourages short-term thinking and the misuse of ecological and human resources; furthermore, a capitalist system based on infinite growth “will continue to grow and swallow up everything in its wake until there is nothing left to use” (p. 3).

At present, corporate operations significantly contribute to environmental issues. According to the Principles for Responsible Investment (PRI) Association and United Nations Environment Programme (UNEP) Finance Initiative (2011), which are two organisations supporting the integration of sustainability into investment decisions, the largest 3,000 publically listed companies were responsible for environmental damages exceeding \$2.15 trillion USD in 2008. This cost equates to 35 percent of global externalities in 2008, highlighting the substantial contribution by companies to biodiversity loss, climate change and water scarcity.

For business practices to be aligned with sustainable development, decisions need to be considerate of all stakeholder values and not solely focused on maximising shareholder wealth. Shareholder theory argues for corporations to be run first and foremost in the interests of shareholders. This view is based on the belief that management owes a fiduciary duty to shareholders as they are the owners of a corporation; therefore, management should act to fulfil the interests of shareholders, which is achieved through increasing financial returns (Freeman & Reed, 1983; Friedman, 1970). On the other hand, stakeholder theory is based on the notion that corporations would cease to exist without the support of various groups that can affect or are affected by corporations; therefore, corporations are responsible not only to shareholders but to broader groups including customers, suppliers, employees and the wider society (Deegan, 2002; Freeman & Reed,

1983). The demand for corporations to contribute to sustainable development is expressed in the term ‘corporate sustainability’. For corporate sustainability, Milne and Gray (2013) and Schaltegger, Beckmann and Hansen (2013) suggest corporations need to integrate economic, environmental and social performance indicators into management and reporting practices. Linnenluecke and Griffiths (2010) suggests the need for corporate values and beliefs to become integrated with ethical and socially responsible principles, along with a reconsideration of the relationship between humans and ecological systems. These ideas associated with corporate sustainability are resembled in integrated reporting concepts.

IR is a disclosure framework developed by the International Integrated Reporting Council (IIRC), a body formed in 2010 by “a global coalition of regulators, investors, companies, standard setters, the accounting profession and NGOs [non-governmental organisations]” (IIRC, 2013a, p. 1). IIRC was founded by two organisations promoting sustainability accounting and practices: the Prince’s Accounting for Sustainability Project and the Global Reporting Initiative (GRI) (IIRC, 2010). The Prince of Wales intended IIRC to aid in sustainable development by developing a framework that helps communicate a holistic view of a reporting organisation (Flower, 2015). The formation of IIRC was also prompted by the Global Financial Crisis and the following Great Recession, which evidenced the need to reconstruct organisational operations around a new set of behaviour that focuses on transparency (Eccles & Krzus, 2010). IR intends to act as a driver for sustainability and financial stability based on the belief that integrated thinking and integrated reporting will lead capital providers to make more efficient capital allocation decisions (IIRC, 2013a, 2014). IIRC’s aim for IR is to promote better reporting not more reporting. In order to reveal a holistic view

of organisational operations, IR encourages the production of reports that communicate connected, concise, strategic-focused, and future-orientated information (IIRC, n.d.). The first complete version of IR was released in December 2013; it comprised of the amendments made to the previously published discussion paper, draft framework outline, and consultation draft (Flower, 2015).

PRI Association and UNEP Finance Initiative (2011) urges investors to become a driver for corporate sustainability by supporting frameworks such as IR. However for investors to promote corporate sustainability, investors need to be either unconditionally supportive of sustainable development or believe that sustainable practices will benefit their investments. Academic studies have revealed contrasting findings to the usefulness of non-financial information to different types of investors. For instance: private equity investors consider non-financial information more important than financial information (Portmann & Mlambo, 2013; Monika & Sharma, 2015), but such non-financial information are often related to abilities of the management team and corporate competitive advantages instead of sustainability practices; retail investors appear to be influenced by environmental and ethical practices (Holm & Rikhardsson, 2008; Consolandi, Innocenti, & Vercelli, 2009), but there are studies suggesting retail investors prioritise economic-related information above sustainability-related information (Holm & Rikhardsson, 2008, Cohen, Holder-Webb, Nath, & Wood, 2011); there are institutional investors who integrate sustainability-related information into investment decision-making (Solomon & Solomon, 2006; Aust, 2013), but there are also others who tend to not consider sustainability-related information (Hummels & Timmer, 2004; Miles, Hammond, & Friedman, 2002).

The studies above illustrate that there is controversy over the relevance of non-financial information to investors. A detailed review of investors' use of non-financial information is presented in Chapter Two, Section 2.5. As investors may have a dominant interest in financial information and not value sustainability as highly as non-shareholder stakeholders, it is uncertain how relevant integrated reporting will become to investment decision-making. However, IIRC (2012) claims that “[m]any investors’ information needs as well as their perspectives and their expectations of businesses, are changing” (p. 12), and IR will become relevant as it encourages the provision of information related to intangible value.

Regardless of investors’ interest in non-financial information, corporate disclosures have developed with growing emphasis on the communication of non-financial information. Non-financial disclosures have generally been prepared for stakeholders to demonstrate corporate responsibility and legitimacy. Early voluntary disclosures relating to environmental, social and employee matters tended to be unstructured supplementary information presented in annual reports (Milne & Gray, 2013); however, a wide range of stand-alone voluntary disclosure structures emerged around the 1990s, including: value-added statements (Meek & Gray, 1988), triple bottom line reporting (Elkington, 1997), intellectual capital reporting (Edvinsson, 1997; Mouritsen, Larsen, & Bukh, 2001), sustainability reporting (GRI, 2002), and the recent integrated reporting (IIRC, 2013a). Emeseh and Songi (2014) identify stakeholder theory and legitimacy theory as two dominant and overlapping theoretical explanations for sustainability-related disclosures. From a stakeholder perspective, corporations recognise stakeholders’ support is necessary for survival, so sustainability disclosures are used to demonstrate the recognition of corporate responsibility to key stakeholder groups

(Emeseh & Songi, 2014; Gray, Kouhy, & Lavers, 1995). Legitimacy theory is based on the premise that corporations are bound by a social contract, where failure to operate within social expectations will result in penalties and jeopardises corporate survival (Brown & Deegan, 1998). From a legitimacy perspective, sustainability disclosures are used by corporations to demonstrate compliance with social norms or to explain why societal expectations were not met (Emeseh & Songi, 2014; Gray et al., 1995). Although integrated reports are a form of non-financial disclosure, Cheng et al. (2014), de Villiers et al. (2014) and IIRC (2013a) suggest the purpose and audience of integrated reports differ from the purpose and audiences of current disclosure mechanisms. Integrated reports focus on providing information to investors for the evaluation of investment targets, while sustainability reports focus on providing information to stakeholders regarding a corporation's impacts on sustainability issues. As IR is a new development, it is yet uncertain how well-received integrated reporting will be amongst investors. It is important for investors to be supportive of IR as investor demand is a key driver to IR's success (IIRC, 2012).

Although IR is new, a few corporations have already been integrating financial information with non-financial information to produce 'integrated' reports since 2002 (Eccles & Saltzman, 2011; Pedersen, Henriksen, Frier, Sjøby, & Jennings, 2013). Moreover, South Africa was the first country to make the concept of integrated reporting mandatory under a comply or explain basis. From March 2010, all organisations listed on the Johannesburg Stock Exchange have to comply with the King III South-African code of Corporate Governance, which encourages corporations to provide an integrated report related to governance, strategy and sustainability (Integrated Reporting Committee of South Africa, 2011).

IIRC launched a pilot programme in 2011 to globally test and put into practice the underlying principles of IR (IIRC, 2012). The pilot programme involved more than 75 businesses and 25 institutional investors spread across 23 countries in the regions of: Asia, Africa, North America, South America, Europe, and Australasia. IR was seen to be gaining momentum as multinational corporations are actively participating in the pilot programme; however, it may take several years for corporations to adapt and produce fully integrated reports (IIRC, 2012). Participating investors consider the investment industry's short-term orientation as a fundamental barrier to the development of integrated reporting, suggesting investors and their clients need to be encouraged and incentivised to adopt a long-term orientation (IIRC, 2012). Participating investors also assessed integrated reports and suggest a need for: more risk-orientated information, greater explanation of materiality assessment, disclosure of relevant information instead of simply more information, and production of balanced and unbiased reports (IIRC, 2013b).

Cheng et al. (2014) and de Villiers et al. (2014) note potential for research in areas of integrated reporting, such as in the consequences of integrated reporting, decision-relevance of integrated reports, and assurance of integrated reports. Extant research has looked at proposed benefits and potential problems of IR, characteristics of organisations preparing integrated reports, and the institutionalisation of integrated reporting (see for example, Brown & Dillard, 2014; Cheng et al., 2014; Higgins, Stubbs, & Love, 2014; Steyn, 2014)². Currently, apart from the IR pilot programme feedback (IIRC, 2012, 2013b) and a handful of studies identified in the literature review (such as, Atkins & Maroun,

² See Chapter Two, Section 2.2.2 for a comprehensive review of recent academic studies on integrated reporting.

2015; EY, 2014; Rensburg & Botha, 2014), there appears to be few detailed studies on the decision-relevance of integrated reports for investors; hence, there is an opportunity to contribute to this area. The researcher's intention is to understand the role of integrated reporting in the investment decisions of Taiwanese investors. The research places great emphasis on institutional investors and private equity investors as they seem more suitable for providing meaningful results. Both financial and non-financial information are expected to play a major role for investors working in organisational contexts as their purpose is to maximise financial returns for their clients or organisation (Cox, Brammer, & Millington, 2004; Hellman, 2005). Taiwanese retail investors appear to adopt short-term gambling behaviour (Chen, Cheng, & Lee, 2011)³, which seems less appropriate for research on information analysis and the use of non-financial information.

The main contributions of the study are threefold. First, the thesis explores the factors influencing the investment decisions of Taiwanese investors. This could lead to new insights into the value of information for investors with different cultural backgrounds. Second, it adds to literature on how non-Western investors perceive and value non-financial information. Third, it contributes to the literature on the usefulness of integrated reporting concepts to Asian investors in a Taiwanese cultured economy.

1.3 Problem Statement

IIRC was founded with the intention of assisting humanity towards sustainable development. Its chosen approach is to encourage organisations and

³ See Chapter Two, Section 2.7 for details about Taiwanese investors' trading behaviour and information use.

investors to engage in integrated thinking, and to emphasise sustainable value creation through integrated reporting. Prior to IR, non-financial disclosures have been motivated by stakeholder demands and directed at non-shareholder stakeholders; investors were beneficiaries of increased corporate transparency and diversity of information. Integrated reporting promises new information related to corporate value creation; however, such information is non-financial and there have been controversies over the usefulness of non-financial disclosures to investors. There is currently a lack of studies on the decision-usefulness of integrated reports. There is also a gap in knowledge regarding the relevance of non-financial disclosures to the investment decisions of investors in Taiwan. The majority of extant academic studies on non-financial disclosures and integrated reporting are based in the context of Western economies and South Africa, while studies are beginning to emerge from Japan. Overall, there are relatively few studies from the perspectives of investors as IR is a relatively new development.

1.4 Research Purpose and Objectives

The research purpose is to explore the usefulness of integrated reporting concepts to investors in Taiwan. To achieve this purpose, the researcher sought to acquire a better understanding of the factors and information sources that influence the investment decisions of Taiwanese investors, as well as investors' perspectives of non-financial disclosures and IR. The research has the following objectives:

- To examine the factors currently affecting the investment decisions of Taiwanese investors
- To examine Taiwanese investors' use of non-financial information and disclosures
- To examine the relationship of forward-looking information and value creation to Taiwanese investors

- To explore whether integrated reports are currently used by Taiwanese investors and how relevant and useful they are in investment decision-making
- To find out what information Taiwanese investors are demanding and whether it is addressed in integrated reporting concepts

1.5 Methodology and Method

This study is exploratory and investigates an area that has not been researched extensively. Methodologically, this thesis is grounded in an interpretivist paradigm. It employs a qualitative research approach from an interpretivist theoretical perspective. The qualitative method of semi-structured in-depth interviews was used to collect data from 14 investment specialists working in an organisational context and 2 retail investors. The participants were identified largely through the snowball sampling technique, where four initial contacts each referred the researcher to two or three other potential participants.

Prior to the interviews, a literature review was conducted to establish what was currently understood about the relationship between non-financial information and investors. Literature specifically relating to IR was examined as well as those relating to corporations and investors in Taiwan. From the literature analysis, a number of questions were formulated to guide the interviews. Ethical approval was granted prior to the interviews, and pilot tests were conducted with a Taiwanese investor and a Taiwanese private equity investor. Interviews were conducted face-to-face in Mandarin Chinese or English and recorded with the consent of interviewees. Hand-written notes were also taken when appropriate. For data analysis, recorded interviews were translated and transcribed into English by the researcher. NVivo, a qualitative data analysis software, was used to open code the transcriptions, and to organise and manage the data. Then the data were

analysed manually based on a deductive approach to thematic analysis. A detailed discussion of research methodology and method can be found in Chapter Four.

1.6 Outline of the Thesis

The thesis is presented in seven chapters as follows:

- ***Chapter One - Research Introduction:*** This chapter is an overview of the thesis. It discusses the research background which leads to the problem statement. The research purpose and objectives are identified as well as a brief introduction to the research methodology and method. Following the outline of the thesis, the chapter concludes with the scope and limitations of the study.
- ***Chapter Two – Literature Review:*** This chapter provides a comprehensive review of the extant literature relating to IR and investors' use of non-financial information. It begins with a detailed analysis of IR and the recent research associated with integrated reporting. The concept of corporate value creation is also reviewed. This is followed by an introduction to the differences and similarities between stakeholder values and shareholder values, then a discussion of the use and influence of non-financial information to the capital allocation decisions of different investor types. Lastly, studies relating to investment decision-making, non-financial disclosures in Taiwan, and Taiwanese investors' behaviour and information needs are reviewed.
- ***Chapter Three – Context of Taiwan:*** This chapter introduces the research context of the study. A background to the Taiwanese society, economy and natural environment is provided. It focuses on describing

the Taiwanese culture, as well as the corporate environment and capital markets in Taiwan.

- **Chapter Four – Research Methodology and Methods:** This chapter discusses the philosophical views of the researcher and the influence these have on the choice of research methodology for the study. It includes discussions and justifications relating to the data collection method, sample selection strategy, and the method of data analysis.
- **Chapter Five – Findings:** This chapter provides the findings drawn from the interview process. It identifies themes relating to: investors' approaches to investment, factors that influence investment decisions, information sources investors are reliant on, and investors' perceptions of non-financial disclosures, integrated reporting, and corporate value creation.
- **Chapter Six – Discussion:** This chapter discusses the usefulness of integrated reporting to investors in Taiwan. The findings from Chapter Four are integrated with prior literature and interpreted by the researcher. Discussions are first presented on the applicability of IR in the context of Taiwan, along with investors' scepticism towards the practicability and reliability of integrated reports. This is followed by an examination of the relationships between IR concepts and current investment decision-making processes. Finally discussions relating to shareholder values and information demands are provided.
- **Chapter Seven – Summary, Conclusions and Future Research:** The final chapter of the thesis summarises the research findings and discusses how the research purpose and objectives are answered. It also presents the significance, implications, scope and limitations to the

study, and adds further discussion to allow conclusions and suggestions for future research.

1.7 Scope and Limitations

It was not feasible to study a large number of individuals due to time and resource constraints; hence, the scope of this study is limited to the 14 investment specialists working in an organisational context and 2 independent retail investors. The research findings do not necessarily represent Taiwanese investors as a whole. The snowball sampling employed may prevent the identification of different opinions held by other groups of Taiwanese investors not sampled. The subjective nature of interpretivist research may also be subject to criticism. However, this research identifies what participants consider as matters of importance for investment decision-making and thereby may serve to inform further research projects.

The next chapter reviews the extant literature relating to the concepts of IR and investors' use of non-financial information.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Chapter One identified IR as a framework that promotes corporate sustainability by encouraging the communication of corporate value creation to investors; however, the relevance of such practices to investors' decision-making is currently unclear. This chapter compiles a literature review to help interpret how Taiwanese investors may perceive the relevance of integrated reporting to investment decision-making. The literature review commences by describing IR in detail and identifying extant research surrounding IR and integrated reporting. The focus is then placed on exploring corporate value creation, which is a diverse concept but briefly described in IR. Identification of what is understood about corporate value creation gives a better insight into what is considered as valuable information and also what integrated reports may communicate to their users. Integrated reports are primarily directed at shareholders but the essence of such disclosures is based on information demanded by stakeholders. IR incorporates both shareholder values and stakeholder values; hence, the values of these two groups are discussed to identify any potential conflicts and similarities. This is followed by literature concerning the influence of non-financial disclosures on investment decisions. The chapter concludes with a review on investors' decision-making methods and information sources, sustainability reporting practices in Taiwan, and Taiwanese investors' behaviour and their information needs. The chapter contains the following headings:

2.2 Integrated Reporting

2.3 Corporate Value Creation

- 2.4 Shareholder Values and Stakeholder Values
- 2.5 Relevance of Non-financial Information to Investors
- 2.6 Investment Decision-making Methods and Information Sources
- 2.7 Non-financial Disclosures in Taiwan and Taiwanese Investors' Investment Behaviour
- 2.8 Chapter Summary

2.2 Integrated Reporting

2.2.1 The International Integrated Reporting Framework

IR is a voluntary principle-based framework used to guide the preparation of integrated reports. From IIRC's (2013a) perspective, an integrated report is one that communicates information about an organisation's external environment, resource use and interactions with stakeholders. Integrated reports link together an organisation's financial and non-financial information with its strategy, governance, risks, prospects and performance to communicate with users about organisational value creation in the short-, medium- and long-term. Integrated reports are primarily directed at capital providers. However, they may be beneficial for stakeholders because they encourage organisations to consider the diverse needs of key stakeholders. This results from the idea that "the ability of an organisation to create value for itself is linked to the value it creates for others" (IIRC, 2013a, p. 10).

IR is built upon the promotion of integrated thinking and communication to users about the creation of organisational value (IIRC, n.d.). The concept of 'six capitals' was introduced in support of these two ideas. The six capitals are identified as: financial, manufactured, intellectual, human, social and relationship, and natural; they can be communicated in the form of key performance indicators (KPIs) or a

combination of qualitative and quantitative information (IIRC, 2013a). In brief, IR defines ‘financial capital’ as the pool of funds available to an organisation, ‘manufactured capital’ as physical objects available for production or provision of goods and services, ‘intellectual capital’ as knowledge-based intangibles, ‘human capital’ as qualities of competency and innovation within personnel, ‘social and relationship’ capital as relationships and abilities to share information with communities and groups of stakeholders, and ‘natural capital’ as all renewable and non-renewable environmental resources. These six capitals are set out to reflect the inputs of a business model, where the activities and outputs of an organisation can enhance, diminish or transform the capitals. The changes in capitals are a way to visualise how an organisation creates value over time, and integrated thinking occurs when organisations consider the relationships between the capitals and their organisational functions (Cheng et al., 2014; IIRC, 2013a). IR requires business models and strategies to be integrated with the six capitals, which can in turn promote sustainable development. Eccles and Krzus (2010) expect corporations will be motivated to correct the problems and gaps revealed through preparing an integrated report; thus, achieving a more sustainable balance to corporate operations and helping humanity move towards a more sustainable future.

The framework also provides a set of guiding principles and suggested reporting contents. The seven guiding principles state integrated reports should: have a strategic focus and be future orientated, connect information and show a holistic view of an organisation, describe organisational relationships with stakeholders, contain material information, be concise, be reliable and complete, and be consistent and able to be compared with other organisations’ reports (IIRC, 2013a). IIRC suggests integrated reports should contain information relating to:

the overall organisation and its external environment, corporate governance structure, business model, risks and opportunities faced by an organisation, strategy and resource allocation, performance in terms of achieving strategic objectives, future outlook, and basis of presentation. A combination of the guiding principles and suggested content elements are meant to reveal how organisations create value. IR also states that an integrated report only needs to include material information. Moreover, an effective report should provide a balanced view of both positive and negative information and be presented in a timely manner (IIRC, 2013a).

Although IR provides general guidance for the preparation of integrated reports, it does not identify specific KPIs or metrics for organisations to consider in capturing the required information. Organisations operate in different environments and engage in various operations, so what is material and relevant to one organisation may not necessarily be the same for another (IIRC, 2013a). Managers are required to exercise their own judgements in deciding what information is material and to be included in integrated reports. Furthermore, it is not the intention of integrated reports to quantify organisational value or its use of capitals, the reports are only meant to give an overall indication of how an organisation creates value over time. Moreover, integrated reports do not need to contain information that endangers corporate competitiveness, nor do they have to be standalone reports. Disclosures such as annual reports can be considered as ‘integrated reports’ if they are prepared in accordance with IR (IIRC, 2013a); this idea has changed from the initial proposal as integrated reports were intended to become an organisation’s primary report, which replaces existing disclosures instead of adding to them (Flower, 2015).

2.2.2 Recent Research on Integrated Reporting

As IR is a fairly new framework, there is currently a lack of empirical studies relating to IR and integrated reporting (Cheng et al., 2014; de Villiers et al., 2014; Stubbs & Higgins, 2014). This subsection identifies recent research surrounding IR and integrated reporting, including: its anticipated benefits, critiques and issues, characteristics of organisations engaging in integrated reporting, institutionalisation of IR, and investors' and stakeholders' perceptions of integrated reports.

Many organisations are in the initial stages of preparing integrated reports, so statements about the benefits of IR are generally based on theories and perceptions rather than empirical evidence. Churet and Eccles (2014) used the RobecoSAM database as a proxy for integrated reporting to assess the relationship it has with financial performance and management quality. The database analyses corporate annual reports for integrated non-financial and financial information, and reflects how corporations maintain competitiveness and create value through the management of economic, environmental, social, and governance (ESG) issues. The findings suggest no significant relationships between integrated reporting and financial performance, but integrated reporting can improve the quality of ESG management which helps businesses meet short-term goals while maintaining long-term competitiveness. Adams and Simnett (2011) believes IR will benefit not-for-profit sectors as the communication of strategic and forward-looking information could create an advantage when applying for grants and funding. The Chartered Global Management Accountant (CGMA) (2014) believes IR will benefit investors through providing information relevant to the assessment of risks, and provide better explanations of non-financial value creation.

Empirical studies have also been conducted on corporations currently practicing integrated reporting. Higgins et al. (2014) interviewed Australian managers and found IR to be viewed as beneficial to their corporation. Managers considered linking resources with strategy as a way to assist the generation of forward-looking information and managing strategic challenges. Steyn (2014) indicates that senior executives of listed South African corporations consider the benefits of adopting IR to outweigh its costs. The gains are thought to involve improved stakeholder engagement and trust, and lower risk of damaging reputation. Steyn found the primary motivations for producing integrated reports are to advance corporate reputation, and for compliance with regulatory requirements.

Criticisms of IR have also arisen. For example, IR's focus on for-profit corporations and failure to address other important organisational forms such as the public sector and NGOs (Brown & Dillard, 2014; Burritt, 2012). Another criticism relates to IR being investor focused, and lacking emphasis on sustainable development and accountability to stakeholders. Milne and Gray (2013) dismissed IIRC's claims to enhance sustainable development and consider IR "a masterpiece of obfuscation and avoidance of any recognition of the prior 40 years of research and experimentation" (p. 20). Milne and Gray's concerns are based on IR being solely focused on investors instead of other stakeholder groups, this is also a factor of concern for: Cheng et al. (2014), Brown and Dillard (2014), and Atkins, Atkins, Thomson and Maroun (2015). The narrow focus of IR brings about questions regarding its potential to stimulate sustainable business practices and its ability to generate information for other key stakeholders (Cheng et al., 2014; Flower, 2015).

There have already been problems found with the integrated reports currently available. Solomon and Maroun (2012) analysed the integrated reports of ten South

African corporations and found that management do not explain how they selected the ESG factors disclosed, nor their interpretation of materiality. The study identifies report contents as repetitive, with the same information repeated in slightly different phrasing throughout the reports. Similar concerns were identified from the IR pilot programme. In addition to the concerns raised in Solomon and Maroun (2012), investors in the IR pilot programme identify the need for unbiased disclosures and more information relevant to risk evaluation (IIRC, 2013b); however, no specific examples were provided regarding what information investors want for risk evaluation. Corporations are also finding it difficult to maintain corporate confidentiality while disclosing strategic information. Steyn (2014) suggests one of the most significant challenges to preparing integrated reports is deciding on what forward-looking information to include. Due to the risk of losing competitive advantage, it is probable that corporations will disclose the minimum level of information necessary to comply with disclosure requirements.

There are also concerns with IR's emphasis on a win-win situation and difficulties with assurance. Brown and Dillard (2014) considers that emphasising integrated reporting as a win-win situation will result in accounting continuing as a narrow-minded mechanism about business storytelling. Integrated reports will fail to accommodate perspectives beyond the business case. Furthermore, there are challenges with assuring integrated reports. Unlike financial statements where audit opinions are given in accordance with accounting and auditing standards, non-financial information is more subjective and lacks a clear set of standards; therefore, it is difficult to provide an assurance opinion on integrated reports (Reverte, 2015). This issue extends to questions regarding which group is capable of providing assurance. Auditing integrated reports requires a much broader range

of professional capabilities than those held by traditional financial accountants, and assurers are also exposed to increased litigation risks (Cheng et al., 2014; Reverte, 2015).

Studies have also investigated the characteristics of organisations that choose to engage in integrated reporting. In South Africa the preparation of integrated reports is mandatory and disclosure of such reports is strongly driven by regulatory requirements (Solomon & Maroun, 2012; Steyn, 2014). In places without mandatory adoption, the practice of integrated reporting appears to be influenced by a country's economic and cultural systems. Frias-Aceituno et al. (2014) analyses disclosure patterns of international corporations and suggests corporations that are large, in terms of profitability and size, are more likely to prepare integrated reports as they are more politically visible and face higher agency costs. The study also suggests corporations in a monopolistic position are less likely to publish decision-useful integrated reports due to the desire to preserve their competitive advantage. García-Benau et al. (2013) suggests corporations operating in countries with similar cultural systems display similar attitudes towards the preparation of integrated reports. Their findings show corporations in cultural systems with stronger collectivist and feminist values⁴, for instance Spain and Portugal, are more likely to publish integrated reports as such systems emphasise good governance, ethics and solving sustainability issues. Jensen and Berg (2012) hypothesises that the preparation of integrated reports is less likely in countries with strong investor protection laws and more likely in countries with strong employment protection laws. Jensen and Berg associated strong investor protection with emphasis on shareholder needs and financial information, while strong employment protection

⁴ See Chapter Three, Section 3.2.3 for a description of Hofstede's cultural dimensions and Taiwan's culture according to the Hofstede dimensions.

with emphasis on stakeholder needs and non-financial information. The study results are contrary to its opening hypothesis. Integrated reporting is found to be more common in countries with stronger investment protection and weaker employment protection; such characteristics are present in New Zealand, US, UK, and South Africa. The researchers explain the unexpected findings as resulting because integrated reporting is not motivated by market demands, but involves corporations attempting to appeal to stakeholders “by publishing to date less demanded information... [as] in these countries, a stand-alone sustainability report would probably not be noted” (2012, p. 309). This explanation may be incomplete because stand-alone sustainability-related disclosures such as the triple bottom line (Elkington, 1997) and sustainability reporting (GRI, 2002) originated from the UK and US respectively, suggesting there is demand for such information and disclosures. Jensen and Berg (2012) also found integrated reports are more common in developed countries.

Researchers also investigated the institutionalisation of IR. Although it is too early to determine the overall impact IR has on corporate operations, the practice of integrated reporting does not appear to stimulate significant organisational changes in its initial stages of adoption. Interviews with Australian managers whose corporations are producing integrated reports show that managers are uncertain about what integrated reporting will achieve and are waiting to see where IR takes them (Higgins et al., 2014). Higgins et al. (2014) suggests managers consider integrated reporting to be more about storytelling and fulfilling the duty of agents than about engaging with stakeholders. Furthermore, one of the main reasons corporations adopt IR is because of institutional peer-pressure. Stubbs and Higgins (2014) conducted interviews with Australian managers seeking to understand their

experiences with IR. Managers consider integrated reporting to be changing corporate processes and structures; however, IR is seen as a further development of sustainability reporting instead of a revolutionary change to existing disclosure practices. Similar findings are evidenced by Steyn (2014), which found the adoption of integrated reporting may not influence corporate executives to alter their business models. Steyn found South African senior executives remain neutral or disagree with reconsidering their business models after the adoption of IR, suggesting IR may not lead to significant changes in corporate operations. Although integrated reporting may not stimulate corporate sustainability, Solomon and Maroun (2012) suggests the process of preparing integrated reports has altered the priorities of top management towards activities that emphasises accountability to stakeholders. This change in priorities may, or may not, be genuine as it “could represent attempts by the companies to legitimise themselves to society... [or] indicate that the directors’ perceptions of reality have really altered to reflect the growing importance of risks such as climate change” (p. 51).

Although corporate managers may consider IR to be similar to sustainability reporting, academics (see for example, Cheng et al., 2014; de Villiers et al., 2014; Flower, 2015) acknowledge that the concept of integrated reporting is independent of, and different to, sustainability reporting. The aim of sustainability reports is to provide stakeholders with details of an organisation’s ESG and financial performance, whereas IR aims to provide information to capital providers regarding risk evaluation, value creation and future growth; therefore, the purpose and audience of the two types of reports are ultimately different. Although investors are the main focus of IR, there appears to be a dearth of research on investors’ perspectives and use of integrated reports. Rensburg and Botha (2014) conducted

an online survey on the general public of South Africa in research of individuals' preferences for receiving financial communication. The findings showed respondents only sometimes use integrated reports and tend to be more reliant on news sources in making investment decisions. However, Rensburg and Botha's study is not directly related to investors and focuses on financial information, which is only a partial aspect of integrated reports. Atkins and Maroun (2015) interviewed 20 South African institutional investors and found investors generally appreciate ESG information and consider IR to enhance the competitiveness of South Africa's financial markets within the global community. Investors suggest there needs to be improvements made in reducing repetitive contents, production of shorter and less complex reports, and avoidance of a box-ticking approach when preparing integrated reports. Investors acknowledged that the reports are created subjectively by corporations and need to be interpreted by the users. Investors also considered that the idea of integrated reporting should be stakeholder focused instead of shareholder focused as deemed by IIRC. A global survey by EY (2014) on institutional investors suggest investors perceive the idea of integrated reporting as beneficial because it connects financial with non-financial information, and provides information about future performance and for the evaluation of investment risks.

2.3 Corporate Value Creation

The notion of corporate value has changed over time. Corporate value was traditionally associated with economic value as measured by share markets, and involved a short-term focus on increasing profits and returns for shareholders (Berthon, 2010; Charreaux & Desbrières, 2001). The traditional economic measures and focus are now seen to be inadequate and do not properly reflect

corporate value creation. There has been a continuous shift in the notion of corporate value due to the importance placed on long-term sustainability and demand for corporate accountability to a wider group of stakeholders (Berthon, 2010). IIRC (2013a) claims that value is not created within an organisation itself, but is dependent on: available resources, an organisation's external environment, and its relationships with stakeholders. IR emphasises that shareholder value is maximised when organisations consider a diverse range of stakeholders and balance the six capitals. This section explores the term 'value creation' by reviewing literature surrounding corporate value creation and its relationships with investors. Discussions are presented on intellectual capital, CSR, and stakeholder management as these three concepts appear to be commonly associated with value creation.

Gaps have emerged between corporate market value and book value as the source of economic value is no longer purely based on tangible assets, but is also based on the creation of intangible assets and intellectual capital (CGMA, 2014; Ming-Chin, Shu-Ju, & Hwang, 2005; Mouritsen et al., 2001). Intellectual capital refers to intangible resources that create corporate value, and are commonly identified with three principle components: human capital, customer capital, and organisational capital (Edvinsson, 1997; Mouritsen et al., 2001; Roslender, Marks, & Stevenson, 2015; Stewart, 1998). Human capital is not owned by corporations and relates to the combined skills, knowledge, innovation, and abilities of employees, and this also includes corporate values and culture (Edvinsson, 1997; Stewart, 1998). Similarly, customer capital is not owned by corporations and relates to the ongoing relationships with consumers or organisations who transact with a corporation. Customer capital is reflected by analysis such as consumer retention,

per customer profitability and market share (Mouritsen et al., 2001; Stewart, 1998). Organisational capital are assets owned by a corporation, such as organisational structure, patents, trademarks, and anything that supports employee productivity (Edvinsson, 1997; Stewart, 1998). Studies on East Asian corporations suggest better intellectual capital efficiency is associated with higher market value. Tan, Plowman and Hancock (2007) used the Value Added Intellectual Coefficient method as a measure of intellectual capital and value creation, and compared it to corporations' return on equity, earnings per share and annual returns. They found a significant positive relationship between the development of intellectual capital and corporate performance, where corporations with higher values of intellectual capital achieved greater financial performance compared to those with lower values. Ming-Chin et al. (2005) also used the Value Added Intellectual Coefficient method and found corporations with greater intellectual capital perform better financially in the long-term and have higher market value, leading Ming-Chin et al. to conclude investors place higher value on corporations with better intellectual capital efficiency. Studies on UK corporations also show a significantly positive association between intellectual capital and financial performance (Zéghal & Maaloul, 2010).

CSR is recognised as positively associated with corporate value creation and financial performance despite ongoing debates on whether engagement in socially responsible behaviour economically benefits corporations. CSR is about corporations voluntarily operating for the wider social interest instead of focusing on profits, this includes respecting communities and the environment, practicing ethical behaviour, and caring for employees (Bénabou & Tirole, 2010; Huang, 2010). The traditional economic argument by Friedman (1970) argues for

management to make decisions that maximise shareholder wealth, and socially responsible activities tend to be perceived as inconsistent with such economic objectives (Godfrey, 2005). However, there are studies that suggest a positive relationship between CSR and financial performance. Through interviews and surveys with institutional investors and company executives, Petersen and Vredenburg (2009) found Canadian investors consider CSR to contribute to corporate value as investors view a direct link between CSR and financial performance. CSR is seen as a strategy that can reduce corporations' exposure to risk related market volatility, community problems, terrorism, resource use, and governmental problems. Godfrey (2005) supports the idea of a positive relationship between CSR and financial performance. Godfrey theorised that philanthropic activity can sometimes, to a certain extent, generate positive moral capital to help corporations resist future negative shocks. For instance, accumulation of positive moral capital would not have shielded Enron and Arthur Anderson from punishment as both organisations violated ethical and legal obligations; however, in the case of Unocal, evidence of philanthropic activity acted as counterfactual evidence to claims regarding the corporation violating human rights, and such claims were discounted.

Stakeholder management is another factor associated with value creation. Corporate value is created through building and managing relationships with stakeholders. Hillman and Keim (2001) investigates the relationship between shareholder value, as measured by financial performance, and corporate social performance. The researchers separated 'corporate social performance' into two components of 'stakeholder management' and 'social issue participation'. Stakeholder management relates to developing relationships with key stakeholders.

It relates to building community relations and employee relations, as well as addressing diversity and environmental issues. Stakeholder management often leads to the development of corporate reputation, and strengthening of the interdependency between corporations and key stakeholder groups. Social issue participation relates to involvement in social concerns voiced by a small portion of society, where the concerns do not have a direct relationship with key stakeholders. Examples of this include involvement in non-domestic concerns or prohibiting the use of nuclear energy. Hillman and Keim reports that not all CSR activities create shareholder value and suggests effective stakeholder management improves financial performance, whereas social issue participation has a negative impact on shareholder value. Similarly, Moura-Leite, Padgett and Galán (2014) found a positive relationship between stakeholder management and financial performance, and suggests that although social issue participation may not have significant effects on financial profitability, such practices could benefit corporate reputation and lead to better market performance. Different to the previous two studies, Scholtens and Zhou (2008) suggests focusing on stakeholder relations does not necessarily achieve greater financial performance. The study found an obvious relationship between socially irresponsible behaviour and poor financial performance and higher volatility of share prices; however, stakeholder relations in general have a slightly negative association with financial performance. Scholtens and Zhou's findings suggest there is a point where the increased revenues from enhanced stakeholder relations are offset by the cost of achieving and maintaining responsible conduct.

2.4 Shareholder Values and Stakeholder Values

One ongoing debate in corporate governance is who corporate management

should be accountable to (Ali, 2015; Vilanova, 2007). Two principal standpoints on this issue are either accountable to only shareholders or accountable to a wider group of stakeholders. Smith (2003) identifies the fundamental difference between shareholder and stakeholder theory is that stakeholder theory requires the consideration of all stakeholder interests even at the expense of a reduction in corporate profitability. Despite the differences, both sides agree that the long-term interests of shareholders are best addressed through considering the needs of the wider stakeholder group (Ali, 2015; Smith, 2003; Vilanova, 2007). This section describes a gradual growth in the influence of stakeholder values on capital allocation. It introduces the doctrine of shareholder value, criticisms of the shareholder model leading to the demand to incorporate stakeholder values, and the gradual rise in socially responsible investments (SRI).

The doctrine of shareholder value is often associated with Friedman's (1970) argument of having shareholder wealth maximisation as the only goal of corporate management. The shareholder model reinforces the idea that corporations should be solely operated in the interests of shareholders. The primary justifications for placing shareholders in first priority are the agent-principle relationship and that shareholders are the residual risk bearers. Spurgin (2001) suggests, in theory, shareholders have researched and invested in investment targets they conclude to have potential in generating financial returns. Shareholders then attend shareholder meetings and exercise voting rights to determine corporate direction. Managers in turn carry out shareholders' decisions and are compensated according to their success or failures. According to this model, shareholders are the 'principles' who hire managers as 'agents' to carry out their interests, which generally relate to increasing financial returns. Shareholders are the residual risk

bearers as they do not negotiate compensation in advance and their remuneration depends largely on the performance of the invested corporation (Ali, 2015; Vilanova, 2007). As shareholders are the risk bearers, managers are seen to have the responsibility of increasing shareholder value and maximising the economic value of corporations.

Shareholder theory may reflect corporations' traditional mindset of maximising shareholder value, but such a theory does not entirely reflect the modern corporate environment and has been criticised for a lack of behavioural considerations. Post, Preston and Sachs (2002) states that many modern corporations do not act solely on shareholder value and are already managed in ways that serve the interests of both internal and external stakeholders. Furthermore, individual shareholders often have diluted ownership of outstanding shares and cannot influence a corporation, nor do they have any desire to do so; hence, corporations do not need to manage themselves primarily for the benefit of passive individual investors. Management is not obliged to act primarily for shareholder interests as there are often no express contracts between shareholders and managers (Post, 2003). Shareholders are seen as beneficiaries of a corporation rather than those who are involved or impact corporate direction. Standard economic theory posits that people act to satisfy their own interests and market transactions generally follow narrow economic considerations. Ellis (2008) argues that standard economic theory “fails to accommodate the changing influence of unselfish values in different circumstances” (2008, p. 521). Even though non-economic motives play a relatively minor role in market transactions, people do not act solely for personal gains, due to the influence of ethical values and social norms on human behaviour. Hence, shareholders may not invest solely for

the purpose of maximising financial returns.

Although shareholder theory has been criticised to be unreflective of the modern corporate environment, it has been blamed for contributing to the financial crisis and failure of corporations to generate sustainable value. It became apparent from the Global Financial Crisis that corporate governance models emphasising shareholder value and shareholder accountability were unsuccessful at preventing poor director ethics and failures in risk management (Atkins, Solomon, et al., 2015). Furthermore, a focus on shareholder values does not create sustainable value for a corporation and its country of operation. Lazonick (2014) identified that from the late 1970s, US corporations favoured value extraction above value creation. Investment in human capital and manufacturing capital are important drivers to sustainable value creation; but the focus on shareholder values saw corporations reducing cost to distribute more profits, and investing in share repurchases instead of innovation and productive capabilities. Corporations' short-term focus on shareholder values have contributed to employment instability and income inequality (Lazonick, 2014; Lazonick & O'Sullivan, 2000).

While shareholder values emphasise maximising investors' financial returns, stakeholder values relate to meeting and balancing the expectations of key groups in society. Apart from public pressures for corporate sustainability (see Chapter One, Section 1.2), stakeholders have also been demanding corporate accountability. Corporate accountability generally relates to 'transparency' and 'trustworthiness', and in a broader sense, 'involvement', 'participation', and 'responsibility' to stakeholders (Bovens, 2007). Public pressures have made corporations increasingly accountable for their actions, resulting in demand for corporations to show accountability and disclose information that may impact

their stakeholders (Morf, Flesher, Hayek, Pane, & Hayek, 2013). Transparency is an essential element in conveying accountability, where information disclosures need to be complete, reliable and credible (Boiral, 2013). Members of society are now emphasising corporate sustainability and accountability, suggesting the role of corporations can no longer be focused solely on satisfying shareholders.

The doctrine of shareholder value indicates that investors are interested in financial returns, but there is no evidence stating investors are purely financially motivated and that all investments are purely economic events (Ellis, 2008; Murray, Sinclair, Power, & Gray, 2006). SRI started back in the US from as early as the 1970s, but it only gained momentum in recent years and has become a substantial part of the overall global investment market (Atkins, Solomon, et al., 2015; Bauer, Derwall, & Otten, 2007). SRI is also referred to as ethical, socially conscious, or sustainable investments. It involves investments that have social, ethical or environmental criteria combined with traditional financial investment decisions (Nilsson, 2008). Eurosif's (2008, 2010) studies show the amount of assets under management by SRI funds have grown from a global total of €4,963 billion Euros in 2007 to €7,594 billion Euros in 2010. The increasing market presence of SRI suggests there are investors incorporating stakeholder values into their capital allocation choices and sustainability practices are seen to be associated with value creation. The next section expands on the relationship between shareholder values and stakeholder values with discussions on investors' perceptions of the relevance of non-financial information.

2.5 Relevance of Non-financial Information to Investors

Corporate disclosures act as an essential mechanism for capital markets to function efficiently as they weaken agency problems through reducing

information asymmetry (Healy & Palepu, 2001; Jiang, Habib, & Hu, 2011; Lai, Liu, & Wang, 2013). Agency problems are a subcomponent of agency theory and can occur when managers (agents) and investors (principals) have conflicting goals or when it is difficult for investors to verify that managers have behaved accordingly to investors' expectations. Agency problems can be separated into two main problems of 'adverse selection' and 'moral hazard', both major causes of 'information asymmetry' (Alberti-Alhtaybat, Hutaibat, & Al-Htaybat, 2012; Eisenhardt, 1989). Information asymmetry arises as managers possess more information than investors about a corporation, due to greater involvement in corporate operations, resulting in an information gap if managers withhold information from investors (Alberti-Alhtaybat et al., 2012; Healy & Palepu, 2001). Adverse selection occurs when corporate insiders, such as managers and employees, possess more information than outsiders about the current situation and future plans of a corporation. Adverse selection refers to the ignorance of investors and the potential misrepresentation of information from managers (Akerlof, 1970; Alberti-Alhtaybat et al., 2012; Eisenhardt, 1989). Moral hazard arises from the separation of ownership and control due to investors not playing an active role in corporate management (Healy & Palepu, 2001; Jensen & Meckling, 1976). Moral hazard refers to the unfavourable actions and potential lack of effort from managers (Alberti-Alhtaybat et al., 2012; Eisenhardt, 1989). Through mandatory and voluntary corporate disclosures, information asymmetry is reduced as investors obtain access to more information for evaluating and monitoring investment opportunities, leading to greater efficiency in investment decisions and capital markets (Healy & Palepu, 2001; Jiang et al., 2011; Lai et al., 2013).

Although an increase in corporate disclosure is seen to reduce information asymmetry, investors are often reliant on financial information for decision-making (Integrated Reporting Committee of South Africa, 2011). There have been different views on whether environmental, social, or sustainability disclosures are considered relevant by investors. Some academics focus on voluntary disclosure theory and argue that environmental disclosures are relevant as they improve analysts' forecasts (Cormier & Magnan, 2013). Other academics perceive non-financial disclosures as simply 'legitimation tools', which are strategies used by corporations to influence social perceptions and to suggest corporate compliance with social norms (Cho & Patten, 2007; Gray et al., 1995). The recent scandal of Volkswagen cheating emission tests reflects corporate exploitation of, or pressures to comply with, social values. Volkswagen had been heavily marketing its 'clean diesel' from 2008 and its diesel models had been acknowledged as incorporating a technological breakthrough (Gardner, Lienert, & Morgan, 2015; Hotten, 2015). However in September 2015, the United States Environmental Protection Agency (2015) issued a notice of violation against Volkswagen regarding its failure to comply with US emission standards. Volkswagen was found to have installed software in its vehicles to automatically alter vehicle performance to below normal operational levels when emission tests were being conducted. In actuality, the diesel vehicles emitted levels of nitrogen oxide 10 to 40 times above the compliance amount.

As there are currently few studies that focus on investors' perspectives of integrated reports, the following subsections take on a broader view and draw on literature relating to the influence of non-financial information on investors' decision-making. The literature reviewed is categorised into different sections:

private equity investors, retail investors, institutional investors, investment analysts, and the overall share market. For the purposes of clarification: ‘private equity investors’ comprise of ‘buyout’ and ‘venture capital’ investors, and relates to direct equity investments into businesses; while ‘retail investors’ and ‘institutional investors’ fall under the category of ‘security investors’, and relates to the trade of financial instruments in capital markets⁵.

2.5.1 Private Equity Investors

Literature on private equity investment focus on two areas: venture capital and buyouts. Venture capital relates to investment in start-up businesses with high growth prospects, while buyouts relate to acquiring established businesses (Portmann & Mlambo, 2013). Venture capitalists often screen a large number of business proposals in a limited timeframe, prompting decision-makers to make quick decisions based on dispersed information and relying on personal experience (Kirsch, Goldfarb, & Gera, 2009). Venture capitalists generally face strong information asymmetries. Private information is not often observable by investors, and ventures may be unwilling to share core information about their innovation in the fear of expropriation (Dushnitsky & Lenox, 2006; Dushnitsky & Shaver, 2009). Ventures may engage in strategic disclosure of information to make their funding request appear more favourable than it actually is (Kirsch et al., 2009). Kirsch et al. (2009) found the documents provided by ventures are not considered an important source of information in investment decision-making. The act of preparing a nicely presented business plan has become too easy and common, so skilled venture capitalists look past the report presentation for the core idea and use other information sources to obtain critical information about investment targets.

⁵ See Glossary of Terms (p. xii) for an explanation of investor categories and types

Non-financial information appears to be of greater importance than financial information for decisions regarding venture capital and buyouts. Portmann and Mlambo (2013) surveyed South African buyout and venture capital investors and found non-financial factors are more important than financial factors. Management integrity, experience, knowledge and venture growth potential were prioritised over the costs associated with investment. Crifo, Forget and Teyssier (2015) conducted experimental research and found non-financial disclosures relating to ESG affect buyout and venture capital decisions. Investors in France react more to good news than bad news, with governance being the most influential factor with regards to ESG. Venture capital investments are also affected by a variety of factors, including an investment target's management team, leadership potential, ability to contribute to competitive advantage, product attributes, current market size, future growth potential, and expected returns (Fried & Hisrich, 1994; Monika & Sharma, 2015). Furthermore, venture capitalists in industries with a fast rate of technological change, high competition, and high rate of knowledge spillovers treat equity investment as a flexible way of exploring and obtaining developments that contributes to their own competitive advantages (Basu, Phelps, & Kotha, 2011).

2.5.2 Retail Investors

Western retail investors are increasingly interested in environmental information for investment decision-making, and investors also want information to be assured to reduce information asymmetry and to make corporations accountable for their own actions (de Villiers & van Staden, 2010, 2012). Studies using business students as surrogates for retail investors show that environmental information does influence investment allocation decisions (Holm & Rikhardsson, 2008; van der Laan Smith, Adhikari, Tondkar, & Andrews, 2010). Another study

using student surrogates found the inclusion and exclusion of corporations into ethical indexes affect investment allocations, suggesting there are investors that have ethical preferences when making investment choices (Consolandi et al., 2009).

Although non-financial information may be important to retail investors, there are also studies suggesting economic information is prioritised above those relating to sustainability and corporate governance. Holm and Rikhardsson (2008) found environmental information is not as important as information relating to the future expectations of corporations, corporate investment plans, and currency fluctuations. Cohen et al. (2011) found similar results and suggests retail investors are more concerned with economic information than information related to corporate governance or CSR. Cohen et al.'s survey results show retail investors are most concerned with information relating to financial performance, such as market share, customer satisfaction and product innovation, then information about corporate governance, such as audit process and ethics guidelines. The least of investors' concerns is information relating to CSR, such as environmental programs and humanitarian initiatives.

2.5.3 Institutional Investors

Ali (2015) states that due to individual clients monitoring the performance of institutional investors, institutional investors are seen to be motivated by economic returns, which could mean achieving greater short-term results at the expense of long-term goals. Research regarding the influence of non-financial information on the investment decisions of institutional investors appears to show conflicting results. Hummels and Timmer (2004) and Miles et al. (2002) suggest institutional investors only consider sustainability-related information as partially useful to their

investment assessments and very few investors integrate sustainability into their core investment processes. Hellman (2005) interviewed Swedish institutional investors and found investors maintained a financial approach to investments and did not take part in demanding any corporate changes in CSR practices.

However, there are also studies suggesting institutional investors are demanding more non-financial information and utilising it in investment decisions. Solomon and Solomon (2006) interviewed UK institutional investors and found investors were not satisfied with the quality and quantity of public sustainability disclosures; furthermore, sustainability information is being integrated into investment processes and investors are more active in seeking information from their investment targets. Aust (2013) found similar results and suggests US institutional investors are not only incorporating sustainability into their investment decisions, but sustainability has “increasingly become a key criterion by which investors evaluate securities” (p.11). EY (2014) recently conducted a global survey on institutional investors’ use of non-financial information. From a sample of more than 160 participants, a mixture of responses was obtained ranging from investors considering non-financial performance information as essential, to investors who have never used such information as it is considered immaterial. Two-thirds of participants evaluate non-financial information when making investment decisions, while the remainder rely on personal judgements of environmental and social data. EY’s findings also suggest investors consider corporate disclosures to be the most relevant source for non-financial performance information, and investors are increasingly using the non-financial information from corporate disclosures to assess risk.

There are tendencies for institutional investors to hold long-term investments in corporations that follow sustainability practices and disclosures. Cox et al.'s (2004) study based in the UK suggests a positive connection between long-term institutional investment and corporate social performance. The study also suggests investors place more value on employee based performance than community based performance. Knauer and Serafeim (2014) analysed the trading behaviour of institutional investors on a company that practices integrated thinking and integrated reporting. The study found that prior to the company emphasising sustainability policies and increasing their disclosure transparency, it attracted a large number of investors with short holding periods. After altering their strategy to incorporate integrated thinking and reporting, the company experienced appreciating share prices that exceeded competitors, furthermore, investors with long holding periods exceeded those with short holding periods.

Although institutional investors may be incorporating non-financial information into investment processes, their intentions are likely to be based on the belief that CSR or sustainability practices will create higher economic returns in the long-term. Petersen and Vredenburg (2009) suggests institutional investors integrate CSR information into decision-making not because of moral reasons, but because of the potential economic value added to a company through CSR practices. The majority of investors who participated in their study were unwilling to pay a premium for shares in corporations that engage in CSR although they did prefer holding shares in corporations that engage in CSR. No matter the motives driving investors' consideration of non-financial information, it is anticipated that sustainability-related information will continue to be integrated into mainstream institutional investment. Atkins, Solomon, et al. (2015) suggests that members of

UK investment institutions anticipate drastic changes in the relevance of environmental and social issues, and the majority of participants perceived growing acceptance that social and environmental information are in fact financial in nature and are material to corporations and investors alike.

2.5.4 Investment Analysts

Investment analysts appear to have mixed views on the relevance of non-financial information for investment decision-making. A study of Belgium corporate disclosures and analyst reports reveals that analysts tend not to use non-financial information, except for those relating to forward-looking information and corporate internal structure (Orens & Lybaert, 2007). Campbell and Slack (2008) interviewed UK sell-side bank analysts and found banking analysts are sceptical about all voluntary reporting and believe narrative reporting is not helpful in analysis models. Campbell and Slack also found analysts consider environmental disclosures irrelevant and immaterial when analysing corporations, and environmental disclosures are not as decision-useful as information regarding financial performance. The research participants stated environmental information could be potentially significant if their clients valued the information; however, there was little evidence of this happening apart from within SRI funds.

In contrast with studies suggesting the irrelevance of non-financial information to investment decisions, there are other studies suggesting analysts do value non-financial information. Dhaliwal, Radhakrishnan, Tsang and Yang (2012) examined the relationship between CSR disclosures and accuracy of analyst forecast. The researchers found CSR information leads to lower forecast error in the short-term and long-term, and this relationship is stronger in countries where CSR performance has a greater influence on financial performance. Chan and Milne

(1999) found disclosures on poor environmental performance has a strong and negative impact on analysts' perceptions of a corporation, but good environmental performances have failed to stimulate any significant reactions. A study on the German capital market by Hoffmann and Fieseler (2012) suggests analysts consider the quality of corporate communication to be one of the most important non-financial factors, as well as the quality of stakeholder relations, corporate governance structure, CSR, management quality, strategic consistency, and reputation and brand. Atkins, Solomon, et al. (2015) acknowledges resistance amongst mainstream UK analysts to incorporate ESG issues into investment analysis. This resistance is because sustainability-related issues are seen to impact medium to long-term corporate performance and analysts are more interested in short-term performance. However, Atkins, Solomon, et al. comments that the resistance is weakening as analysts are increasingly interested in sustainability issues and are also being educated by specialists in the SRI field.

2.5.5 Share Markets' Responses to Non-financial Information

Share markets reflect the decisions of buyers and sellers of shares. As an aggregate group of traders, share markets appear to react to releases of non-financial information. For instance, referring again to the case of Volkswagen, the corporation's share prices dropped more than 30 percent within two days of the scandal breaking (Fortune, 2015).

Murray et al. (2006) analysed UK corporations and found no direct short-term relationship between CSR disclosures and share returns; however, analysis of a longer period of nine years reveals that higher CSR disclosure correlates with higher share returns. Bachoo, Tan and Wilson (2013), Berthelot, Coulmont and Serret (2012) and Qiu et al. (2014) suggest a more immediate

benefit to non-financial disclosures. Bachoo et al. (2013) analysed Australian corporations and found that markets value high-quality sustainability reports as suggested by the positive association between share price and high-quality sustainability reports. Other studies undertaken in Canada (Berthelot et al., 2012) and UK (Qiu et al., 2014) reveal similar results.

Cheung (2011) and Krüger (2015) suggest share markets react to non-financial information, but identify that participants may not appreciate positive CSR performances. Cheung (2011) conducted an event study on the Dow Jones Sustainability World Index and found corporate share prices increase if they are included in the Index, and decrease if they are excluded from the Index, but there were no permanent changes in share prices. Such findings suggest US shareholders may only value sustainability in a temporary way as investors continue to invest in corporations that are excluded from the Index despite knowing the reasons that got them taken off. Another study by Krüger (2015) also based on the US market suggests that in the short-term, investors react negatively to the release of negative CSR news, especially to news relating to the community and environment. This reaction is explained by substantial costs associated with corporate social irresponsibility. Moreover, investors react slightly negatively to the release of positive events, but the reaction is weaker and less systematic compared to negative events. The findings suggest investors do not appreciate corporations implementing CSR policies as it could be a distraction from economic profitability.

2.6 Investment Decision-making Methods and Information Sources

Security investors follow a top-down approach or a bottom-up approach to selecting investment targets, within these approaches are two main group of analysis: fundamental analysis and technical analysis (Fabozzi & Drake, 2009).

Top-down approach begins with assessments and forecasts of the macroeconomic environment, and then looks onto specific industries and investment targets. In contrast, bottom-up approach assesses individual targets and deemphasise the significance of economic and market cycles. Fundamental analysis involves analysing investment targets' operations to appraise their prospects. It includes assessment on corporate financial statements, product lines, industry trends, competitive environment, and so on. Technical analysis relates to finding patterns and trends from historical share prices and trading volume to identify the future movement of individual shares or the overall share market. This subsection identifies literature relating to share appraisal methods and the information sources security investors consider important.

Researches on share appraisal methods have been conducted in different countries, many of which found similar findings. Fundamental analysis is the predominant method of security appraisal in the UK (Arnold & Moizer, 1984), US (Moyes, Park, Wang, & Williams, 1997), Thailand (Saadouni & Simon, 2004), Malaysia (Mohamad & Perry, 2015; Saadouni & Simon, 2004), Saudi Arabia (Al-Abdulqader, Hannah, & Power, 2007), China (Wang, Haslam, & Marston, 2011), and Kuwait (Almujamed, Fifield, & Power, 2013). The above studies also identify that technical analysis techniques are less used or rarely used by investors, and Al-Abdulqader (2007) suggests the use of technical analysis is greater in emerging economies than developed countries. Technical analysis is usable as investors believe the market is inefficient and it is possible to generate capital gains by seeking patterns in the market (Almujamed et al., 2013). Such techniques are more applicable to short-term trading rather than long-term investment. Moyes et al.'s (1997) study comparing US analysts with Taiwan analysts identifies

Taiwanese analysts as more reliant on technical analysis than fundamental analysis, compared to US analysts. Moyes et al. expected fundamental analysis to become increasingly more important in Taiwan due to the opening of Taiwan's capital markets to foreign investors in 1991.

As for factors influencing investment decisions, Moyes et al. (1997) found Taiwanese analysts consider economic and industry factors as more important than firm-specific and accounting factors. Saadouni and Simon (2004) identifies the ability of top management, corporate reputation, management experience, and product quality as a few important non-financial factors considered by Thai and Malaysian investors. Almujaed et al. (2013) found Kuwait investors are influenced by the reputation of corporate management. There is also avoidance of investment in corporations with major shareholders who have poor track records. Mohamad and Perry (2015) found Malaysian investors do not employ any particular investment strategy and consider the investment process as unquantifiable; moreover, many investment decisions are decided by feelings of comfort and gut feelings.

Investors in different economies appear to gather information from similar type of sources, but there are variances in what they consider to be the most important source. Arnold and Moizer (1984) found UK investors relied on income statements, interim reports and communication with management more than annual reports. Research by Saadouni and Simon (2004) on Malaysia and Thailand, and Moyes et al. (1997) on Taiwan also suggest similar results. Moyes et al. further identifies that the investment community is not a widespread source of information in Taiwan due to a small number of investment analysts. Almujaed et al. (2013) found many investors in Kuwait consider financial

statements and study financial ratios, but few use annual reports. Those findings are contrasting to Wang et al.'s (2011) study on Chinese investment analysts. Wang et al. identifies annual reports as the most important source of information, especially the financial information contained in the reports. Annual reports are prioritised above industry statistics and company visits, but it was noted that Guanxi (relationship) is needed to gain direct access to corporate management and information. Similar to Wang et al., Al-Abdulqader et al. (2007) identifies quarterly and annual reports to be the reliant sources of information for Saudi Arabia investors, while discussions with corporate management is rarely undertaken. News papers are also identified as an important source of information.

2.7 Non-financial Disclosures in Taiwan and Taiwanese Investors'

Investment Behaviour

The practice of non-financial disclosures, such as CSR or sustainability reporting, has been less important to Taiwanese corporations when compared with those in Western economies. Taiwanese authorities have not mandated corporate environmental disclosure and the current law is insufficient as it enables corporations to omit environmental disclosures or only disclose information that is advantageous to the organisation (Huang & Kung, 2010).

When looking at the overall corporate environment, Taiwanese corporations tend not to prepare sustainability reports (Hu, Chen, Hsu, & Ao, 2011; Ip, 2008), and there is low stakeholder demand for such information (Huang & Kung, 2010). KPMG's (2013) survey shows that in 2013, 56 percent of Taiwan's 100 largest corporations produced sustainability reports, a significant improvement from the 37 percent reported in 2011. Although more large Taiwanese corporations are

preparing sustainability disclosures, the progress is lagging behind many other Western and Asian economies. KPMG's survey also shows 83 percent, 100 percent and 59 percent of the 100 largest corporations in the US, UK and China respectively produced sustainability reports in 2011, which later changed to 86 percent, 91 percent and 75 percent in 2013. When looking at the overall corporate scene, surveys of Taiwanese publically listed corporations revealed that the majority of corporations had little knowledge of sustainability reporting or similar practices (Ip, 2008). The number of corporate scandals have also risen along with the gradual engagement in sustainability reporting, this appears to be a contradictory and worrying trend which suggests the impact of a slight movement towards corporate responsibility "seems inconsequential in sustaining a positive change" (Ip, 2008, p. 176). However, as corporations in Taiwan are becoming more involved in international businesses, it may be important for CSR to become an integral part of corporate focus (Shen & Chang, 2009).

Cultural and institutional differences affect how investors make investment decisions, and also how investors value non-financial information and performance (see for example, Chui, Titman, & Wei, 2010; Dhaliwal et al., 2012; van der Laan Smith et al., 2010). Academic studies of Taiwanese investor behaviour and information needs are generally related to analysis of the Taiwan Stock Exchange (TWSE) or investors' use of financial information (see for example, Chang, 2013; Lee & Fan, 2014; Shu, Yeh, & Yamada, 2002). There appears to be relatively few studies focusing on Taiwanese investors' use of non-financial information.

The development of corporate governance is critical to Taiwan as there are high opportunities for agency problems to arise due to the majority of shareholding corporations being family controlled, and there being weak legal

protection for minority investors (Chang & Wei, 2010). Chang and Wei (2010) used experimental methods to examine the importance of corporate governance to Taiwanese retail investors. Strong corporate governance would include attributes such as independent directors, directors' expertise, and ownership structure. They found investors consider corporations with strong governance practices to be more credible and are willing to pay higher prices for their shares. However, investors' trust in corporations appears to be fragile. Lee and Fan (2014) analysed Taiwanese investors' trading behaviour during periods of emerging financial and accounting scandals in Taiwan. Lee and Fan found a significant number, over 50 percent, of retail investors fully ceased trading activities despite their investment having no association with the scandals. Chen et al. (2011) found Taiwanese investors engage in strategies focused on achieving the highest investment returns, such as short-term investments resulting from high-frequency trading. Taiwanese investors also have strong risk-seeking behaviour and tend to invest in familiar stocks even in situations when it is not rational to do so; furthermore, overconfidence in investment choices and desire to gamble account for much of the active trading done by retail investors.

2.8 Chapter Summary

This chapter is a literature review on concepts associated with IR and investment decision-making. IR encourages capital allocation decisions to be considerate of factors beyond those directly financially related. Much of the current research on IR and integrated reporting is from an organisational perspective and there are relatively few empirical studies from the investors' perspectives. Investors are an important research area as they are deemed the primary users of integrated reports (IIRC, 2013a). Most current research about IR is conducted in a

South African and Western context. There is a research opportunity to further investigate the application of IR in an Asian context. Furthermore, current research does not appear to address in detail how useful and relevant integrated reporting is to investment decision-making.

The interpretation of corporate value creation has broadened over time to include aspects of sustainability and accountability. Specifically for investors, value creation appears to focus on intellectual capital, CSR, and stakeholder management. The changes in corporate value creation appear to be consistent with the gradual shift in focus from traditional shareholder values to broader stakeholder values. This change has increased considerably since the recent financial crisis. Investors appear to have varied views on the usefulness of non-financial information to investment decision-making. Private equity investors appear to value non-financial information, such as management abilities and competitive advantages, above financial information. Retail investors appear considerate of environmental and ethical information, but prioritise economic-related information above sustainability-related information. Institutional investors appear to have varied perspectives about sustainability-related information. Some institutional investors integrate sustainability into decision-making models, while others link sustainability to long-term performance and consider it less relevant to current investment decisions. Similarly, investment analysts have mixed views on the relevance of non-financial information to investment decision-making. Corporate market value also appears to be affected by sustainability disclosures and the release of CSR news.

IR encourages the disclosure of integrated information relating to corporate value creation, such information is not readily available from current reporting

mechanisms. However, this does not imply that information generated from integrated reporting is relevant to all investors. The investment decision-making process varies for different investors. Investors vary in decision-making methods, preference of information sources, and type of information they consider to be material. Although non-financial reporting is starting to gain momentum in Taiwan, such disclosure practices are not significant when compared to other countries. There is currently a lack of research from Taiwanese investors' perspectives regarding the decision-relevance of non-financial information and the concept of integrated reporting. This study will help to fill the gap in the literature.

The next chapter introduces Taiwan's social, economic, and natural environment to bring the research into context.

CHAPTER THREE

CONTEXT OF TAIWAN

3.1 Introduction

This chapter introduces the Taiwanese society, economy and natural environment. As the study investigates investors in Taiwan, it is beneficial to be aware of Taiwan's background to bring the research findings into context. A focus is placed on describing the Taiwanese culture, corporate environment, and capital markets. Taiwan, officially known as the Republic of China, is an island located in Eastern Asia. Taiwan's land area of 36,193 square kilometres is populated by 23.4 million people as at July 2014 (Executive Yuan, 2014). Although Taiwan is a small island, it is significant to the global economy. In 2014, Taiwan ranked 14 out of 144 countries in global productivity and competitiveness (World Economic Forum, 2015), 8 out of 130 countries in entrepreneurship attitude and potential (The Global Entrepreneurship and Development, 2015), and 23 out of 228 countries in gross domestic product (GDP) per capita (Central Intelligence Agency, 2014). This chapter is presented as follows:

3.2 Society and Culture

3.3 Economic Developments

3.4 Natural Environment and Sustainable Development

3.5 Chapter Summary

3.2 Society and Culture

3.2.1 Brief Overview of History and Current Society

Taiwan has a history of frequent changes in colonial rulers, which influenced and shaped Taiwan's current society and political relationships with China. Prior to Taiwan's first colonisation, aborigines occupied the land as well as waves of settlers

from Mainland China (hereafter referred to Mainland or China) (Center for Strategic and International Studies, 2007). Portugal was the first European nation to locate Taiwan, but the Dutch were the first to colonise in 1624. What follows the Dutch colonisation are conquest, conflict and changes for Taiwan and its people. Within three to four centuries, Taiwan has been completely or partially ruled by regimes including Holland, Spain, China and Japan (Roy, 2003; Xiaofeng, 2009; Zhang, 2003). Today's Taiwanese people have developed from generations of intermarriages, mixture of cultures and the struggle to be recognised as an independent nation (Fleischauer, 2007; Zhang, 2003).

Taiwan was first under the Dutch rule for 38 years, during this period the Spanish sought to take over and invaded the island's north coast (Xiaofeng, 2009). The Spanish occupied the north coastlines for 16 years before being driven out by the Dutch. The Dutch rule ended in 1662 when a Ming loyalist from the Mainland invaded Taiwan with an army of 25,000 soldiers (Zhang, 2003). The Dutch were forced out of Taiwan and the island became a place for Chinese rebels who fled from the Mainland once the Qing dynasty gained dominance. People of the Qing dynasty later invaded Taiwan in 1683 and took over the island for 211 years (Xiaofeng, 2009). The Qing dynasty later conceded Taiwan to Japan following their defeat in the 1894 Sino-Japanese War, where afterwards Japan ruled Taiwan for 50 years by strict dominance and control (Roy, 2003; Zhang, 2003). Although many Taiwanese respected the efficiency of Japan's administration and security forces, many felt discrimination against the Taiwanese. Meanwhile in the Mainland, political struggles intensified between the Communist Party of China (CPC) and Kuomintang (KMT) the nationalist party (Zhang, 2003).

Taiwan was returned to the Mainland following Japan's defeat in World War II. The KMT were internationally accepted to govern Taiwan and took over the island in 1945 (Zhang, 2003). Taiwanese people initially welcomed back the Chinese sovereignty as the Mainland was their ancestral home, meaning there were stronger cultural connections and the opportunity for self-governance (Fleischauer, 2007; Zhang, 2003). However, KMT did not treat Taiwanese people with respect and extracted resources from Taiwan to support the civil war in the Mainland. Taiwan was not granted the status of a regular province, and native Taiwanese were unable to participate in political matters (Fleischauer, 2007). The extraction of resources resulted in food shortages and high inflation (Zhang, 2003), and much of the assets were redirected towards corrupt officials and their relatives (Roy, 2003). The KMT rule was thought to be no better than the Japanese. In 1946, a full-scale civil war broke out in the Mainland between CPC and KMT, resulting in two million nationalists forced to escape to Taiwan (Agoramoorthy & Hsu, 2007; Zhang, 2003).

On February 27, 1947, a significant event now known as the '228 Incident' triggered the widespread rebellion and massacre of thousands of Taiwanese people. The trigger of the 228 Incident was when state officers violently arrested a Taiwanese widow for selling unlicensed cigarettes, wounding and killing several bystanders in the process (Fleischauer, 2007; Zhang, 2003). This event caused an outbreak of violence and resistance against KMT and other immigrants from the Mainland. The Taiwanese demanded greater autonomy and independence; however, their demands were not met as military enforcements were sent from the Mainland to suppress them. The Taiwanese were thereafter subjected to a period of repression, punishment and executions. The KMT executed a generation of Taiwanese managerial and intellectual elites as they potentially threatened KMT's control over

the island. Around 10,000 to 25,000 individuals were said to have been killed by the undisciplined army, with many others arrested or disappeared. The 228 Incident “became both the source and the most important point of reference for the formation of Taiwanese identity”, where Taiwanese began to identify themselves as a separate ethnic group from the Mainland (Fleischauer, 2007, p. 375).

In 1949, back in the Mainland, the KMT regime were defeated by the CPC and the remaining KMT were forced to flee to Taiwan (Roy, 2003; Zhang, 2003). From 1949 to 1987, martial law was put in place which made advocacy of Taiwan’s independence illegal and prevented the formation of any opposition political party. After 1971, changes in the international environment made it increasingly difficult for KMT to fulfil their claims of becoming the only legitimate government of all China. Events such as Taiwan’s decline into the United Nations and America’s de-recognition of Taiwan indicated that many nations did not recognise Taiwan as an independent nation (Zhang, 2003). Political liberalisation started taking place. Taiwanese individuals as well as Chinese technocrats with Western education were assigned a place in government. Gradual movements towards democracy eventually led to the Democratic Progressive Party leading government in 2000, putting an end to KMT’s monopoly in administration (Roy, 2003). However, KMT was once again elected in 2008 and worked towards strengthening the economic ties between China and Taiwan (Council on Foreign Relations, 2009).

Today’s Taiwanese people are a mixture of bloodlines, but they are generally considered as Han Chinese, the descendants of Mainland China. In 2014, over 95 percent of the population is Han Chinese, with Mandarin as the official language, and Buddhism and Taoism being two of the major religions (Executive Yuan, 2014). Due to historical clashes, political tension remains high between China and

Taiwan, especially on the topic of unification of the nations (Agoramoorthy & Hsu, 2007). Despite the political tension, China has become one of Taiwan's largest trading partner and the economic ties continue to strengthen (Council on Foreign Relations, 2009).

The Human Development Index is an index that reflects the standard of living, life expectancy, and educational attainment of a country (United Nations Development Programme, 2015). Taiwan is not included in the Index calculations due to its exclusion from the United Nations, but Taiwan's Directorate-General of Budget, Accounting and Statistics states Taiwan's Human Development Index is expected to rank 22 out of 188 countries in 2011, suggesting very high human development and placing Taiwan with other advanced nations (Ministry of Foreign Affairs, 2011). Taiwan has been ruled by many different nations, but Confucianism, a philosophy enshrined in Chinese culture, was traditionally seen to guide societal behaviour. However, democratisation and gradual modernisation has resulted in a movement away from traditional Confucianism values.

3.2.2 Traditional Confucian Culture and Modernisation

Confucianism is an influential factor that affects the behaviour and perception of Taiwanese institutions and individuals (Chang & Lin, 2015; Hofstede & Bond, 1988; Sims, 2009; Zhang, 2003); however, such traditions have weakened in today's society. The vast majority of the Taiwanese population have origins linking back to China, but the political history and conflicts have led to significant differences in institutional environment, corporate and governmental management, and standard of living (Chen, 2012). Confucianism relates to the teachings of Confucius, a high-ranking civil servant in China who was present around 500 B.C. Confucianism is not a religion but a set of rules for daily life. In

addition to Taiwan, Confucianism also influence the traditions and culture of many East Asian economies, such as: China, Hong Kong, Japan and South Korea (Chang & Lin, 2015). Countries with a Confucian culture can be described as ones that emphasise education, ethics, obedience, frugality, humanism, harmony, collectivism, and social hierarchies (Chang & Lin, 2015; Fetzer & Soper, 2007; Hofstede & Bond, 1988; Hwang, Chung, & Jin, 2013; Park, Rehg, & Lee, 2005; Sims, 2009; Zhang, 2003). Furthermore, Confucian cultures are proud of their customs and cultures. Although they are open to foreign ideas and values, they do not permit the destruction of their own culture (Chang & Lin, 2015).

Confucian has significantly influenced Taiwan and is a key ideology that shapes individual attitudes and values (Fetzer & Soper, 2010). However, Taiwan gradually modernised and became open to Western thinking and political democracy. Western philosophical views of liberalism, gender equality and freedom of speech have been embraced by society while Confucian values appear to be distancing themselves from current societal values. Modernity is a vague concept with multiple interpretations (Zhang, 2003); but it is commonly associated with urbanisation, openness and respect for public opinions, greater social mobility, and less gender inequality (Chow, 2002). Chow (2002) describes Taiwan's modernisation to work parallel with globalisation, and is reflected by the democratisation of its political system and rapid economic development. Fetzer and Soper (2010) conducted interviews with Taiwan's democratic elites and found the ideology of Confucianism is mostly rejected by democracy activists. As the Confucianism culture is strongly associated with KMT, democratic politicians perceived Confucianism as "a Trojan horse for the People's Republic of China and its desire to annex the island" (Fetzer & Soper, 2010, p. 511). The next section

describes Hofstede's cultural dimensions and suggests how Taiwan has, to some extent, diverged from traditional Confucian culture.

3.2.3 Hofstede's Cultural Dimensions

Different cultures result in different systems of thought and behaviours. Nisbett et al. (2001) and Hofstede et al. (2010) advocate that there are noticeable social differences between people of different cultures. Cultures do not only affect individuals' attitudes, values and beliefs, they also affect cognitive processes which determine the way individuals know and perceive the world. Culture is defined by Hofstede et al. (2010) as "the collective programming of the mind that distinguishes the members of one group or category of people from others" (p.6). Hofstede et al. identified six dimensions to national cultures: power distance, individualism, masculinity, uncertainty avoidance, long-term orientation, and indulgence. These dimensions have been used to assess the culture of 76 countries, inclusive of Taiwan.

'Power distance' refers to the extent less powerful members of society expect and accept the unequal distribution of power. Hofstede et al. (2010) suggests Taiwan has a relatively high score of 58, indicating it is a hierarchical society and its people accept the hierarchical order. 'Individualism' refers to the degree of interdependence amongst people in society. In contrast to 'collectivism', individualist societies tend to look after themselves and their family. Taiwan's individualism score is 17, suggesting it is a collectivist society where loyalty is a predominant value and the society emphasises responsibility as a member of a group. 'Masculinity' refers to a society that is motivated by competition, personal success and achievements; in contrast, the values of caring for others and conforming to society are associated with 'femininity'. Taiwan scored 45 in

masculinity, suggesting it is a slightly feminist society where people value equality and quality in their working lives. ‘Uncertainty avoidance’ refers to the extent members of society feel threatened by the future unknown and their actions to avoid the uncertainties. Taiwan scored 69 in uncertainty avoidance, suggesting a high preference for avoiding uncertainty and the need for rules. Furthermore, innovation may be resisted and individuals have an urge to be punctual, busy and hard working. ‘Long-term orientation’ refers to how societies maintain a link to their past while handling the challenges of the present and future. Societies with long-term orientation prepare for the future by encouraging societal change, while those with short-term orientation prefer to hold on to traditions and norms. Taiwan scored 93, suggesting the Taiwanese culture is long-term orientated, pragmatic and adapts traditions to a modern context. ‘Indulgence’ refers to the extent individuals control their impulses and desires. Those that do not show control is referred to as ‘indulgence’, while those with relatively strong control is called ‘restraint’. Taiwan scored 49, suggesting there is no dominant preference on this dimension.

Chang and Lin’s (2015) study is based on Hofstede’s cultural dimensions. Chang and Lin suggests a traditional Confucian society would have high power distance, low individualism, high masculinity, low uncertainty avoidance, and low long-term orientation. When comparing Chang and Lin (2015) with Hofstede et al. (2010), Taiwan’s culture does not appear to be completely in line with a traditional Confucian culture. Taiwan’s society has become more focused on equality and welfare of the society, is more concerned with uncertainties associated with the future, and is eager to modify traditional values and modernise.

3.3 Economic Developments

Over five decades Taiwan has transformed itself from an economically backwards agricultural economy to one specialising in service industries and capital- and skill-intensive manufacturing (Tsai & Huang, 2007; Yu, 2012; Zhang, 2003). As one of the Asian Four Tigers alongside Hong Kong, South Korea and Singapore, Taiwan took part in the well-known ‘East Asian Miracle’ (World Bank, 1993). The title of ‘Four Tigers’ is a reflection of those nations’ strong and sustainable economic growth during the 1960s to 1990s. The Four Tigers achieved annual growth rates ranging between 6 to 10 percent, exceeding the growth rate of any other region in the world (Sarel, 1996; World Bank, 1993; Zhang, 2003). The economic development resulted in rapid poverty reduction and reduction of income inequality (Tsai & Huang, 2007). Academics have argued many views on what contributed to Taiwan’s strong economic development, common factors include: export-orientation policies (Rodrik, 1995; Tsai & Huang, 2007), focus on education and human capital development as advocated by Confucian culture (Kwon & Kang, 2011; World Bank, 1993; Yu, 2012), and the abundance of innovative and active entrepreneurs (Yu, 2012; Zhang, 2003).

The miraculous growth slowed since the 21st century. Taiwan has not yet become a ‘developed country’, and is facing issues with diplomatic isolation and declining birth rates in an increasingly aging society (Central Intelligence Agency, 2014; Executive Yuan, 2014; Kwon, 2013). Kwon (2013) identifies a lack of social trust as a barrier for Taiwan in becoming a developed country. The Taiwanese society’s perception of corporations’ ethical practices and ethical behaviour are relatively low compared to countries that are ‘developed’. There is also a lack of public trust towards politicians as the level of corruption is

perceived as high. Hsu (2013) suggests the political tension between China and Taiwan has made it challenging for Taiwan to participate in international organisations, but this problem did not prevent Taiwan from participating in international trade organisations such as the World Trade Organisation and the Asia-Pacific Economic Cooperation. In 2015, Taiwan is one of the richest economies in Asia and ranks 14 out of 178 countries in economic freedom, falling slightly behind UK (The Heritage Foundation, 2015). Taiwan has prevailed in the global information technology and electronics industry, which makes the island a vital cog in the global economy (Yu, 2012). According to The Heritage Foundation (2015), political corruption is an issue in Taiwan, but property rights are generally protected and liberalisation has progressed. The Heritage Foundation (2014) also identify that Taiwan ranked 34 out of 189 countries in investment protection in 2013. Although this is not a poor rank by global standards, this rank is poor compared to other East Asian countries such as Singapore, Hong Kong, and Malaysia.

3.3.1 Corporate Culture

Globalisation has led to the formation of international corporate norms, but Taiwan's cultural and political background remains influential in corporate operations. In contrast to the US and UK, Taiwanese corporations are typically family controlled, with many listed corporations having family members as controlling shareholders (Chen, 2014). Chen (2014) identifies the governance structure of Taiwan's listed corporations to have changed since the Global Financial Crisis. Corporate boards now have greater independence in supervisors and directors, and corporations have greater information transparency.

CSR has originated from Western economies and the concept may not be fitting for Taiwanese corporations if left unmodified (Ip, 2009). The majority of Taiwanese corporations are small and medium enterprises (SMEs), and corporations show reluctance towards investing in CSR due to uncertainty about their corporate life expectancy and the economic returns from CSR (Shen & Chang, 2009). Lin, Yang and Liou (2009) analysed Taiwanese corporations that are committed to CSR, building stakeholder relationships, and achieving environmental sustainability. Lin et al. found that although CSR does not result in significant positive impact on short-term financial performance, it does bring financial advantages in the long-term.

Ip (2008) considers the operations of Taiwanese businesses to be mainly influenced by two cultural factors: Confucian familism and crony capitalism. As mentioned in Section 3.2.2, Confucianism is deeply rooted in East Asian economies. Although Taiwan may not be completely in line with a ‘traditional’ Confucian culture, it remains an influential part of Taiwanese culture. ‘Confucian familism’ is the tendency to engage in relationships between accustomed and selected groups of businesses and individuals, there is also an emphasis on family value which reigns supreme over non-family members (Ip, 2008). In Taiwan, relationships between parties are valued and generally there must be trust established before any business transactions take place (Sims, 2009). Another saying for Confucian familism is ‘Guanxi’, which is Chinese for relationship or connection. Guanxi is common in Confucian cultures and considered essential for Asian corporations. Guanxi is commonly established and built on the exchange of gifts and favours, this general business practice in China and Taiwan is considered an ethical problem in many Western societies (Hwang, Golemon, Chen, Wang, &

Hung, 2009). The idea of Guanxi is applicable to more than the corporate context. Hwang et al.'s (2009) survey on Taiwanese individuals and organisations suggests Guanxi affects individual employment and business success. Furthermore, in certain circumstances, fixation on Guanxi can lead to corrupt business practices, abused relationships, and operations that benefit a few at the expense of many others. The other cultural factor, crony capitalism, is apparent in newly developed Asian economies such as Taiwan and South Korea (Ip, 2008; Lee & Rhyu, 2008). 'Crony capitalism' represents collusive networks between government and business sectors, where the distribution of resources or benefits are mainly based on personal relationships (Ip, 2008). Huang (2010) suggests there has been a movement away from crony capitalism since the Taiwanese Government introduced new regulations in 2002. New regulations required all listed companies to have at least one third of their board of directors made up of independent outside directors. Furthermore, the Taiwan stock market has since 2010 adopted the CSR best-practice principles for listed companies. The CSR best-practice principles promote ethical operations and developments in economic, social, and environmental dimensions for purposes of sustainable development (TWSE, 2014). The principles require corporations to comply with environmental and employment laws and standards, and promotes corporate governance and the disclosure of information related to CSR initiatives.

3.3.2 Capital Markets

Taiwan's capital market is separated into three exchanges: TWSE, Taipei Exchange Market (TPEX), and Taiwan Futures Exchange (TAIFEX). Taiwan's stock exchange is one of the most active exchanges in the Asia Pacific region and in the world (TWSE, n.d.). TWSE is the primary capital market in Taiwan. It was

established in 1961 and has an automated trading system. TWSE includes trade on Taiwan depository receipts, warrants, stocks and exchange traded funds, with stocks being the most heavily traded product (TWSE, 2013). In January 2015, TWSE's monthly market capitalisation is approximately \$860 billion USD, making it the 19th largest stock exchange in the world⁶. As at January 2015, there were 856 listed companies with a total market capitalisation of approximately \$27 trillion TWD (equivalent to \$855 billion USD⁷)(TWSE, 2015). TPEX is the exchange for bonds and SMEs. Established in 1988 and previously known as GreTai Securities Market, TPEX deals with over the counter (OTC) securities trading in Taiwan (TWSE, n.d.). As at January 2015, there were 687 listed OTC with a total market capitalisation of approximately \$608 billion TWD (equivalent to 21 billion USD) (TPEX, 2015). TAIFEX is the main derivatives market in Taiwan and was established in 1997 (TWSE, n.d.).

In Taiwan, there are laws requiring listed securities in TWSE and TPEX to disclose 'material information', such information can be found online in the Market Observation Post System (MOPS) overseen by TWSE. Material information is related to events that are likely to have an effect on shareholder equity and the price of securities (Securities and Futures Bureau, 2014). It includes events such as dishonour of a negotiable instrument due to insufficient deposits, changes in spokesperson and accountants, and internal control fraud⁸.

Table 3.3.2 shows the 2015 TWSE trading value and shareholding percentage by investor types. Like most emerging markets, TWSE is made up of retail

⁶ See Appendix B for statistics on global financial market rankings.

⁷ Calculated using the exchange rate 31.6668 TWD to 1 USD as at 1st January 2015.

⁸ Full details of the 'Taiwan Stock Exchange Corporation Procedures for Verification and Disclosure of Material Information of Companies with Listed Securities' legislation can be found at <http://www.selaw.com.tw/>.

investors as the highest percentage of market participants, while domestic institutional investors account for a relatively small percentage (Wang, 2012). This shareholder percentage is contrasting to the UK share markets where institutional shareholdings are a significant proportion in capital markets (Cox et al., 2004). The phrase ‘three major institutional investors’ is common in Taiwan’s capital markets. The three major institutional investors consist of Qualified Foreign Institutional Investors (QFII), investment trusts, and dealers. QFII are foreign institutions while investment trusts and dealers are a part of domestic institutions. In May 2015, the trading value of total institutional investors is 47.2 percent while retail investors account for 52.8 percent.

Year/Month	Total Trading Value of TWSE (TWD Million)	Domestic Individuals	Domestic Institutions	Foreign Individuals	Foreign Institutions
2015 JAN	1,904,482	55.4	19.2	0	25.3
2015 FEB	1,101,456	48.2	19.2	0	32.7
2015 MAR	2,171,932	53	18	0	29
2015 APR	2,145,123	51.9	18.8	0	29.3
2015 MAY	1,949,290	52.8	19.5	0	27.7

Source: Adopted from TWSE (2015)

3.4 Natural Environment and Sustainable Development

Our current age is situated in an economic growth-orientated paradigm, where many countries are focused on achieving economic growth (Drexhage & Murphy, 2010). As argued by Drexhage and Murphy (2010), politics play a significant role in sustainable development and there is currently a lack of sustainability-related policies due to economic agendas prioritised over environmental and social issues. Taiwan is no exception to this economic growth-orientated paradigm.

Taiwan's early stages of economic development were overseen by policies relating to economic growth, which was prioritised over environmental policies. In the late 1980s, environmental movements started emerging, but interests of corporations came first as rich corporate businesses were able to influence governmental policies (Agoramoorthy & Hsu, 2007). Local governments also paid little attention on the disposal of waste, which led to dumping on open grounds without pollution control (Young, Ni, & Fan, 2010). The rapid economic development and urbanisation has resulted in the deterioration of Taiwan's natural environment (Agoramoorthy & Hsu, 2007; Hsu, 2013; Roam, 2005). Eighty percent of the Taiwanese population live in urban areas, and due to Taiwan's high population density and continuing economic growth, there is rapid deforestation and pollution of air, soil and water (Hsu, 2013).

The practices of Taiwan's two major religions, Taoism and Buddhism, also harm the ecosystem. The two religions have a tradition of returning animals to nature as a way of gaining 'good karma'. Agoramoorthy and Hsu (2005) states that Taiwanese people spend nearly \$6 million USD annually to set free 200 million wildlife animals. The animals set free are generally captured by hunters and purchased from local markets to be released back into nature. Such religious practices have already threatened the existence of 75 exotic bird species in Taiwan and will continue to lead to disastrous outcomes in the ecological food chain. Taiwan's poor environmental law enforcements and weak policies have continued to put pressure on the natural habitat, and without any governmental interventions, such practices will continue to deteriorate the ecosystem (Agoramoorthy & Hsu, 2007).

As there is growing public consciousness about environmental damages, the Taiwanese government has been forced to react to the environmental consequences (Agoramoorthy & Hsu, 2007; Young et al., 2010). Roam (2005) suggests Taiwan is fully compliant with many international conventions despite having no formal agreements or contractual obligations. These conventions include: Montreal Protocol, United Nations Framework Convention on Climate Change, Basel Convention, and Stockholm Convention. These conventions relate to the reduction of pollutants and hazardous waste, and promote the development of renewable resources and sustainability. The Taiwanese government has also been promoting a zero waste policy. Although there has been significant progress in the reduction of waste, there is still a long way to go before reaching zero waste (Young et al., 2010).

The current environmental policies are insufficient in protecting Taiwan's natural environment. Agormoorthy and Hsu (2007) argues that Taiwan's politicians and policies makers need to start moving towards sustainable development and develop strategies to sustain economic growth whilst protecting the environment for future generations. From the Environmental Development Index developed by Yale University (2014), Taiwan ranked 46 out of 178 countries in 2014. The Index measures the environmental health and ecosystem vitality of a country, where environmental health relates to the protection of human health from environmental damages, and ecosystem vitality relates to the protection of the ecosystem and resource management. The factors pulling down Taiwan's score include: air pollution, poor waste water treatment, and lack of agricultural subsidies.

3.5 Chapter Summary

Taiwan is a small island with a rich history that has influenced its current social, economic and natural environment. Taiwanese people were traditionally seen to follow the teachings of Confucian, but democratisation and modernisation appear to have resulted in the acceptance of Western thinking and divergence from a traditional Confucian culture. Taiwan's strong economic growth during the East Asian Miracle has reduced its problems of poverty and unequal income distribution; however, the country still faces social problems relating to declining birth rates, poor corporate ethics, and governmental corruption. Furthermore, the political tension between Taiwan and China has led to conflicts within society and the exclusion of Taiwan from a number of international communities.

Taiwan's corporations appear to be influenced by Confucian familism and crony capitalism. Both factors emphasise the importance of developing relationships, but could also lead to corrupt and abusive business behaviour. Taiwan has active and growing capital markets dominated by retail investors. Although Taiwan's society and economy continues to prosper, there needs to be more attention paid to the natural environment. The Taiwanese government has taken steps towards sustainable development, but there needs to be greater enforcement and monitoring of environmental regulations to protect the ecology.

In the next chapter, explanations on the research methodology and methods selected are presented.

CHAPTER FOUR

METHODOLOGY AND METHODS

4.1 Introduction

This chapter details the research methodology and methods adopted by the researcher. Research is defined as “a systematic process of collecting, analysing, and interpreting information (data) in order to increase our understanding of a phenomenon about which we are interested or concerned” (Leedy & Ormrod, 2013, p. 2). The study is exploratory in nature as it seeks to increase understanding of the usefulness of integrated reporting. Research needs to be carefully designed and planned before execution because research design influences the reliability of the study and the direction of the researcher (Leedy & Ormrod, 2013). In designing research, there needs to be consideration of four factors: ‘epistemology’ that informs the research, ‘theoretical perspective’ used in support of the methodology, ‘methodology’ that governs the choice of methods, and ‘methods’ used for the research (Crotty, 1998). Research methodology relates to the philosophy and meaning behind the methods used for a study, while research method is the description of the tools and techniques used in conducting a research (Collis & Hussey, 2014; Crotty, 1998). The selected research paradigm largely influences the research methodology and methods. This chapter is split into two main sections. First is research methodology, which opens with comparing the two research paradigms of positivism and interpretivism. This is followed by reasons explaining the selection of interpretivism as the philosophical framework and theoretical perspective, and then justification of employing a qualitative research approach. Second is the research method, which discusses the research process and elaborates on research preparation, data collection and data

analysis. This chapter is structured as follows:

4.2 Research Methodology

4.3 Research Method

4.4 Chapter Summary

4.2 Research Methodology

4.2.1 Main Paradigms in Management Research

Research paradigms are the philosophical frameworks that guide the direction of scientific research and can be seen as the fabric that hold together a researcher's ontology, epistemology and theoretical perspective (Collis & Hussey, 2014; Mayan, 2009). As described by Mayan (2009), ontology is concerned with the nature of reality and what can be said to exist, epistemology is concerned with the study of knowledge and relates to how we know something. The theoretical perspective is the perspective researchers take when undertaking research. Table 4.2.1 compares the philosophical and methodological differences between two dominant paradigms in management research: positivism and interpretivism.

Philosophical assumption	Positivism	Interpretivism
Ontology	<ul style="list-style-type: none"> • Realism • Single reality • Objective and external to the researcher 	<ul style="list-style-type: none"> • Relativism • Multiple realities • Subjective and socially constructed
Epistemological	<ul style="list-style-type: none"> • Researcher is distant from phenomena • Objective and measurable 	<ul style="list-style-type: none"> • Researcher interacts with phenomena • Subjective
Axiology	<ul style="list-style-type: none"> • Researcher is independent from phenomena • Results are unbiased and value-free 	<ul style="list-style-type: none"> • Researcher acknowledges the research is subjective • Findings are biased and value-laden
Methodological assumptions	<ul style="list-style-type: none"> • Deductive logic • Researcher studies cause and effect, and uses a static design where categories are identified in advance • Generalisations lead to prediction, explanation and understanding 	<ul style="list-style-type: none"> • Inductive logic • Researcher studies the topic within its context and uses an emerging design where categories are identified during the process • Patterns and/or theories are developed for understanding

Source: Adopted from Collis and Hussey (2014), Mayan (2009) and Willis (2007)

Positivism and interpretivism can be viewed as two ends of a spectrum. As explained by Collis and Hussey (2014), Mayan (2009) and Willis (2007), positivism assumes ontological realism, meaning there is only one single reality and everyone perceives it the same way. It assumes social reality is objective and external to the researcher. Epistemologically, positivists are seen to be independent from the research phenomenon and valid knowledge relates to observable and measureable information. The axiological assumption of positivism assumes the researcher is detached from their research phenomenon, and therefore, the research is unbiased and not influenced by researchers' values. The methodological assumptions of positivism assume the use of deductive logic, which requires research to begin with theories and hypothesis, and then test them by empirical observations. Positivists look to find associations between variables to identify cause and effects; furthermore, the research aims to produce generalisable findings which can be used to predict and explain a certain phenomenon.

In contrast, interpretivism assumes ontological relativism, suggesting the existence of multiple realities as reality is socially constructed and subjective. Epistemologically, interpretivists attempt to minimise the distance between themselves and the research phenomenon, and knowledge is derived from subjective evidence from the research subjects. The axiological assumptions of interpretivists assume the researcher holds values that influence the facts and interpretations of the findings, making research findings biased and value-laden. The methodological assumptions of interpretivism assume the use of inductive logic, where theories are developed from empirical observations and inferences are drawn about the more general phenomena. Interpretivists employ research

methods with the aim of obtaining different perspectives of a phenomenon, and the analysis consists of looking for patterns and seeking to understand what is happening in a specific context.

4.2.2 Philosophical Framework and Theoretical Perspective

An interpretivist approach is argued to be suited best for this study as the research purpose relates to exploring and understanding individuals' perceptions with regards to investment decision-making. Consistent with the researcher's philosophical views, interpretivism follows the ontological assumption that reality is socially constructed and the epistemology assumption that the researcher cannot be separated from the research phenomenon. As reality is socially constructed, the social world is an aggregation of human thoughts and interactions. There is no single objective reality as the social world is built upon what each individual thinks exists; hence, studies relating to our social world are studies relating to individual perspectives and the perspectives of social groups. Following this view, social sciences are considered best understood through interactions with individuals and understanding the ever-changing world as it is, as opposed to seeking an absolute truth. As the researcher also has her own subjective reality, the researcher's views and beliefs influence the study undertaken and it is impossible to separate such perspectives from any understandings gained from interactions within the social world.

Interpretivists view knowledge and meaning as constructed in groups, suggesting individuals in groups use tools and traditions to construct meaning and share it with each other (Willis, 2007). The focus of this study is on understanding the social world of Taiwanese investors, which is created by subjective realities of each individual. As reality is socially constructed, there are multiple social

realities for different groups of individuals, which may result in difficulties for different groups to understand other group's meanings and perspectives. This research is based in the context of Taiwan and examines many social aspects, such as factors influencing investors' decision-making and their perceptions of non-financial information and value creation. As the study focuses on understanding a particular context of the social world, it contrasts with the positivism approach which seeks to identify and discuss universal laws. The study explores the complexity of the social world and seeks to gain greater 'understanding' of the phenomena; this is again contrasting with positivism where the focus is placed on 'measuring' social phenomena. Interpretivists therefore commonly adopt a qualitative research approach and use methods that enable the researcher to come to terms with the meanings in the social world (Collis & Hussey, 2014).

4.2.3 Qualitative Research Approach

Research methodologies are linked with research paradigms. A qualitative research approach is seen to be the most suitable for the interpretivist paradigm. There are broadly three research approaches: quantitative, qualitative and mixed methods. This section describes the three research approaches, then justifies the selection of a qualitative approach and discusses issues associated with qualitative research.

Collis and Hussey (2014) and Leedy and Ormrod (2013) identify many differences between quantitative and qualitative research. Qualitative research tends to be exploratory in nature and seeks to understand complex situations to build upon a theory. Such research tends to be more word based and looks into attributes that are not solely based on numerical values. In contrast to quantitative

research, which generally requires a relatively large sample to make generalisations with the findings, qualitative research tends to use a small sample that can best reflect the phenomenon under investigation. The data analysis of qualitative research is more subjective compared to quantitative research, and qualitative researchers often construct interpretive narratives from the data collected and try to capture the complexity of the phenomenon under study. Mixed methods is relatively new compared to quantitative and qualitative. Although the early comparison of paradigms indicates positivism and interpretivism as incompatible regarding their philosophical and methodological assumptions, the mixed method approach is a combination of quantitative research and qualitative research. Mixed method is based on pragmatism, which advocates that researchers should be free to mix paradigms as long as it is useful in addressing the research problem.

A qualitative research approach is chosen for the study as it aligns with the interpretivist philosophical perspective and is suitable for exploratory studies where there is a lack of knowledge in the study area. Furthermore, qualitative methodologies are consistent with prior studies used to investigate the decision-relevance of non-financial information for investors (see for example, Atkins & Maroun, 2015; Hellman, 2005; Solomon & Solomon, 2006). Although a mixed method approach may have potential in producing more generalisable research findings, there are limitations in time and accessibility to data, making a mixed method approach difficult for this one year research project. However, as noted by Leedy and Ormrod (2013), “good research does not necessarily have to involve a complex, multifaceted design” (p. 98). The selection of the research approach should be based on the problem that needs to be addressed and the skills

of the researcher. A qualitative research is seen to be adequate in this situation.

Qualitative research is becoming increasingly popular in academic studies but it has been criticised for its bias and subjective nature, and issues relating to validity, trustworthiness and generalisability. Qualitative research may be biased and subjective as there tends to be a close personal relationship between the researcher and the individuals studied; furthermore, data analysis is reliant on the researcher's views about what information is significant and important (Bryman, 2012). Mayan (2009) argues that bias and subjectivity is not necessarily a weakness in researching social phenomena and that “absolute objectivity [in quantitative research and qualitative research] is impossible and even undesirable because of the social nature and human purposes of research” (p. 19). Although qualitative research appears to have issues with validity, trustworthiness and generalisability, there are also counterarguments to these issues. Butler-Kisber (2010) argues the realist notion of describing a ‘truth’ to demonstrate validity or to achieve generalisability has little meaning in qualitative research. Validity and generalisability are not desirable as the purpose of qualitative research is not to find a ‘truth’, but to understand different perspectives of a phenomenon. Furthermore, Sandelowski and Barroso (2003) identifies a paradox contained in claims that suggest non-generalisable research is irrelevant. The paradox lies in the fact that “qualitative research is conducted in the ‘real world’ – that is, not in artificially controlled and/or manipulated conditions – yet is seen as not applicable in that world” (Sandelowski & Barroso, 2003, p. 784). The other issues associated with trustworthiness or credibility is more important than those of validity and generalisability. The issue of a lack of trustworthiness within qualitative research often arises from a lack of transparency. It is sometimes difficult to determine

from a research paper what the researcher actually did, how they analysed the data, and how the conclusion was reached (Bryman, 2012; Butler-Kisber, 2010). Transparency can be enhanced through clearly taking into account the researcher's assumptions and biases (Butler-Kisber, 2010).

4.3 Research Design

4.3.1 Research Preparation

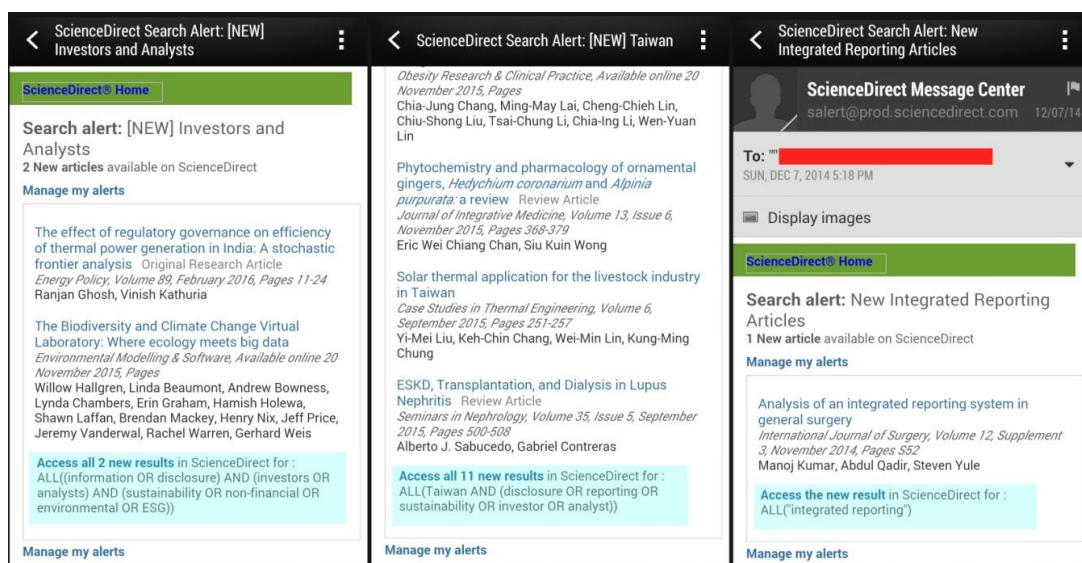
Collis and Hussey (2014) identified six steps to a research process: step one is choosing a research topic and searching the literature, step two is reviewing the literature and defining research questions, step three is designing the research and writing the proposal, step four is the collection of research data, step five is analysing and interpreting research data, and step six is writing the report. This subsection discusses step one to step three and considers them under the umbrella of research preparation.

At the commencement of this investigation, the researcher had interests in integrated reporting as it appeared to be an intriguing development in accounting and corporate communications. An initial search of management literature showed a lack of studies on integrated reporting as it was an emerging phenomenon. Further exploration revealed growing academic interests in integrated reporting (see for example, Cheng et al., 2014; de Villiers et al., 2014). The literature review also revealed a lack of research on integrated reporting from the perspective of investors, this was concerning as capital providers are deemed the main audience of integrated reports. Literature related to 'integrated reporting' were also searched in Google and Google Scholar in the characters of Simplified Chinese, Traditional Chinese, and Japanese. The search in Chinese returned no studies on integrated reporting, however; studies appeared to be emerging in Japanese

literature. Further search on CiNii (2015), a database for academic articles in Japan, revealed 56 articles related to integrated reporting released before the end of March 2015. The articles were published in Japanese, a language which the researcher is not fully competent in. Moreover, the researcher was only able to view the article title or access the abstracts. There appeared to be many articles related to the auditing and assurance of integrated reports, explanation of the concepts surrounding IR, and meaning of IR. However, there appeared to be only one study related to integrated reporting from an investors' perspective written by Suzuki (2015), which the researcher did not have access to. As existing research on integrated reporting and IR is mostly based in a South African, Western, and Japanese context, it is important to gather perspectives from other Asian investors as IR aims to become a global business norm. Literature was also reviewed on value creation, shareholder values, stakeholder values, investors' use of non-financial information, investment decision-making methods, and how the Taiwanese corporations and investment community view non-financial information.

To ensure the researcher was up to date with new literature related to the investigation, daily email alerts were set up with ScienceDirect (2015), a search engine for academic journals and books. Figure 4.3.1 presents screenshot examples of the alerts and keywords set. The keywords, as highlighted, are various combinations of terms relating to: disclosures, investors, Taiwan, and integrated reporting. However, the number of relevant papers identified in these alerts was very small.

Figure 4.3.1 Literature updates from ScienceDirect



Taiwan is selected as the research context for two reasons. First, the researcher can optimise her Taiwanese cultural identity as it is relatively easier for her to access participants from Taiwan compared to non-Taiwanese researchers. Secondly, Taiwan's stock market is relatively large and influential in the global economy, as in January 2015, TWSE was ranked as the 19th largest stock exchange in the world (see Appendix B). The research places great emphasis on Taiwanese institutional investors and private equity investors as they are expected to make careful investment choices and value the most useful sources of information. Taiwanese retail investors appear to adopt short-term gambling behaviour (see Chapter Two, Section 2.6.3) and are seemingly less suitable for the research purpose. However, as there are currently few studies relating to investors' views on integrated reporting and Taiwanese investors' use of non-financial information, exploration into retail investors' views may lead to a broader understanding of the usefulness of integrated reporting to investors in Taiwan.

The literature review identified gaps in the literature which are explored in this study. The research purpose involves exploring the usefulness of integrated

reporting concepts to investors in Taiwan. An insight is gained by acquiring a better understanding of the factors and information sources that influence Taiwanese investors' investment decisions. Moreover, understanding of investors' perception of non-financial information and IR is important. The following are the research objectives:

- To examine the factors currently affecting the investment decisions of Taiwanese investors
- To examine Taiwanese investors' use of non-financial information and disclosures
- To examine the relationship of forward-looking information and value creation to Taiwanese investors
- To explore whether integrated reports are currently used by Taiwanese investors and how relevant and useful they are in investment decision-making
- To find out what information Taiwanese investors are demanding and whether it is addressed in integrated reporting concepts

The research is designed to address the identified research purpose and objectives.

The next subsection continues with elaboration of the research design and discusses the data collection and analysis process adopted.

4.3.2 Data Collection

4.3.2.1 Semi-structured In-depth Interviews

Conversations are a rich and indispensable source of knowledge when studying cultural phenomena, this is because culture, language, and human self-understanding have developed from conversations (Brinkmann, 2013). It can be argued that “qualitative interviewing is in fact the most objective method of inquiry when one is interested in qualitative features of human experience, talk, and interaction” (Brinkmann, 2013, p. 4). For the purposes of this study, semi-structured interviews were considered to be the most appropriate tool for

data collection. Semi-structured interviews are commonly preferred in interpretive research (Collis & Hussey, 2014; Willis, 2007), where researchers prepare a number of questions in advance but the questions are designed to be open to allow subsequent questions to be improvised upon a participant's response (Wengraf, 2001). Semi-structured questions allow flexibility in interviews and enable in-depth data collection in areas not anticipated prior to the interview (O'Leary, 2004).

Interviews are a powerful and widely used method of data collection in qualitative research (Qu & Dumay, 2011; Willis, 2007). They enable a researcher to gain understanding of an individual's constructed reality and interpretation of his or her experiences through words (Fontana & Frey, 2000; Harding, 2013). There may however, be disadvantages related to the use of such a method in data collection. Disadvantages mainly relate to reliance on the skills of the interviewer to extract quality information because of bias inherent in the process of interviews, and difficulty in summarising responses (Creswell, 2003; O'Leary, 2004). Such disadvantages are minimised through adequate preparation prior to the data collection process. Pilot tests were conducted to prepare the researcher for the flow of interviews and to seek feedback on how the study and interview process could be improved. More of what was learnt from the pilot tests is described in the next subsection. Furthermore, processes were followed to ensure consistency in all the interviews. Details of the interview process can be found in Subsection 4.3.2.5.

4.3.2.2 Research Questions and Pilot Testing

The focus questions for the interviews are listed in Appendix C. These questions were formed by considering the research purpose and objectives

developed from the literature review. Questions regarding investment decision-making processes were asked to discover what factors influence investment decisions, and what information Taiwanese investors currently use and value. This indicates whether investors are influenced by traditional shareholder values or have incorporated broader stakeholder values and non-financial considerations into their investment decisions. Questioning whether investors require more information relates to understanding participants' satisfaction with current corporate disclosures and any other information they are able to obtain. It also highlights the information participants consider to be important. From understanding investors' decision-making process and their information use, it is easier to ask questions about integrated reporting and if participants will consider it useful. Participants were asked to give their perceptions about the main features of integrated reporting, such as integrated thinking, corporate value creation, and forward-looking information. Investors were also asked if these features may influence their investment decisions. Questions regarding sustainability and stakeholder values were also asked as these concepts are integrated into IR.

With the drafted questions, two individual pilot tests were conducted prior to data collection. The first test was a half hour phone interview with a Taiwanese investor who currently invests in currency and property, but had experiences with venture capital investments. It was learned that many Taiwanese individual investors invest in property and financial exchanges instead of stocks or corporations. Also, many retail investors do not have much knowledge about investing, although their main goal is to achieve the greatest amount of financial returns. So a study related to the use of non-financial information may be more suited towards institutional investors or private equity investors. The participant

also commented that the questions appeared to be fine. The second test was by email communications with a Taiwanese private equity investor working in a multinational enterprise. The responses highlighted the importance of probing during interviews. This investor gave an idea of the sort of replies to expect, and prompted the researcher to think of further questions to ask. The responses were related to venture capital investments, where the participant would focus on a corporation's industry, skills, legal requirements, and estimated rates of returns and so on. It appears that there are gaps in current corporate disclosures and investors do need to use other channels to fill the gaps. Furthermore, integrated reporting is not widely known, but the concepts of corporate value creation and sustainability do appear to be important. The participant gave short and simple answers when replying, which prompted the researcher to think of further questions to uncover more information. The information gathered from the pilot tests is not included in the findings; it was used only to prepare for the interviews.

4.3.2.3 Snowball Sampling Technique

Purposive sampling was used to identify members for the research sample. Unlike randomised probability sampling, purposive sampling relates to non-probability sampling, where each member of a research population does not have an equal chance of being included in a sample (Denscombe, 2007). Non-probability sampling is acceptable in qualitative research as qualitative research is a process of discovery rather than one that tests theories and hypotheses. With qualitative research, the concern of the sampling technique is not necessarily associated with representativeness, more importantly, it is to include special instances and gain a broad range of information to help explain the research focus (Denscombe, 2007). Purposive sampling is used when it is difficult

to choose samples through probability sampling techniques, which is the case in this research as it is difficult to obtain interviews with professional investors unless the interviewer is referred by another professional investor.

Under purposive sampling, a snowball sampling technique was used. Snowball sampling emerged as a convenient technique to research hard-to-reach or hidden populations (Heckathorn, 2011). It requires individuals in a sample to identify other similar individuals, and this process continues until either the required sample number is achieved, no new individuals are identified, or the time or financial limits of the study is reached (Thompson & Collins, 2002; Wengraf, 2001). Snowballing is seen to be an effective technique for building a reasonable-sized sample and can be a fast process from the multiplier effect of one person identifying two or more individuals. Another advantage is that the researcher can use the identifier as a reference to give the interviewee a greater level of confidence (Denscombe, 2007).

The disadvantage of snowball sampling, as well as other types of non-random sampling, is that it may result in the research sample not being representative of the general population (McCormack, 2014). However, snowball sampling is effective when the researcher has information-rich cases to study in depth (Denscombe, 2007; Wengraf, 2001). Four initial contacts of the researcher each introduced two to three potential participants. At the end of the interviews, each participant was asked if they would be able to refer the researcher to someone else they think is appropriate for the research. A total number of 16 usable interview responses were collected.

4.3.2.4 Ethics Approval

Ethics approval was sought and granted prior to approaching potential participants for the research. This approval process ensures the data collection process is conducted in a manner consistent with the ethical standards set by the Waikato Management School's Ethics Committee. Two documents provided to the participants were formed in this process. The information sheet in Appendix D informed participants about the research purpose, what is required of them, and their rights to confidentiality, anonymity, opting-out and refusal to answer. The consent form in Appendix E ensured participants were aware of their rights prior to the start of the interview and it was also used to seek consent for voice recording. In addition to the two documents, participants were offered the focus questions ahead of time to ease any uncertainties they may have with participating in the research. As Chinese is the native language of the interview environment, both the original English documents as well as a Chinese translation were provided to the participants.

4.3.2.5 Process of Conducting Interviews

Initially the aim was to collect 15 one-on-one semi-structured in-depth interviews with members of Taiwanese investment institutions; however, the snowball sampling technique resulted in referrals to a diverse range of investors and corporate managers who have investment specialities but are not necessarily considered 'institutional investors'. It was difficult for the researcher to gain access to research participants as many participants were unable to refer other potential interviewees. Although the resulting sample size is small and contains a range of specialities, there are signs of data saturation as detailed in the next two chapters.

A total of 16 useable interviews were conducted, 14 investment specialists from an organisational environment and 2 independent retail investors. All interviews were held between 15th April and 19th May by the researcher herself to maintain consistency. Interviews were face-to-face whenever possible as this allowed the interviewer and participant to react and respond to non-verbal signs (Harding, 2013), if this option was unavailable, a phone interview was conducted instead. Only one interview with a retail investor was conducted by phone. Face-to-face interviews were mostly conducted in the interviewee's office or in corporate conference rooms. There were three exceptions with investment specialists, and one retail investor, who preferred to meet at a café during their time off work.

Prior to each interview, a basic web search was conducted on the background of the organisation and participant. To ensure relevant questions were asked, the researcher made use of the interview guide (Appendix F). As semi-structured interviews consist of open questions, a participant's responses may not relate to specific issues the researcher aims to discuss; however, they may also reveal relevant and unexpected information. Probes, the questions asked in response to what an interviewee said, are essential in semi-structured interviews as they ensure maximum information is gained (Collis & Hussey, 2014; Harding, 2013). The researcher probed by encouraging more details in participants' answers through asking for examples, encouraging the sharing of their opinions and feelings, and seeking clarifications when coming across unfamiliar terms. Whilst conducting the interviews, the researcher let the participant do most of the talking and did not give her personal views unless asked. Participants were never rushed.

Almost all participants emphasised the need for their comments to maintain a certain level of confidentiality and anonymity, where both themselves and their organisation remain unnamed. Such terms were already granted but participants wanted a guarantee because this was either a part of their organisation's rules, or because they were afraid of legal complications that may arise in the future. At the time of the interview, each participant was asked whether they preferred to speak in English or their native language. The interviews were either conducted in English or Mandarin Chinese, but participants also highlighted key words or jargon in both English and Chinese. Interviews were voice recorded if consent was given by the interviewees and notes were also taken when appropriate. Six participants preferred not to be voice recorded, so notes and quotes were drafted instead. All interviews lasted between 30 minutes to 120 minutes. The average time of all interviews is 54 minutes.

Table 4.3.2.5-1 lists the descriptive information of the participants and their organisation, if belonged to one. For purposes of assigning an order, the participants are coded according to the descending order of their 2014 annual revenue. Participant codes reflect the sector of the participant's organisation and the code allocated to them, for instance 'T1' represents 'technology sector, listed first according to annual revenue'⁹. The information presented on Table 4.3.2.5-1 is based on: the interview content, participants' name card, TWSE and GreTai (2015), and Bloomberg (2015).

⁹ See page xi for a table for the abbreviations for participant codes

Table 4.3.2.5-1 Characteristics of Organisation and Participant

Participant Code	Sector / Industry	Scale of Operations	Size (employees)	Size (annual revenue)	Market Capitalisation (Holding)	Ownership	Job Title	Participant	
								Investor Speciality	Investment Targets
Organisation									
T1	Technology / Information Services	International	Large	Large	Large	Private (Subsidiary)	Head of Regional Investment Research	Investment Research and Analysis	Funds
T2	Technology / Semiconductor	International	Large	Large	Large	Public (Listed)	CFO & Spokesperson & Corporate Vice President	Private Equity Investment	Merger and Acquisition & Venture Capital
F3	Financials / Banking and Insurance	Domestic	Large	Large	Large	Private (Subsidiary)	Self-side Sales	Investment Research and Analysis	Funds
F4	Financials / Financial Services	Domestic	Large	Large	N/A - Privately Owned	Private	Assistant General Manager	Broker & Private Investment Research and Analysis	Stocks & Funds & Insurance
F5	Financials / Banking and Insurance	Domestic	Large	Large	Mid	Public (Listed)	Head of Corporate Strategy and Planning & Executive Vice President & Spokesperson	Private Equity Investment & Institutional Investor (Investment Trust)	Venture Capital & Private Equity & Stocks & Funds
F6	Financials / Financial Services	Domestic	Large	Large	Small	Public (Listed)	General Manager	Broker & Private Equity Investment	Venture Capital & Stocks & Funds
F7	Financials / Financial Services	Domestic	Large	Large	Small	Public (Listed)	Securities Analyst & Fund Manager	Institutional Investor (Investment Trust)	Stocks & Funds

F8	Financials / Financial Services	Domestic	Large	Large	Small	Public (OTC)	Chairman	Institutional Investor (Dealer) & Institutional Investor (Investment Trust)	Stocks & Funds
F9	Financials / Financial Services	Domestic	Large	Large	N/A - Privately Owned	Private	Assistant Manager	Investment Research and Analysis & Investment Consultant	Stocks
F10	Financials / Financial Services	International	Large	Large	Large	Private (Subsidiary)	Vice President & Head of Investment Research	Institutional Investor (Investment Trust) & Investment Consultant	Stocks & Funds
F11	Financials / Banking and Insurance	Domestic	Large	Large	Large	Private (Subsidiary)	Chairman	Derivatives	Futures
F12	Financials / Financial Services	Domestic	Large	Large	Small	Public (OTC)	Head of Proprietary Trading Department & Assistant Vice President	Institutional Investor (Dealer)	Stocks
F13	Financials / Accountancy and Finance	Domestic	Small or Medium	N/A - Not disclosed	N/A - Privately Owned	Private	Accountant & Securities Analyst	Investment Consultant & Retail Investor	Stocks & Funds
M14	Manufacturing / Hardware	Domestic	Small or Medium	N/A - Not disclosed	N/A - Privately Owned	Private	General Manager	Private Equity Investment	Venture Capital
R15	N/A	International	N/A	Large	N/A	N/A	Retail Investor	Retail Investor	Stocks
R16	N/A	Domestic	N/A	Small or Medium	N/A	N/A	Retail Investor	Retail Investor	Stocks

An organisation's size is determined by standards set in Taiwan. SMEs are measured by sales revenue and employment (Small and Medium Enterprise Administration, Ministry of Economic Affairs, 2006). In construction, manufacturing, mining and quarrying industries, SMEs are those with paid-in capital less than \$80 million TWD or with less than 200 employees. In any other sector, SMEs are those with annual sales revenue of \$100 million TWD or less, or with 100 or less employees. Market capitalisation is based on the ranges set by Wealth Management Systems Inc. (2015). Large-cap companies have market value of \$10 billion USD or more, mid-cap companies are between \$3 billion and \$10 billion USD, and small-cap companies have market value less than \$3 billion USD. The market capitalisations of holding companies are considered as some participants are from subsidiaries that are internalised into a holding company. Table 4.3.2.5-2 illustrates the classifications of the 14 organisations by sector, industry, scale of operations, size by employees and 2014 annual revenue, and market capitalisation. Privately owned organisations that are not subsidiaries of a listed company do not have public market capitalisation data.

Every organisation has a variety of different investment functions, especially those in the financial sector. A financial organisation could have departments in underwriting, dealer, brokerage, financial derivatives, wealth management, and research departments and so on. Each participant had their own specialities and roles in their organisations, but they have commonly gone through various departments and experienced many investing roles to reach their current position. Table 4.3.2.5-3 illustrates participants' current speciality and investment focus. Participants often have multiple specialities and investment targets, leading to the sample giving a broad perspective from the investing environment.

Descriptions		Total	
Sector	Financials	11	14
	Manufacturing	1	
	Technology	2	
Industry	Accountancy and Finance	1	14
	Banking and Insurance	3	
	Financial Services	7	
	Hardware	1	
	Information Services	1	
	Semiconductor	1	
Scale of Operations	Domestic	11	14
	International	3	
Size (number of employees)	Small or Medium	2	14
	Large	12	
Size (2014 annual revenue)	Small or Medium	-	14
	Large	12	
	Not disclosed	2	
Market Capitalisation	Large-cap	5	14
	Mid-cap	1	
	Small-cap	4	
	Privately Owned	4	

* Does not include the 2 independent retail investors as they are not a part of any investment organisation

Investor Specialty		Investment Targets	
Investment Research and Analysis	4	Stocks	11
Private Equity Investment	4	Funds	9
Institutional Investor (Investment Trust)	4	Venture Capital	4
Investment Consultant	3	Merger and Acquisition	1
Retail Investor*	3	Insurance	1
Broker	2	Private Equity	1
Institutional Investor (Dealer)	2	Futures	1
Derivatives	1		

* F13 works as an investment consultant but also trades securities for his own account. He talked about his experiences and views from both perspectives: investment consultant and retail investor

4.3.3 Data Analysis

4.3.3.1 Data Preparation

This subsection describes how the data collected were prepared for analysis. The first step was to transcribe the interviews. The transcription process started concurrently within the interview process. Mayan (2009) suggests working simultaneously allows the researcher to follow up on questions that were not addressed in the initial literature review and could potentially be missed if the data were not analysed. All audio recordings were transcribed by the researcher herself onto a Word document within two days of the interviews. Self written notes were also added as comments on the related transcriptions. The transcription aimed to be as reflective and true to the conversation as possible. Bazeley and Jackson (2013) suggests it is important not to over fix the data as filler words and pauses could communicate emotions, such as hesitation, while incomplete sentences can capture the style and form of the participant's expression. As the interviewees are Taiwanese, the language spoken in the interviews was Taiwanese, Mandarin Chinese, English, or a mixture of the languages. No matter the language spoken, the recorded interviews were directly translated and transcribed into English. Any key words or names spoken in Mandarin Chinese were documented in both English and Chinese to ensure the meaning for all the transcriptions remain consistent. As the research involves different languages, there may be differences in interpretation, so Table 4.3.3.1 lists the researcher's own interpretation and translation of key words used by participants. Furthermore, as there are multiple ways to convey something of the same meaning, individual participants had their own tendencies in the words they use. For analytical purposes, different terms are combined into one if they have the same meaning.

Table 4.3.3.1 Translation of Key Words

Chinese	Pinyin	English	Chinese	Pinyin	English
季報	jì bào	Quarterly report	年報	nián bào	Annual Report
標的	biāo de	Investment target	投資部位	tóu zī bù wèi	Investment position
上櫃	shàng guì	Over the counter	上市	shàng shì	Publically listed
興櫃	xīng guì	Emerging stock	三大法人	sān dà fǎ rén	Three major institutional investors
外資	wài zī	Foreign institutional investors (also QFII)	投信	tóu xìn	Investment trust (combined 'fund houses' into this term)
自營	zì yíng	Dealer (combined 'proprietary trading' into this term)	重大訊息	zhòng dà xùn xī	Material information
券商	juàn shāng	Brokerage house	證券公司	juàn juàn gōng sī	Security house
基本面	jī běn miàn	Fundamental analysis	技術面	jì shù miàn	Technical analysis
研究員	yán jiū yuán	Researcher	研究報告	yán jiū bào gào	Research report
文化創意	wén huà chuàng yì	Cultural and creative	社會觀感	shè huì guān gǎn	Public perception
永續經營	yǒng xù jīng yíng	Sustainable development	黑心企業	hēi xīn qǐ yè	Unethical companies
文化創意	wén huà chuàng yì	Cultural and creative	社會觀感	shè huì guān gǎn	Public perception
公司治理	gōng sī zhì lǐ	Corporate governance			

After the initial transcriptions were completed, the researcher listened to the entire audio recordings again and followed each through with the associated transcript. This process was to ensure no information was omitted and the participants' comments were correctly interpreted. After completing all interview transcripts, the transcripts were read together to gain a general understanding of the data collected.

4.3.3.2 Initial Data Analysis and Data Exploration Using NVivo 10

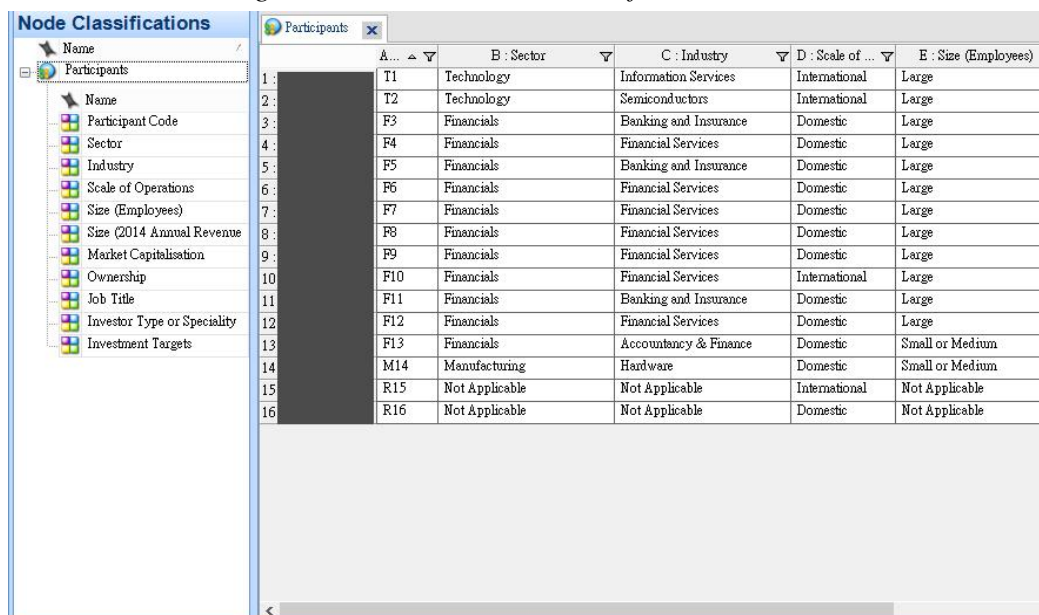
A major aspect of data analysis is coding, which is a cyclical process of labelling data based on a researcher's understanding of what the data are about, and reviewing and re-labelling the identified concepts (Bazeley, 2013). Coding generally involves two major stages: an initial stage of open coding and a second stage of focused coding. Open coding involves careful examination of the data collected, where the aim is to form provisional concepts (Strauss, 1987). The open coding stage was done in NVivo. Focused coding involves concentrating on interpreting the codes and coded data (Bazeley, 2013). The focused coding stage was done manually for a deeper understanding of the data and to identify themes (see Section 4.3.3.3). As suggested by Strauss (1987), "the excellence of the research rests in large part on the excellence of the coding" (p. 27). As coding is a subjective process, there are often issues in validity and reliability. To increase the credibility of the coding process, the researcher will make her perspectives and actions clear to the reader.

NVivo is a qualitative data analysis software designed by QSR International (2015). NVivo is a tool that helps researchers manage data and ideas, and it is the most used software in terms of qualitative management and business studies (Bazeley & Jackson, 2013; Sotiriadou, Brouwers, & Le, 2014). NVivo provides

tools for classifying and organising information to aid researchers in identifying themes and developing conclusions; however, the decisions regarding what to code and interpret from the data is still dependent on the researcher (Bazeley & Jackson, 2013). As the software requires manual handling of data, the data analysis is subjective, which is expected from working in the interpretivist paradigm. As argued by Sotiriadou et al. (2014), subjectivity allows the researcher to analyse the data more meaningfully. The process of initial data analysis using NVivo is described as follows.

All transcript files were imported into NVivo as ‘internal sources’. A ‘node’ in NVivo is used to identify data of the same or similar nature, which can be seen as categorising and linking information. The researcher first attached the descriptive information as listed in Table 4.3.2.5-1 onto the individual transcript files through ‘node classification’. Figure 4.3.3.2-1 shows the node classification. Classification of participants' attributes is helpful in the initial exploration of data as it enables the comparison of nodes with individual attributes. This is later used for the ‘matrix coding’ query.

Figure 4.3.3.2-1 Node classification in NVivo



The screenshot shows the 'Node Classifications' window in NVivo. On the left, there is a tree view of nodes including 'Participants', 'Participant Code', 'Sector', 'Industry', 'Scale of Operations', 'Size (Employees)', 'Size (2014 Annual Revenue)', 'Market Capitalisation', 'Ownership', 'Job Title', 'Investor Type or Speciality', and 'Investment Targets'. The main window displays a table with 16 rows and 5 columns: A (Participant Code), B (Sector), C (Industry), D (Scale of Operations), and E (Size (Employees)).

	A : Participant Code	B : Sector	C : Industry	D : Scale of Operations	E : Size (Employees)
1 :	T1	Technology	Information Services	International	Large
2 :	T2	Technology	Semiconductors	International	Large
3 :	F3	Financials	Banking and Insurance	Domestic	Large
4 :	F4	Financials	Financial Services	Domestic	Large
5 :	F5	Financials	Banking and Insurance	Domestic	Large
6 :	F6	Financials	Financial Services	Domestic	Large
7 :	F7	Financials	Financial Services	Domestic	Large
8 :	F8	Financials	Financial Services	Domestic	Large
9 :	F9	Financials	Financial Services	Domestic	Large
10 :	F10	Financials	Financial Services	International	Large
11 :	F11	Financials	Banking and Insurance	Domestic	Large
12 :	F12	Financials	Financial Services	Domestic	Large
13 :	F13	Financials	Accountancy & Finance	Domestic	Small or Medium
14 :	M14	Manufacturing	Hardware	Domestic	Small or Medium
15 :	R15	Not Applicable	Not Applicable	International	Not Applicable
16 :	R16	Not Applicable	Not Applicable	Domestic	Not Applicable

Prior to any coding, a ‘word frequency query’ was run on the sources to see what was in the data. Figure 4.3.3.2-2 shows a screenshot of the results. The query result lists the most frequently occurring words in all the sources. Nodes were created for words that may be a key term, such as ‘Taiwan’, ‘industry’, ‘financial’, and ‘research’. Common words such as ‘company’ and ‘lot’ were bypassed. This function was helpful in identifying specific ideas to examine.

Figure 4.3.3.2-2 Word frequency query in NVivo

Word	Length	Count	Weighted Percentage (%)	Similar Words
company	7	480	1.90	companies, companies', companies', , company
corporations	12	415	1.64	corporate, corporation, corporations, corporations', corporations'
investments	11	345	1.37	invest, invested, investing, investment, investment, investing, investments, invests
like	4	326	1.29	like, likely, likes, likings
taiwan	6	311	1.23	taiwan
reports	7	236	0.94	report, reported, reporting, reporting', , reports
funds	5	225	0.89	fund, funding, funds, funds'
think	5	223	0.88	think, thinking, thinks
information'	12	211	0.84	inform, information, information'
look	4	202	0.80	look, looked, looking, looks
one	3	201	0.80	one, ones
years	5	198	0.78	year, years
industry	8	188	0.75	industrial, industries, industry
also	4	184	0.73	also
financial	9	180	0.71	financial, financially, financials
things	6	180	0.71	thing, things
stocks	6	177	0.70	stock, stocks, stocks'
make	4	163	0.65	make, makes, making
people	6	158	0.63	people
lot	3	155	0.61	lot, lots
investors	9	149	0.59	investor, investors

The sources containing the word can be easily identified by clicking on a particular query result. This was useful in saving relevant references in its respective node. References were saved by highlighting the text and dragging it into a node already created. Figure 4.3.3.2-3 shows an example of the initial list of nodes created in NVivo, while Figure 4.3.3.2-4 illustrates the results of the initial coding process. The side panel on the right shows the coding stripes. This panel indicates the node coded in an area of text, where each given area can contain more than one node. The highlighted text in this instance relates to ‘credibility’.

Figure 4.3.3.2-3 Initial list of nodes in NVivo

Name	Sources	References	Created On	Created By
Investment Decision-making	17	1212	2015/6/24 上午 10:19	PKH
Assumptions and Judgements	13	60	2015/6/23 下午 02:21	PKH
Assurance and Certification	8	14	2015/7/6 上午 09:54	PKH
Influencing Factors	17	854	2015/6/25 下午 07:11	PKH
Accuracy of Guidance	5	11	2015/7/4 下午 05:01	PKH
Beliefs	12	33	2015/7/2 下午 01:07	PKH
Company Size	2	3	2015/7/2 下午 12:13	PKH
Competitive Advantage, Differen	11	31	2015/7/2 下午 12:16	PKH
Confidence	3	5	2015/7/2 下午 12:02	PKH
Consistency	6	14	2015/7/2 上午 11:52	PKH
Corporate Culture and Philosoph	9	30	2015/7/2 上午 11:52	PKH
Corporate Governance	9	35	2015/7/2 上午 11:56	PKH
Corporate Social Responsibility	15	72	2015/7/2 上午 11:56	PKH
Credibility	7	23	2015/7/2 下午 12:02	PKH
Economy	12	19	2015/7/2 上午 11:50	PKH
Financial Performance	14	55	2015/7/2 上午 11:48	PKH
Financial Returns	14	54	2015/7/2 下午 12:04	PKH
Financial Sustainability	3	4	2015/7/2 下午 12:17	PKH
Focus of Investment Target	1	1	2015/7/2 下午 12:14	PKH
Foreign investors	7	29	2015/6/24 下午 05:06	PKH
Growth	7	16	2015/7/2 下午 12:05	PKH
Industry	15	158	2015/7/2 上午 11:53	PKH
Integrity	15	53	2015/7/2 上午 11:47	PKH
Investment Position	2	3	2015/7/2 上午 11:53	PKH
Law and Policies	10	30	2015/7/2 下午 12:01	PKH

Figure 4.3.3.2-4 Coding in NVivo

It is something like this, it depends. Because there are some things like what you mentioned before, maybe some companies support charities or help society or whatever, it is difficult for these things because they are non-financial, and we do not have a way to calculate its impact. But these things we may incorporate it into corporate governance or its management style or quality. These are intangible, so you cannot give it a weighting. But because in management credit and corporate governance, even though it is intangible, it is still very important. Then we cannot say exactly how important it is, but these are very important because it relates to their credit. Whether their credit is good or bad, what they reported previously whether it is numbers or comment, if these are not consistent, or rather not consistent without a good reason or logical reason, this will cause problems. It's like these things are like you are recording a mark in your heart, but you cannot quantify this either, but it is very important. Like our previous investment strategy, there was a corporation that was once Taiwan's stock king, the stock prices raised a lot. It later faced some competition which led to its overall operation to decline. What happened was that, [redacted] its stock raised to one thousand and so, then it dropped it.

Coding Strip: Credibility, Taiwan

After the initial round of coding, the 'matrix coding' query was used to explore the data. This query enabled comparisons between items, such as attributes with nodes. Figure 4.3.3.2-5 shows an example of a matrix coding query. This particular example indicates how often each participant referred to the terms 'consistency', 'corporate social responsibility', 'industry', and 'management

team’. It gives a visual indication of whether an idea is common amongst all participants or if it is only quoted often by one or two participants.

Figure 4.3.3.2-5 Matrix coding query in NVivo

The screenshot shows the 'Matrix Coding Query - Results Preview' window in NVivo. The window has a ribbon with tabs: File, Home, Create, External Data, Analyze, Query, Explore, Layout, and View. The 'Query' tab is active, showing options like 'Advanced Find Find', 'Query Wizard', 'Text Search', 'Word Frequency', 'Coding', 'Matrix Coding', 'Coding Comparison', 'Compound', 'Group', 'Last Run Query', 'Add to Stop Words List', 'Run Query', 'Store Query Results', and 'Other Actions'. Below the ribbon is a table with the following data:

	A : Consistency	B : Corporate Social Resp...	C : Industry	D : Management Team an...
1 : Participants:Participant Code = T1	0	5	5	2
2 : Participants:Participant Code = T2	1	1	14	3
3 : Participants:Participant Code = F3	0	1	0	0
4 : Participants:Participant Code = F4	0	1	1	1
5 : Participants:Participant Code = F5	0	4	12	4
6 : Participants:Participant Code = F6	3	6	8	2
7 : Participants:Participant Code = F7	0	3	2	0
8 : Participants:Participant Code = F8	1	7	13	8
9 : Participants:Participant Code = F9	0	2	13	4
10 : Participants:Participant Code = F10	3	3	9	6
11 : Participants:Participant Code = F11	0	0	2	1
12 : Participants:Participant Code = F12	1	2	15	4
13 : Participants:Participant Code = F13	1	7	7	18
14 : Participants:Participant Code = M14	0	1	1	2
15 : Participants:Participant Code = R15	0	1	5	2
16 : Participants:Participant Code = R16	0	0	1	0

At the bottom of the window, it says 'Cell content : Coding references count Unfiltered'.

NVivo was used as it helps initiate the data analysis process. The researcher was able to become familiarised with the data and identify aspects to focus on. NVivo was used to organise and manage data as it enabled codes to be easily identified and modified. The coding process was carried out in NVivo, but deciding what to code and the interpretation of data is dependent on the researcher. Further coding was required, as well as reorganisation and editing of nodes, and identification of themes. The next subsection describes the researcher’s process for focused coding.

4.3.3.3 Manual Analysis and Theme Identification

The nodes at this point are disconnected and need to be merged or grouped into specific categories. For instance, the nodes ‘financial returns’, ‘financial performance’, ‘financial sustainability’ are found to contain similar codes and reflect the same ideas, so they are merged into one node ‘financial performance

and returns'. The researcher also read through each transcript line by line to code ideas that have not been directly captured in the initial coding process. For instance, the quote "researchers will communicate with each other, are the results you got the same as the results I got?" (F6) belongs in the node 'consistency', but it was not captured in the initial analysis as it did not contain the word 'consistency' or stemmed words of 'consistency'. The node 'consistency' is also found to relate to 'credibility', so the 'consistency' node is merged into the 'credibility' node.

The data was analysed based on thematic analysis, "a method for identifying, analysing and reporting patterns (themes) within data" (Braun & Clarke, 2006, p. 79). Thematic analysis is an alternative to content analysis and the boundaries between these two methods are not clearly defined, the terms are therefore commonly used interchangeably (Vaismoradi, Turunen, & Bondas, 2013). Vaismoradi et al. (2013) explains 'content analysis' as a systematic method of coding and categorising large amounts of textual information. This approach is used to determine trends and patterns of words used, including the frequency, relationships, and the structures and discourses of communication. The primary aim of content analysis is to describe the phenomenon in a conceptual form. 'Thematic analysis' explores the themes embedded within data and pays greater attention to qualitative characteristics of texts (Braun & Clarke, 2006; Vaismoradi et al., 2013). Thematic analysis is appropriate as the research is embedded in a qualitative methodology. Furthermore, the identification of themes allows a more structured discussion of the research findings and enables more breadth and depth in analysing the interview data.

Although thematic analysis is widely used in qualitative research and is recognised as a flexible and useful research tool (Braun & Clarke, 2006; Vaismoradi et al., 2013), the technique has been criticised as being relatively ambiguous as there is no precise agreement as to what constitutes thematic analysis (Braun & Clarke, 2006). There is no definitive answer to what counts as a ‘theme’. What constitutes as a theme is dependent on the researcher’s judgement (Braun & Clarke, 2006). A theme is not determined by quantifiable measures as it may be derived from ideas that occupy relatively little space in the dataset. Braun and Clarke (2006) explains two main approaches to thematic analysis: inductive and deductive. An ‘inductive’ approach is data-driven. The data collected may bear little resemblance to the research questions; therefore, the researcher codes the data without trying to fit it into the original research assumptions and ideas. This study is based on the latter ‘deductive’ approach. A deductive approach is analyst-driven as the analysis process is based on the researcher’s research interest. For this study, the coding of themes was driven by the research objectives. Braun and Clarke (2006) also explains that themes are identified according to one of two levels: semantic and latent. The researcher identified themes based on the ‘semantic’ level. The data have been organised into descriptive themes, resembling patterns across the dataset. The ‘latent’ level goes beyond the ‘semantic’ level and “examine the *underlying* [emphasised in original] ideas, assumptions, and conceptualisations – and ideologies – that are theorized as shaping or informing the semantic content” (Braun & Clarke, 2006, p. 84). In order to address the research objectives, the interview results were presented in three overarching themes. These themes as well as other findings are presented in the next chapter.

4.4 Chapter Summary

This chapter explained the research paradigm, research approach and research method adopted by the researcher in conducting the study. The first part of the chapter consists of the research methodology, which introduced the contrasting views of positivism and interpretivism, and also discussed the philosophical assumptions underpinning the research. An interpretivist approach was undertaken as the researcher's philosophical views align with the interpretivism paradigm and the study focuses on understanding the social world. Qualitative research was considered to be the most appropriate approach as, apart from qualitative research being associated with the selected paradigm, the study is exploratory in nature and seeks to understand an underexplored social context. The second part of the chapter outlined the specific research design used. It involved discussions on research preparation, data collection, and data analysis. In preparation for the research, a literature review was conducted to identify gaps in literature. These gaps motivated the study and formed the research purpose and objectives. Two pilot tests were conducted and research data were then obtained through 16 semi-structured interviews with a mixture of individuals from various investment backgrounds. The interviews were transcribed, subjected to initial data analysis using NVivo, and then manually analysed for a deeper understanding of the data and to identify themes.

The next chapter presents the findings of the data analysis.

CHAPTER FIVE

FINDINGS

5.1 Introduction

The goal of data analysis was to reveal information that addresses the research objectives, this process led to the emergence of three main themes. This chapter is set out according to the themes and each section discusses findings from the whole sample. It also highlights any notable differences between individual attributes, such as difference in thoughts amongst private equity investors and security investors. Outliers in the form of unique responses are also noted as they could be a rich source of information for exploration in future research. The themes are interrelated and should not be viewed as mutually exclusive. Contents are often cross-referenced and the findings should be viewed as a whole. The chapter is structured as follows:

5.2 Approaches to and Factors Influencing Investment Decision-making

5.3 Information Sources and Information Asymmetry

5.4 Investors' Views on Non-financial Disclosures and Integrated Reporting

5.5 Chapter Summary

5.2 Approaches to and Factors Influencing Investment Decision-making

Investment decision-making is a multifaceted process and is influenced by a variety of factors. The interviews identify limits to the use of corporate disclosures and historic information as all participants need to form 'assumptions' and 'personal judgements' when assessing investment opportunities. Although investors may base their choices on logical data interpretations, investing is a subjective process influenced by personal experiences, values, forecasts and beliefs. Comments are similar to:

It doesn't mean we have a really solid screening system because some of the cases we filter out turn out to become a really good case, but unfortunately this is how it is. I guess it's really experience and possibly luck to be honest... it really is by looking at different people with a different point of view, we need to make judgements about whether or not their point of view will really become the future trend. I think that is the interesting and also the risky part because no one knows what the future looks like. (T2)

We have to predict the future to see if future usage rates [for batteries] will increase more and more, because electronic cars in the future will have developed to a stage that is as convenient as the petroleum cars now. So this is our prediction, whether it is correct or not we are unsure. (F6)¹⁰

A general consensus exists about the importance of certain factors (see Section 5.2.2), but the influence of each factor on investment decision-making is different for each participant no matter their speciality or investment focus. The investment process can be seen as each investor having his or her own 'checklist':

We all have a checklist [hand gesture, crossing imaginary list]. This corporation must be doomed, there are a lot of crosses. They lack human talent, their operational strategy is incomplete, their skills are normal and not ahead, their client structure is weak it is too reliant on a few people. Then at the end you will say, "How can you invest in such a company?" We all have these checklists. (F8)

5.2.1 Investment Appraisal Methods and Analysis Techniques

There are commonalities in the methods and analysis techniques security investors use to identify investment targets; contrastingly, private equity investors have not mentioned such approaches as they appear to have different investment focuses (see Section 5.2.2). The interview evidence suggests Taiwanese security investors tend to follow a 'top-down approach' and uses either 'fundamental analysis', 'technical analysis', or a combination of both¹¹. Evidence of the

¹⁰ Appendix G lists additional quotes and comments. Refer to Appendix G - Note 1.

¹¹ See Glossary of Terms (p. xii) for definitions of investment approaches and analysis techniques.

top-down approach includes:

There are a lot of strategies for the formation of funds, some of them can be from top-down. Top-down as in, if I think that the recovery in the US is sustainable and may be in a recovery for many years, then I could in Taiwan or another country, find export orientated companies dealing especially with the US, such companies should benefit... following this trend, you can select many companies below within it. (F10)¹²

Only F5 commented on using both top-down and bottom-up methods as he also has deals referred to him by corporations seeking funding.

Regardless of the appraisal method used, security investors mentioned fundamental analysis and technical analysis. Fundamental analysis was used by all, while there were varying results for technical analysis. For participants, fundamental analysis consists of “gathering data about an industry’s upstream, midstream and downstream” (F12) and “what the corporation is doing, how their competitiveness is... you compare it with those in the same industry, like their ROE [return on equity]” (R15)¹³. Technical analysis on the other hand relates to analysis of monthly, quarterly or annual stock-related data. Such analysis includes finding trends in “K-line analysis and charts, and some other analysis like the average of stock market indexes” (F8)¹⁴. Institutional investors and research providers all appear to use a combination of fundamental and technical analysis, whereas participants involved in retail investment have either not mentioned technical analysis or expressed a doubtful view on it:

I pay more attention to fundamentals than technical, some of them are like you look at the pictures to tell a story, can you use that to predict a big fall in 2018 stocks?... does Warren Buffett draw lines

¹² Appendix G – Note 2.

¹³ Appendix G – Note 3.

¹⁴ Appendix G – Note 4.

all day? No. Does Bill Gates draw lines? No. Does Guo-Tai-Ming draw lines? No he doesn't. I am talking about the K-lines and things you know. Those are looking at the past and I don't really believe in it. (R15)

5.2.2 Factors Influencing Investment Decisions

The data analysis revealed many recurring factors that influence the selection of investment targets. The most commonly identified factors are grouped into the following seven categories:

- Economy and industry
- Financial performance and returns
- Future demand and competitive advantages
- Credibility
- Corporate culture, leader and management team
- Corporate governance
- Corporate social responsibility

Two less mentioned factors include 'governmental policies' and 'foreign investors'. The factors have been categorised for the purpose of presenting the findings, but they should not be viewed as separate because many factors often interlink with one another. It is difficult or even impossible to weigh the factors according to their importance, as commented by F10, "[non-financial events] is actually considered very critical and for us, we do look at those things, but it is difficult to determine a weighting because this is not possible to do." The identified factors should be viewed collectively like the components of a 'checklist' as mentioned earlier, where investment targets lacking any one of these factors may be considered a less attractive investment.

5.2.2.1 Economy and Industry

Understanding the economy and industry links back to fundamental analysis. Security investors consider how an economy is performing by looking at its

economic indicators, such as GDP or currency indexes, and forming predictions about future potential through identifying industrial and consumption trends:

We will look at many gross economic indexes... look at America, you must look at America right? Europe is a must, China is a must, these three are a must, and also Taiwan's own conditions. (F7)¹⁵

Security investors also seek to follow industry trends or to invest in industries they consider to have future potential:

We follow the development of Taiwan industries. So in late 60's we put money into textile, 70's steel, 80's electronics, 90's semiconductors and optoelectronics, most recently biotech and culture creative industries... Like today, the most promising industry in Taiwan is health care because of the aging population... so they have increasing needs for health care services and biotech, pharmaceutical medicine. (F5)¹⁶

Research providers also consider understanding an economy and industry as important to investment decision-making. F4 commented, “Now it is about the overall economy, international, everything. America's current trends, their currency, their stocks, everything is included [in research reports].” F9 said, “We defined the first chapter of every stock analysis to be about the industry, a very elaborate analysis.” T1 analyses the current economic trend in order to apply discounts to targets, and it also “helps me to persuade my analysis or support my analysis on why the fund outperformed.” Security investors also consider future product demand and product lifecycles (see Section 5.2.2.3), which are affected by the industry a corporation operates in.

T2 made a unique comment from a venture capitalist perspective. He considers the scope of an investment target important because T2 themselves are

¹⁵ Appendix G – Note 5.

¹⁶ Appendix G – Note 6.

industry specialists and have particular interests beyond financial returns:

Some funds may focus on biotech while some other funds may focus on general industry, but because we are in the technology industry, the bandwidth, the scope of our interests are actually really narrow... If there is a technology industry fund that maybe they make lots of money, but that's not our policy so we will not invest in it, because after all, we don't only try to do financial investment, we try to do technological investments. So the scope of the fund I think is top priority. (T2)

The other 3 private equity investors who operate in different industries do not appear to have this concern.

5.2.2.2 Financial Performance and Returns

A necessary condition of investment is for targets to provide financial returns; this is a consistent condition throughout all participants. Participants commonly require investment targets to meet a set financial benchmark, suggesting “financial profits are the entry barrier for investments” (M14). Benchmarks could relate to profitability, future potential, growth or stability in returns. Such requirements are often used in screening the market to reveal a pool of potential investment targets¹⁷.

Specialists providing services to retail investors and institutional investors also emphasised the importance of financial performance and returns. T1 commented, “For most of the investors, their investment decisions depends on if they have a good investment value... investment value, normally we judge by the price-earnings ratio.” F3 commented, “At the end of the day people invest to make returns.” F5 suggests, “People buy stocks for two reasons, one is more income from dividends, just stable income, and another one is they see growth,

¹⁷ Appendix G – Note 7.

that this company is growing very robustly.” Participants have also noted ‘stable dividends’ and ‘cash dividends’ as an attractive attribute for targets to have¹⁸. Participants also suggest retail investors treat stock investments as ‘gambling’ and a way of getting ‘short-term gains’. Retail investors are said to “invest in anything and are yield driven. More experienced investors invest in stocks that are less volatile, while young people play with arbitrage trading” (R15)¹⁹.

Institutional investors and investment consultants look for information that affects corporate profitability, such as a target’s order status, earnings per share, current and forecasted revenue, and net profits. F12 mentioned there being “set formulas... some accounts on the income statement need to be of a specific amount or ratio” and they also “break down the revenue to see their sources.” Furthermore, F12 suggests if a company maintains stability in gross profit margin “it means that they have high bargaining power in the industry, and on the other hand, they have strong competitiveness.” F8 commented, “We do actually circle around these numbers, but of course we will ask about the reasons behind it.” F9 stated their focus on financial figures is for the benefits and protection of their clients as “at least in these following two years, even if clients get trapped in the stock market, their stocks won’t turn into wallpaper. That is something we hope to guarantee to our clients.” Another reason is the belief that corporate actions are captured in the end financial result:

If your company is making money, then it must mean that you are correct in every link, right? Firstly, it is okay in the global trend. In Taiwan it is also very good, the government is also supporting it, there are a lot of people taking part, and the corporate government structure and their management team is excellent. You know there are many factors that contribute to success so that your financial

¹⁸ Appendix G – Note 8.

¹⁹ Appendix G – Note 9.

statements, the numbers can be excellent. If a corporation faces increasing problems while it is operating, then in the end that corporation will not make money. (F8)

Private equity investors are different to security investors as they may engage in venture capital investing, which is focused on start-up companies. Start-up companies need funding to support their ideas and although targets may show poor financial performance in the early years, private equity investors consider future returns as important:

They certainly need to create value for different stakeholders but the most important value they need to create is financial value. I mean if they fail on financial, you will lose big money. Say they create huge value for the community, nobody is going to invest that because nobody wants to invest in NGOs right? So for start-up companies, unfortunately I guess, financial returns, financial value is the key. And maybe consequentially, in order to create financial value, you need to provide value for the customer you serve. (T2)

5.2.2.3 Future Demand and Competitive Advantages

Participants prefer corporate operations to be a ‘going concern’ and for its products to have ‘future demand’. Such factors are suggested through their order status and a long product lifecycle. F12 commented they are more willing to invest if “in the following two quarters a corporation doesn’t appear to have many problems with their orders and market presence, and they are still in a growth stage.” Another participant commented:

How the corporation is operating, such as if they have any new products in the future, if in the future they would have any changes in customers, or what areas they are going to expand into in the future, their future developments, if their management team will change, their introduction or development of new technology. (F8)²⁰

²⁰ Appendix G – Note 10.

It is also important for targets to have points of differences, which entails future demand and survivability. Investors need to “understand why you can invest in it for a long time. The corporation you invest in cannot be replaced, so these non-financial factors [competitive advantages] are the ones that are very difficult to be mimicked” (F6). Participants used a variety of terms for points of differences, including ‘competitive advantage’, ‘know-how’, and ‘innovation’. For instance, “You identify companies with very strong competitive advantages... the company’s advantage can be technology or some others, some companies are associated with big groups” (F5)²¹.

5.2.2.4 Credibility

Credibility relates to the trustworthiness of corporate management and corporate disclosures. Security investors ‘observe’ corporate actions to determine credibility, which is commonly done through comparing guidance disclosures with its actual results. Credibility, or a lack of credibility, is understood over time. Participants may seek to understand why corporations have not achieved their forecasts and often mention that they keep a ‘record’ of what corporations do or, if a notable event occurs, it will leave a ‘mark’ in their minds. For example:

There was a corporation that was once Taiwan’s stock king... It later faced some competition which led its overall operation to decline...we will of course ask those companies facing these problems and challenges what they will do, what kind of strategy do they have? So for example, when they were over one thousand [points], they said [strategy] ABC, and when it dropped to nine hundred, they still said ABC... they said it a few times but their stock price continued to fall... what they tell the investors, the shareholders are that, “You got to believe me,” and I tell them that, “I can’t,” because your current press performance is poor, “So, you got to tell me something.” They kept refusing to say. So later in our

²¹ Appendix G – Note 11.

internal meeting, in our whole group meeting, when I was reporting, I told them that I am not able to believe this management's credit and just based on this point I had to downgrade them. Later our organisation completely sold their shares. I did not have to wait for their complete financial information. (F10)²²

'Consistency' is another factor influencing credibility. Participants often communicate with members of the same trade to see whether corporations provided the same information to all investors. A lack of trust in corporations will result if they are "inconsistent without a good reason or logical reason" (F10)²³. Furthermore, F4 associated credibility with 'reputation' and described it as a mixture of 'social responsibility' and 'management integrity'. Only F4 used the word 'reputation', but F13 also associated corporate credibility with 'corporate culture' and 'management integrity' (see Section 5.2.2.5). If corporations are conservative and meet their targets, it suggests that they are credible and can be relied on:

[Corporate culture] still depends on looking at past figures but there are many factors that mingle together. Firstly, you look at past performance for recent years. Although past performance doesn't necessarily mean you will be able to reach this performance in the future, you have consistency. You know this group of people are really serious at what they do. (F13)

5.2.2.5 Corporate Culture, Leader and Management Team

The term 'culture' was used interchangeably with 'philosophy'. Corporate culture is a broad idea affected by the decisions of corporate leaders and the management team. Participants associate good culture to corporations with strong leadership, integrity, and the ability to contribute to society; whereas poor culture

²² Appendix G – Note 12.

²³ Appendix G – Note 13.

would be reflected in unlawful operations or inappropriately high remuneration²⁴. Although social responsibility practices were also mentioned, they are considered to be of lower priority compared to other factors (see Section 5.2.2.7). The ‘integrity’ of corporate leaders and the management team are also important to security investors. Integrity is linked with corporate governance (see Section 5.2.2.6). Based on Taiwan’s traditions, many corporations are family-owned and controlled even though they may be a ‘shareholding’ company. In family controlled businesses, family members hold over 50 percent of the shares and maintain control over the corporation. Security investors consider ‘integrity’ important because participants need to be able to trust management and believe they will do the right things. Investing in family controlled businesses are “the same as investing in this person [corporate leader]” (F6)²⁵. One participant focused on the individual reputation of corporate leaders, commenting:

We will be more willing to invest capital into companies if the CEOs and chairmen have greater individual reputation and impacts on the industry. It is like a few years ago Steve Jobs, his existence resulted in a premium for the company. This premium was very high as he was a very influential person, and some of his promises, for companies like us, we are more willing to believe it. (F12)

Private equity investors also focus on the ‘people’ when selecting targets. T2 commented, “From a start-up perspective, it is all about people, whether or not you have a good team, whether or not you have a team with a good track record.” F5 considered, “People, the management team is always the most important, and also the company’s advantage”; furthermore, F5 also mentioned that they need to feel “comfortable” around the management team before signing a preliminary memorandum of understanding, which is a legal document common in the process

²⁴ Appendix G – Note 14.

²⁵ Appendix G – Note 15.

of forming a contract.

5.2.2.6 Corporate Governance

Corporations with strong corporate governance are considered to have ‘more discipline’, which is a good attribute (F10). Only F8 mentioned the requirement for every corporation to have an independent director. The most common focus is on shareholder structure as corporate governance acts as a control against issues arising from agency theory:

If there are no specified major shareholders, then when you are voting, it is all up to the runner. When they have money, they may spend it without much consideration. Then after this there may even be related party transactions or insider transactions because no one is governing, and since they have been in the seat for a long time and they don’t even know who will be replacing them, they will take as much money as they can... it is agency theory. It actually works like that, Taiwan is like that too²⁶. (F13)²⁷

5.2.2.7 Corporate Social Responsibility

In the interviews, CSR is understood as corporations’ impact on the environment and society, and also whether a corporation actively engages in research or development to improve the society and environment. Participants showed a mixture of views regarding the importance of CSR. Investors generally do consider CSR, but “sustainability, environmental or social responsibility is less of priority than financial returns” (F3) and, “Of course this is considered, but the most important is still the corporation’s operating statements” (F4). Furthermore, “That type of information [environmental and social] generally would not be looked at first. We firstly normally focus on a corporation’s forecast and it’s EPS

²⁶ See Chapter Two, Section 2.5 for agency theory and Chapter Three, Section 3.3.1 for Taiwanese corporate culture.

²⁷ Appendix G – Note 16.

[earnings per share]” (F12). Not only is CSR second to financial performance and returns, it is also second to other factors such as credibility and management integrity²⁸. Only R15 does not consider CSR related information, he commented, “I will definitely not consider this when investing in Taiwan. They [investors] don’t really regard it as important.”

Two participants associated CSR practices with an increase in operational costs, while one other commented that most Taiwanese investors would view such practices as additional costs to a business²⁹. Participants also considered the responsibility of CSR practices depend on the earnings of a corporation. If it has excess funds to improve the society or environment, then they have responsibility to do so; however, if corporate earnings are not excessively large, then it is fine to do nothing as long as they operate within the laws and regulations³⁰. However, corporate social irresponsibility that negatively impacts stock prices and corporate image are important. Participants often mention the recent cases of water pollution by Advanced Semiconductor Engineering Inc. (ASE) and tainted food by Wei-Chuan:

ASE in Kaohsiung, the event that they released waste water, that event directly impacted its stock price. So we would generally not touch those companies that start to fall. The main reason for this is that the first thing we saw was their stock price, and then secondly we saw the laws they breached and thought about whether the company will have to stop operating and if all this will affect their financials or operations. (F9)³¹

Everyone later boycotted Lin-Feng-Ying Milk, a brand. They [society] thought the corporation did something wrong and boycotted it. It caused quite a big disruption in Taiwan, the main

²⁸ Appendix G – Note 17.

²⁹ Appendix G – Note 18.

³⁰ Appendix G – Note 19.

³¹ Appendix G – Note 20.

thing was that Wei-Chuan... I can't confirm the exact reason but what they did was they imported some non-edible oil into Taiwan and when they sell their products into the market, there were a lot of it that involved oil that is industrial oil and not edible oil. You will not die from eating it, but it is not good, it is not right. Simply speaking, you may not die from it but it may be bad for your health. So this is very, very bad for their corporate brand, their image. Their stock price fell a lot. (F10)³²

F5 associated “regulator penalties or protests from the community residents” as a consequence of environmental pollution, so he will consider CSR as they are “afraid to invest in corporations that have labour disputes or environmental disputes, if they pollute the environment we will also be worried.”

5.2.2.8 Less Common Factors: Governmental Policies and Foreign Investors

Two participants mentioned governmental policies as a factor that influences their investment decisions. A research provider would leverage information relating to economic or policy changes to support his analysis:

Although China's first quarter GDP was not very good, their government supports them and opened up, unveiling many different kinds of policies to support the economy, so maybe that's the reason why recently the China funds are outperforming others. (T1)

Another institutional investor mentioned governmental policy as important non-financial information as:

Taiwan in these recent years has government policies that are consistently controlling property and land. Policies are really important... after the policies will be how the corporation respond to it... there are also a lot of external factors, such as industrial policies, or local governments, these all influence them. For instance, if the local government pays a lot of attention to

³² Appendix G – Note 21.

environmental protection, then perhaps if your company wants to set a new factory there it could be very difficult, especially if your industry is considered polluting. (F8)

Four participants mentioned QFII as a factor that influences investment choices. QFIIs are said to be the “most powerful” out of Taiwan’s three major institutional investors (F8). F13 would look at the investment targets QFII selected and “look at their research reports and sometimes observe them.” F12 made a similar comment, “Foreign institutional investors, such as Merrill Lynch or Goldman Sachs... they periodically release their views, this will become consideration for some within the nation because some of their reports will be on the news or newspapers.” F9 mentioned that they care about “how much foreign investors hold” and what type of people hold their shares in general. While F6 commented that if foreign investors “buy it and don’t sell it, they [investors] think it is a very good company.”

5.3 Information Sources and Information Asymmetry

All participants collect data from multiple sources and cross-reference them to ensure a holistic view of an investment target is obtained. ‘Cross-referencing’ checks the credibility of information sources, this is also associated with conducting ‘due diligence’ prior to investing. The common information sources identified are categorised into:

- Researchers and research reports
- Corporate disclosures
- Interpersonal communication

Less mentioned but relied on sources include: ‘databases’ and ‘rumours and the media’. Although participants use a combination of sources, information is often wanted but unable to be obtained. Such issues are identified throughout this

section and this is where much of the assumptions and judgements arise in investment decision-making.

5.3.1 Researchers and Research Reports

All participants working in the financial sector commented on researchers and research reports as an important information source for investment decision-making. For security investors, the ones making investment decisions may not be the ones collecting information and conducting research. ‘Researchers’, or investment analysts, gather and analyse a variety of data to produce research reports. Researchers’ tasks often include for instance: visiting corporations and attending investor conferences, summarising corporate disclosures and financial information, gathering industry information, and provide their opinions on investment targets. Security investors rely on research reports, which can be produced by sell-side analysts or their organisation’s own research department. Researchers accumulate information and actively seek to provide investors with new information and updates regarding changes that have occurred to an investment area or target. Researchers are considered necessary as “it is normally too slow to wait for quarterly reports, such as income statements” and other corporate disclosures (F12).

F3 mentioned many researchers are specialists in their field, where “many of those that produce analysts’ reports have an engineering background as they need to understand the products and markets.” He also commented that the calculations in analysis reports “are the same as what you will find in textbooks, the difference is how much to discount, which [the discount rate] depends on the analyst’s expertise and analysis of data.” Two participants commented that the quality and accuracy of information is affected by the researchers’ skills and attention to

detail³³. Although research reports are important sources of information, one user commented that such reports are from researchers' perspectives and "as a fund manager I still have some of my own thoughts about it" (F13). Another emphasised the need to cross-reference information:

Researchers will write a report but you cannot just completely believe this, you have to look at many references... [corporations] tell you that their future will be great, but we have many IC [integrated circuit] research reports, we have many sources. In Taiwan there are still many different research institutions, for instance, Taiwan Institute of Economic Research, Taiwan Research Institution, and there are many domestic and overseas semi-conductor industry research reports... my report won't be exactly like what you [corporations] said, maybe I will have some questions internally, I will tell my internal fund managers or investing chief and say that, "In my judgment, I think that there are problems." So we will not completely trust it. (F8)

5.3.2 Corporate Disclosures

The most common corporate disclosures mentioned by participants relate to financial information, most notably 'monthly revenue guidance' and 'quarterly reports'. In contrast, non-financial disclosures are less common in Taiwan and participants mentioned 'annual reports' as a typical source for non-financial information (see Section 5.4). Participants consider quarterly reports as it could highlight "changes in the corporation" (F6) and quarterly reports also show whether corporations are "making a loss or profiting, if the corporation has potential, if the products they produce would have potential in the future" (F4). The monthly and quarterly disclosures are also what participants commonly use to observe corporate credibility (see Section 5.2.2.4).

³³ Appendix G – Note 22.

There is a mixture of responses with regards to the relevance of annual reports. F13 uses annual reports for information about the management team's past experiences and educational background, while F12 pays attention to the shareholder structure and joint venture investments. However, the majority of participants view annual reports as of not much use. Two participants considered annual reports as "outdated information" for investment purposes (F9; F12). F6 wants corporations with short product lifecycles to "constantly update information" and "constantly make advancements and tell investors about their future potential." Annual reports have also been criticised by F9 to be "very thick... there is too much non-financial information", and the contents are repetitive with information that is already available in research reports. Three participants commented that there is rarely anyone that uses annual reports or corporate prospectuses³⁴. F9 is critical about using annual reports because they are mostly written by one of two parties, "first, the stock service department, the stock service department of securities dealers... and another one is accountants. Accountants wrote it. Honestly, we don't think much of what they write." Similar criticisms are found for other non-financial disclosures (see Section 5.4.1). T2 and F9 commented that public information is normally not sufficient and they prefer to interact with corporate management, because from 'chatting', they can hear information that is not generally disclosed to the public.

Unlike security investors, private equity investors have business plans as a source of information. Business plans vary in content and detail, but generally contain a start-up business' background information, purpose and reason for funding, and it will mention the risks, challenges, and opportunities a business is

³⁴ Appendix G – Note 23.

expecting to face (T2; F6). The quality of the reports is less important than the idea as suggested by:

Some people are actually willing to take a lot of time to do a very beautiful comprehensive business plan, but when you read through that, maybe they have the shell, the good structures, but the idea is actually lousy. Another group of people, maybe they don't have the experience to put together a beautiful business plan, just simple like 20 page PowerPoint and not really logical, not even consistent with the good structures, but they got a great idea. (T2)

5.3.3 Interpersonal Communication

Participants and corporate management or representatives often interact through corporate visits and investor conferences. It is also important to network with 'people of the same trade' (see Section 5.2.2.4). Investor conferences are not required by law and are generally attended by the three major institutional investors. In investor conferences, corporate leaders announce and explain their operating forecasts, and investors have an opportunity to ask questions. The "information obtained from such events are very open and more complete" (F12). Researchers who visit corporations will meet with public relation representatives, who are often a corporation's spokesperson or CFO (F8). From corporate visits, researchers could get a more detailed understanding of a corporation's operations. Researchers may also visit a corporation's upstream and downstream production process as "you can always check from suppliers, from customers, so you know how the company is doing" (F5). Participants appear to acquire more information from discussions with corporate representatives as they "would slowly find out, for example, what are the advantages of your company, what is your strategy"; however, this is not always possible as investments may be made in different countries, which then requires investors to "use other ways to support [decisions], like sell-side reports" (F10).

Participants would ask corporations questions seeking to obtain information in ‘finer detail’. Questions can relate to a target’s near future, such as their monthly order status, forecasted half year and quarterly revenue, corporate net profits, and breakdown of product revenue (F8). Furthermore:

[For instance if a stable tech company want to expand] I would have many questions, such as why you would want to do that? How much would it cost you? How much labour? How much time? Why are you entering a new business? How is the competition? How will you find new clients? How will you estimate this demand and so on so forth. There will be a lot of questions, so I think it is difficult to justify with a few words on what I want. It should be, "I want everything," but will the company tell me? Are they able to satisfy me? (F10)

Although investors and researchers can ask, there are “a lot of questions they [corporations] won’t answer” and “in actuality, there isn’t much information that corporations disclose willingly... if they are willing to tell me, they tell me, if they aren’t willing, then I can’t do anything about it” (F8). There may also be risks involved with information obtained from corporate visits as they may be ‘over positive’; furthermore, as with investor conferences, corporations are selective about what information to disclose and often refuse to answer questions due to ‘confidentiality’ reasons³⁵.

5.3.4 Less Common Sources: Databases and Rumours and the Media

Participants mentioned the use of databases or databanks, such as subscriptions to international databases or the publically available ones in Taiwan as required by TWSE. T1 works as a database provider. They are seen to be ‘neutral’ and are not required to support any particular targets. The information provided in such databases is generally in the form of numerical data and financial

³⁵ Appendix G – Note 24.

data; for instance, returns, total net asset, fund size or portfolio, portfolio composition, and also technical analysis. The most basic analysis database users use is said to be performance analysis, “because if you would like to invest in that product, for example funds, normally you will see how it performed, did it outperform or underperform.” There is power in looking at data because “you cannot change the data right? If it is outperforming or underperforming, everything is based on the data. Based on the performance, everything is obvious and you cannot change it.” F9 commented that they are “very reliant on the [stock] predictions by large databases” and databases can “help fill gaps” in corporate disclosures as “there will be relatively more information” when databases organise information about a corporation. F10 also commented that her organisation is subscribed to international databanks, including ones that specifically focus on sustainability reports. “It’s similar to consulting firms and it focuses on global companies and makes ratings. They will provide reasons and supporting documents.”

In Taiwan, there are laws requiring listed securities in TWSE and TPEX to disclose ‘material information’ (see Chapter Three, Section 3.3.2). F6 considered Taiwan’s corporate disclosures have become more transparent since the government imposed such material disclosure requirements. Although TWSE have rules regarding what is considered material information, the disclosure of anything not within their defined scope is optional for corporations (F8). F9 also mentioned the use of the Taiwan Economic Journal, which has “all the listed companies in Taiwan and organise their annual reports... we usually look at the numbers directly. We will set [financial] standards... and see which ones are to take out and which ones are to stay.”

News and rumours also contain information for investors to consider. F4 would cut out news and magazine articles with corporate related information, and share the information with her organisational members and retail clients. F9 commented that some of their clients wish to buy low trading stocks from corporations who decline visitor requests “because they [the clients] heard some information outside that said those corporations are very good... but even if they really want to buy it, I am afraid to push it for them to buy.” F10 commented that, “In the market we often see different news, rumours, or plenty of reports on the media,” information from such sources is generally not official announcements from corporations. If the news relate to financial forecasts, F10 would judge whether the information is reliable by, for instance, comparing it with industry forecasts. For other non-financial information, “Usually we would think that it is real.”

5.3.5 Cross-referencing and Credibility of Information

Participants commonly cross-reference information from various sources to check the accuracy of information gathered and to obtain a more complete view of an investment target. T1 commented, “[All] information is useful especially when you review this company via different perspectives,” the gathering of more information enables better decisions to be made even though not every piece of information is helpful. F8 commented on the need to “get a lot of outside information to crosscheck [the accuracy of information] or I will ask their upstream and downstream... [to] judge what they [corporations] say is real or not.”

Participants also consider disclosures required by law as trustworthy, established mainly on the basis that corporations risk facing legal penalties if they

supply incorrect information. Information contained in MOPS have rules and “these are what we can trust” (F8). Similarly, F10 consider official disclosures such as annual reports and quarterly reports to be ‘trustworthy’ because “if they are a listed company, they are bounded by certain regulation[s].”

Participants agree that financial statements need to be audited by accountants, for instance, “If it is an audited report in Taiwan made by those Big Fours then it is okay” (F5). However, most responses suggest uncertainty about the added value of certifying or assuring non-financial disclosures. There were perceived difficulties to certifying non-financial disclosures due to its broad scope and lack of certifying mechanisms; furthermore, “there are too many different situations that corporations may not disclose” (M14)³⁶.

5.4 Investors’ Views on Non-financial Disclosures and Integrated Reporting

5.4.1 Views on Non-financial Disclosures

Participants often associate non-financial disclosures with ‘annual reports’, which are used for information regarding the management team, shareholder structure and corporate governance (see Section 5.3.2). “In Taiwan, currently things that relate to the society or the environment, usually they [corporations] would not specifically file a report for it... [and] sell-side analysts rarely go out of their way to write about these things” (F10). R15 commented that, “Taiwan investors are not at the stage of considering non-financial information.”

There is a mixture of positive and negative views regarding non-financial disclosures. Some participants consider it important as it may enhance corporate transparency and help with assessing risks between targets with similar financial

³⁶ Appendix G – Note 25.

standing (F9; R16). However non-financial information is difficult to deal with, for instance with charitable events, “we do not have a way to calculate its impact” (F10). Participants also mentioned strength in numerical information where “everyone is fixated on numbers at the end because it is easier to use when you are picking as there are too many investment targets” (F9) and it “let[s] the analysis be back up by logic, something more reliable, instead of something pulled out of thin air” (F12). Furthermore:

From my perspective as a capital provider in the end, normally I find those [non-financial] information not that useful. Because simply put it, if I need to put everything on the page it sounds like due diligence. When I’m trying to invest in a company and everyone’s asking for information, for me it is like assuming someone is going to do a due diligence on me, I just put everything nicely in a good package and try to send it out. But as I say, I wish that will be that simple, but in reality it is never that simple. All those information providers, all you need to do is get some experienced people who can produce a beautiful report but it doesn’t mean you’ll look at the beautiful company. (T2)

Participants also showed concerns over the accuracy of non-financial information. F6 commented that unlike financial accounting theory, which has been in the human society for a long time, there are no set standards for non-financial reporting, and if a corporation is highly polluting, then “perhaps because we need to pursue material profits for instance, if I create some detailed and accurate report regarding my pollution impacts and destruction of the environment, then some of the larger overseas fund companies won’t invest in you”, so there will be “hidden information” and “in the end it is impossible for investors to look into whatever they invested in, especially if they are international.” Another example is:

If you say corporate strategy, this is something that is not easy to see and not really quantitative, but in reality this is very important, but how would you obtain them? How would a corporation

disclose it? Normally what they will write out are the simple things. Those are the things even you can write for them, we can all write those things. (F10)

5.4.2 Views on Integrated Reporting

None of the participants have heard of IR or integrated reporting prior to the interviews, so the researcher gave them a brief overview according to the description in Appendix F. Many participants then associated integrated reporting with ‘CSR reporting’, common initial responses include:

I guess people have different terminologies. Like in Taiwan people talk about social responsibilities. From the tier one global investors, they are looking for something called ‘comprehensive reporting’, so I guess it is just different terminologies. To a certain extent we are actually doing this already. If you take a look at our annual reports, it is actually more than financial reporting. We have human capital, we have company strategy to the extent we didn’t disclose the company’s confidential information. (T2)

I thought integrated reporting was about ‘integrated financial reporting’, a report that brings all the different financial ratios and models together. Luckily I didn’t bring my researchers along, otherwise they would have no idea what to say. (F7)³⁷

There was a mixture of responses when participants were asked whether they would use integrated reports, no pattern was found from separating the individual attributes. The majority of participants consider integrated reports as a ‘reference’ and it is uncertain what impacts, if any, it will have on their investment decisions. There are also responses suggesting there is no use for integrated reports or such information would be considered years into the future.

Participants who considered integrated reports as potentially beneficial gave a range of reasons. F9 thought integrated reporting may enhance corporate

³⁷ Appendix G – Note 26.

transparency if corporations can “define for themselves their future, if they can release more industrial information.” T1 commented their organisation has different segments that focus on analysing non-financial factors, including sustainability and intellectual property. So they would probably use integrated reports “because we are [an] international company, we would like to offer our clients different perspectives.” F5 will consider such information if it reveals regulatory issues corporations may face relating to labour or environmental disputes. F8 considered information relating to ‘human resource’, ‘social responsibility’ and ‘corporate governance’ as important and this appeared to be captured by IR³⁸. F13 and R16 will also consider such information.

Three participants thought integrated reports could be potentially useful but there may be issues associated with them. T2 responded, “I think that is a good trend from a reporting perspective, but from the investing perspective, I probably only take this as a reference [as something to consider],” as corporations may report for the purpose of fulfilling due diligence. Another participant responded:

Yes, we will be interested in such information but we haven’t specifically said we wanted ‘integrated reports’. Actually, it would depend on their level of disclosure. For example, the things you mentioned are all important to us, their industry outlook, company strategy and others, and combining this with their financial reports or something, maybe with their future development plans or whatever, these things are in theory... we will actually have to know what contents they report and how clear it is, but I think that if I am the corporation, I would not be clear about it because they have competitors and it may influence their competitive advantage. But ideally this is very good, that is the only thing I can say. Do we need it? Yes we all need it. (F10)

F6 commented if integrated reports are released annually, then the reports would

³⁸ Appendix G – Note 27.

not be of much use as “information needs to be constantly updated [for decision-making],” suggesting the information will be outdated like annual reports.

Some participants were either unsure or suggested that integrated reporting may be more relevant in the future. F7 did not say for certain whether they will use integrated reports, he simply commented that “80 to 90 percent of Taiwanese investors do not consider non-financial information in making investments... Taiwan investors currently do not use sustainability reports and will probably not use integrated reports.” F3 and F11 also made similar comments. Their speciality does not require the use of such reports but they suggested that non-financial information relating to the environment and society is rarely considered in Taiwan. M14 considers information relating to the environment, society and corporate strategy, but his main focus is on SMEs and they are not required to provide reports beyond financial reports. M14 also commented, “Not every case is the same” and there may be, for instance, reasons businesses are unwilling or unable to note down on paper, so it is up to investors to uncover it themselves. R15 said, “I think it [integrated reporting] will definitely be of no use.” F4 commented that Taiwan has not yet reached the stage of integrated reporting, while F12 also gave similar comments based on the ideas that Taiwan is an emerging economy and the awareness of sustainability may not be as strong as in the developed countries:

I am not sure how this is advancing in Europe or US but I think this is a long-term prospect. From what we know, from an economics view about whether a company can continue creating benefits, there are a lot of externalities not included in calculations, such as emission of waste gas or the use of water resources or damages to the environment, these are not included in calculations. Emerging markets are lacking in such sense because normally you would have to attend to the GDP first, so sometimes they will have

to sacrifice some natural and external resources. These things are costs a whole country and society will have to face in the future, but these concepts have not matured... The only thing I can say is that, for Taiwan, there is not much awareness of this aspect, the awareness is not enough. I think it may need 10 or 20 more years. In the present time, no, it will not influence us. (F12)

Furthermore, Taiwanese corporations are seen to be operating in a highly competitive economy, which may hinder sustainability practices³⁹.

For Taiwan to implement IR, participants identified the need for change and demand to come from: developed economies and foreign investors, large corporations, and the domestic government. Taiwan was thought to follow the footsteps of developed countries. Specifically relating to IR:

Normally we have to look at Europe and US, and follow the footsteps of those more matured economies, how they have done it. If they have gradually established it [IR], then for Asian markets when it reaches a particular stage of development that is similar to them, we will turn back and start considering such things. (F12)

Comments were also made on the influence of ISO standards on investment requirements, and the impact of Apple's operations on Taiwanese businesses and stock market⁴⁰. Foreign investors have also influenced the investment decision-making of Taiwanese investors through broadening investment perspectives and being an influence on the stock market⁴¹ (see Section 5.2.2.8). Participants also consider the need for IR and similar initiatives to start from large corporations as they are the ones with abilities to produce integrated reports and participate in CSR practices⁴². The Taiwanese government also has an important role in IR adoption. Participants have acknowledged the government leading by

³⁹ Appendix G – Note 28.

⁴⁰ Appendix G – Note 29.

⁴¹ Appendix G – Note 30.

⁴² Appendix G – Note 31.

example in promoting environmental awareness, corporate transparency, developing industries and social responsibility indexes, which all appear to be initiating positive change⁴³. Many participants mentioned that as long as corporations act within the law, then other CSR practices depend on the conditions of the corporation (see Section 5.2.2.7). Government support or legislation appears to be necessary for integrated reporting to be implemented in Taiwan⁴⁴.

5.4.2.1 Views on Corporate Value Creation

For participants, value creation is a broad concept and can relate to value for investors, customers and the society; however, investors appear to be focused on ‘financial’ value creation. Responses are similar to:

I think value creation is the fundamentals right, if you fail to create value, I’m assuming you’ll be going out of business. It’s really a mix of everything. For any given company you have different stakeholders, like for us, we are a public company, so obviously we create value for shareholders is one thing, we need to create value for our customer, we need to create value for our employee, we need to create value for basically the place we stay... You know we are a global company, we also have operations in China, the US, and we also need to create value for the domestic community. So it really just depends on what stakeholders you are talking about. But in general, creating value I think that is a given concept... But to be fair, for start up companies, they certainly need to create value for different stakeholders but the most important value they need to create is financial value. I mean if they fail on financial, you will lose big money. (T2)

What is value creation? If we simply say financially, I can simply say return on equity. Of course return on equity can be gained from the bottom line of the income statement. As simple as that. This is a sort of value. But additionally you could say that there are also many others, fine, this is all possible. (F10)⁴⁵

⁴³ Appendix G – Note 32.

⁴⁴ Appendix G – Note 33.

⁴⁵ Appendix G – Note 34.

When participants were asked whether they consider sustainable practices to contribute to value creation, some had a rather cynical view regarding why investment targets highlight CSR practices. Three participants thought of CSR as a tool for advertisement to enhance the reputation of an investment target and to provide long-term benefits. F9 considered that when people in society are more exposed and have more interactions with corporations, although CSR activities “would not have a direct impact on my stock price, it may bring me new clients in the future and possibly new income streams” as “they [corporations] are trying to make you think that they are focusing on the same thing as you, that they are standing with you and not trying to get your money, that they are trying to help.” F13 considered the formation of foundations or creation of non-governmental organisations as “it’s like you spend your advertising budget on it... giving back to the community, these are all related to corporate reputation and can increase it.” F5 considers funds to use ‘social investing’ as a method of differentiation to make them appear ‘more high class’ compared to normal funds.

5.5 Chapter Summary

This chapter presented findings relevant to addressing the research questions. Analysis from the 16 cases is presented in three main themes: approaches to and factors influencing investment decision-making, information sources and asymmetric information, and investors’ views on non-financial disclosures and integrated reporting.

Many factors influence investment decisions and the impact of the factors are dependent upon investors’ perceptions. Although there are no hard rules in making decisions, participants often use a top-down approach with a combination of fundamental and technical analysis. Participants are considerate of information

relating to: the economy and industry, financial performance and returns, future demand and competitive advantages, credibility; corporate culture, leadership and management team, corporate governance, and CSR. Furthermore, governmental policies and foreign investors appear to influence investment decisions although such factors are less mentioned. Research reports, corporate disclosures, direct communication with corporate representatives and other investors, databases, and rumours and the media are information sources used by participants, but there are often both advantages and limitations to them; hence, investors gather information from multiple sources and cross-reference them to ensure more complete and accurate information about a corporation is obtained.

As non-financial disclosures are currently uncommon in Taiwan, there is a mixed response regarding the relevance of non-financial disclosures and integrated reports. Some consider it beneficial as it could increase corporate transparency, where the more information disclosed the better; while others suggest potential issues with the reporting contents and the extent of information disclosed. For IR to be adopted in Taiwan, participants consider the need for change and demand to initiate from developed economies and foreign investors, large corporations, and the Taiwanese government. Although participants consider there to be many ways a corporation can create value, the most important for investors is generally the creation of financial value.

The next chapter addresses the research purpose by interpreting the findings and making comparisons with existing literature.

CHAPTER SIX

DISCUSSION

6.1 Introduction

This chapter discusses the interview findings in relation to relevant literature. As the study is exploratory in nature, findings are often not directly relatable to prior literature; hence, discussions involve the researcher's own interpretations of the data collected and their indications about the usefulness of the concept of integrated reporting to Taiwanese investors. The chapter starts with a discussion on the appropriateness of adopting IR in Taiwan, and investors' concerns regarding the practicality and reliability of the idea of integrated reporting. IR concepts are then compared with Taiwanese investors' decision-making patterns to identify relationships between IR and the factors that currently influence investment decisions. The last section reconsiders the link between shareholder values and stakeholder values, as well as discussions on the information demands of Taiwanese investors and whether this demand is addressed in IR concepts. The chapter is structured into the following headings:

- 6.2 Barriers to Integrated Reporting becoming a Catalyst for Change
- 6.3 Relationships between IR Concepts and Investment Decision-making
- 6.4 Shareholder Values and Information Demands
- 6.5 Chapter Summary

6.2 Barriers to Integrated Reporting becoming a Catalyst for Change

Four years have passed since the concepts of IR were first introduced into the global markets for pilot testing, but the research evidences Taiwanese investors are unaware of any developments associated with integrated reporting. IIRC claims IR is gaining momentum in becoming a norm in mainstream business

practices (IIRC, 2012, 2014); however, there does not appear to be strong momentum in Taiwan. At the time of the interviews, none of the participants had heard of integrated reporting. This is despite the idea of IR already being implemented in Taiwan and a few participants having international operations, where they invest or provide investment research on China and US, which are two priority markets in where IIRC is concerned with promoting IR (IIRC, 2014). Exploration into IIRC's marketing plans is beyond the scope of the research, but it is obvious that many challenges remain ahead of IIRC if they are devoted to making IR a global norm, and for integrated reporting to significantly impact sustainability and financial stability. This section explains how Taiwan is not currently a suitable economy for the widespread adoption of IR, and also discusses investors' concerns on the practicability and reliability of integrated reports.

6.2.1 Appropriateness of Integrated Reporting in Taiwan

Prior literature suggests non-financial disclosures are uncommon in the overall Taiwan corporate scene (Huang and Kung, 2010; Hu et al., 2011; Ip, 2008; KPMG, 2013). This is consistent with the findings as investors often associate 'non-financial disclosures' with annual reports and comments that ESG disclosures are uncommon. The factors causing investors to be unaccustomed to non-financial disclosures may restrict the use of integrated reports. In theory however, Taiwan's cultural system of high collectivism and slight femininity (see Chapter Three, Section 3.2.3) is one that belongs to a society where corporations should be inclined to produce non-financial disclosures. The fact that this is not occurring in practice suggests the findings are contrasting to García-Benau et al. (2013). The situation in Taiwan is also not in complete agreement with Jensen and

Berg (2012) and Frias-Aceituno et al. (2014), as although Taiwan is an economy with relatively strong investment protection, and there are large Taiwanese corporations preparing sustainability reports and evidence of at least one corporation adopting IR, the preparation of such disclosures is low compared to other Western and Asian economies (FarEasTone, 2015; KPMG, 2013). Deviations between the results of these studies and the current situation in Taiwan suggest there are other factors influential to the preparation of voluntary corporate disclosures. The lack of non-financial disclosures in Taiwan may be attributed to: the under-development of stakeholder values, investors' views on CSR practices and corporate value creation, and the lack of stakeholder demand for non-financial disclosures.

Taiwan appears to lag behind Western economies in terms of developments in stakeholder values. While Western economies are emphasising corporate sustainability, accountability, and ideas such as integrated reporting, Taiwanese stakeholders are currently demanding strengthening of corporate governance and ethical corporate practices. There is relatively less consideration of sustainable development in the corporate and investment environment in Taiwan when compared to Western economies. Western investors are reputedly integrating sustainability-related information into investment models (Aust, 2013; de Villiers & van Staden, 2010; Solomon & Solomon, 2006), whereas Taiwanese investors do not appear to consider sustainability as important to investments. Investors often associate sustainability to financial sustainability rather than a broader view of achieving a balance between economic, environmental and social dimensions. Although the research evidence found low demand and use of corporate non-financial disclosures, investors anticipate sustainability information will

become more relevant to their investment decisions in the future. If Taiwan's development of stakeholder values follows the pattern of Western economies, then it is likely for stakeholder demand in corporate sustainability and accountability to strengthen gradually in future periods, which also adds importance to the practice of corporate sustainability and non-financial disclosures.

The views Taiwanese investors have are at times contrasting to Petersen and Vredenburg (2009). Taiwanese investors, including institutional investors, sometimes view CSR practices as good deeds and an increase in costs rather than actions directly associated with value creation. Investors do not appear to be appreciative of CSR practices that go beyond legal and moral requirements. Corporate operations that create direct short-term value are considered more important than actions with indirect long-term benefits. Investors who perceive a direct link between CSR practices and value creation tend to associate any potential benefits to long-term corporate performance, so for many investors with short holding periods, little attention is paid to CSR practices beyond what is legally and morally required. Such thinking resembles the traditional economic argument of Friedman (1970) and findings by Scholtens and Zhou (2008) and Krüger (2015). As Petersen and Vredenburg's (2009) study is based in Canada, the differences may be due to variance in culture and mindset between individuals residing in different countries.

Investors in Taiwan appear similar to Swedish investors (Hellman, 2005). Taiwanese investors also maintain a financially focused approach to investment and are not demanding corporations to operate beyond industry standards and regulations, nor are they requesting corporations to actively contribute to sustainable development. Although investors do not appear to be appreciative of

positive CSR practices for investment purposes, investors do react to corporate social irresponsibility, which is also identified by Krüger (2015). Taiwanese investors have shown concerns over corporate decisions that cause harm to society and the natural environment. The most frequent examples noted are the extreme cases of unethical practices involving heavy pollution and the production of tainted food by two large Taiwanese corporations: ASE and Wei-Chuan. Investors may be personally concerned about such unethical practices, but their reasons for reacting to corporate irresponsible events are because of their negative impact on share prices and their potential impact on future corporate operations. Although Taiwanese investors have different views on CSR practices to Petersen and Vredenburg (2009), the rationale for considering CSR is similar. Institutional investors incorporate CSR into decision-making not because of moral reasons but because there is potential economic value added to a company from CSR. In Taiwan's case, there is potential loss of economic value from irresponsible practices. Prior studies associated long-term institutional investment decisions with corporations' involvement in sustainability practices and disclosures (Cox et al., 2004; IIRC, 2012; Knauer & Serafeim, 2014); this is similar to Taiwanese investors' views that information related to CSR practices and sustainability are more relevant to mid- to long-term investors. Taiwanese investors with relatively short holding periods need to be persuaded of a direct link between the six capitals and short-term financial performance for integrated reports to become relevant to their investment decisions.

Stakeholder demand has been seen as a driver for developments in, and the disclosure of, non-financial information (see Chapter One, Section 1.2), but there appears to be lack of stakeholder demand for non-financial disclosures in Taiwan.

Integrated reports remain a form of non-financial disclosure despite academics (Cheng et al., 2014; de Villiers et al., 2014; Flower, 2015) and IIRC (2013a) suggesting that integrated reports are different from sustainability disclosures. Taiwanese investors perceived integrated reporting as similar to CSR reporting. The research findings suggest low shareholder demand for sustainability-related disclosures in Taiwan, while Huang and Kung (2010) suggests there is also low stakeholder demand for environmental disclosures. A lack of demand for non-financial disclosures is contrary to findings from studies based on Western economies such as Aust (2013) and Solomon and Solomon (2006).

However, low stakeholder demand for non-financial disclosures does not imply weak demand for corporations to act ethically and legitimately; instead, it could be due to the view that non-financial reporting is an unnecessary burden on most Taiwanese businesses and also such disclosures are not of great importance to investment decisions. Taiwanese investors commented SMEs are the dominant business type in Taiwan and such businesses lack the resources and obligation to prepare non-financial reports, this is supported by Shen and Chang (2009). Sustainability and non-financial disclosures are thought to be the responsibility of large corporations. Corporations with more resources and a longer life-span have the responsibilities and capabilities to invest in matters relating to sustainable development and the preparation of non-financial reports. Following such reasoning, it is possible that the correlation found in Bachoo et al. (2013), Berthelot et al. (2012), Murray et al. (2006), and Qiu et al. (2014) may be more of a given relationship than one that should suggest shareholders value non-financial disclosures.

The Taiwanese society does not appear to be ready for developments like integrated reporting, and Taiwanese investors do not appear to consider non-financial disclosures or integrated reports as essential sources of information. Although investors identify there to be information asymmetry and desire greater corporate transparency, such changes do not have to arise through integrated reporting. Many investors are doubtful about the relevance and usefulness of non-financial disclosures and there is also a view that the majority of Taiwanese investors rarely consider sustainability-related information.

6.2.2 Perceived Practicability and Reliability of Integrated Reports

Integrated reports sound good in theory but investors showed concerns regarding their practicability and reliability in practice. Taiwanese investors have not seen integrated reports before, so participants expressed opinions on the practicality of IR concepts and the reliability of non-financial disclosures. Similar to Atkins and Maroun (2015) and EY (2014), Taiwanese investors identify potential benefits of integrated reporting to be increased corporate transparency, and potential to reveal information for the assessment of future performance and financial risks. However, it is difficult for corporations to provide detailed information on the aspects encouraged by IR.

A key aspect of integrated reporting is transparency in the communication of strategic and forward-looking information (IIRC, 2013a), but such information is not generally considered to be public information. Corporations in Taiwan are often seen by investors as unwilling or unable to disclose detailed forward-looking information related to their corporate strategy and operating status. Investors who directly communicate with corporate management seek to acquire more information about a corporation's future order status and strategies;

however, investors commented the decision to disclose such information rests on the managers and many appear to choose not to disclose such voluntary information. Taiwanese investors perceive detailed revelation of corporate operations and strategic directions to have adverse effects on corporate competitiveness. Furthermore, corporations may be bound by confidentiality agreements or, as markets change in unexpected ways, corporations may be uncertain about their long-term operations and be unable to reveal detailed information. Steyn (2014) also identified such concerns from a corporate perspective. From such findings, there is an apparent trade-off between information transparency and corporate competitiveness, and the maintenance of competitiveness often prevails over greater transparency for investors. If integrated reports are able to reveal material information not currently available from other information sources, then such disclosures may be useful to investment decision-making. However, Atkins and Maroun (2015), IIRC (2013b), and Solomon and Maroun (2012) identify current integrated reports to be repetitive, long and complex, and to follow a box-ticking approach. If corporations continue producing reports with those attributes, then it is questionable whether integrated reports will contribute to new and material information for investors.

Investors also appear to be doubtful about the usefulness and reliability of integrated reports and non-financial disclosures in general. Although corporate disclosures are essential for capital markets as they reduce information asymmetry (Healy & Palepu, 2001; Jiang et al., 2011; Lai et al., 2013), Taiwanese investors consider there to be many issues to corporate non-financial disclosures, making it less relevant to investment decision-making. Investors' concerns relate to the timeliness of information, disclosure of biased information, assurance of

non-financial reports, and the difficulty of assessing non-financial information. Taiwanese investors require constantly updated information for investment decision-making. Contents of annual reports have been considered to be outdated information as it is released on a yearly basis. If integrated reports are also released annually or reported in place of annual reports, then investors are also likely to consider the contents outdated and less relevant for investment decision-making. Investors also questioned whether integrated reports are able to provide new and accurate information for the evaluation of investment opportunities. In addition to considering that corporations may not disclose detailed forward-looking information, investors also thought corporations will be selective about the information disclosed and fail to provide a balanced view of corporate operations. Investors expect unwillingness to disclose information that is damaging to corporate reputation or discourages investment by capital providers. Brown and Dillard (2014) also expressed such concerns, suggesting integrated reporting may progress as a narrow-minded mechanism that fails to go beyond the business case. There is a possibility for disclosures to be biased, but there are few options available to prevent such problems from occurring. As consistent with Cheng et al. (2014) and Reverte (2015), Taiwanese investors consider non-financial disclosures to be too broad and complex to assure. Investors are also uncertain if the assurance process will add value to the disclosures. There are also challenges to assessing qualitative or narrative information for investment decision-making. Taiwanese investors prefer quantitative or financial information as it is relatively easy to interpret and compare with other potential targets. Although IR suggests quantification of non-financial information through the use of KPIs (IIRC, 2013), the impacts of the KPIs on share price is unquantifiable.

If the concerns by Taiwanese investors are to materialise, integrated reports may indeed be another mechanism supporting business-as-usual behaviour and about business storytelling. Such problems will need to be addressed if IR is to make any significant changes to sustainability and financial stability.

6.3 Relationships between IR Concepts and Investment Decision-making

Comparisons of prior literature (for instance, Almujaed et al., 2013; Arnold & Moizer, 1984; Moyes et al., 1997; Saadouni & Simon, 2004; Wang et al., 2011) identify variances in the investment decision-making process amongst investors in different countries. Such variances exist in the approaches used to select investment targets, factors that influence investment choices, and preferred information sources. As there are variances in investment decision-making processes amongst investors, it would be inappropriate to generalise the usefulness of integrated reports.

The research evidence identifies investment decision-making as a partially subjective process due to its dependencies on assumptions, personal experiences, and the values of each individual investor, this finding is similar to Mohamad and Perry's (2015) study on Malaysian investors. Investors in Taiwan appear to have a general consensus about the factors that influence investment decisions, but the level of influence each factor has on investment decisions are different for each investor. This section identifies agreements and disagreements between IR and Taiwanese investors' current decision-making patterns. The following subsections compare IR concepts with Taiwanese investors' current investment methods and techniques, factors that influence investment decisions, and preferred information sources.

6.3.1 Investment Methods and Techniques

Integrated reports are not suitable for all investor types. For Taiwanese security investors, any consideration of integrated reports is likely to be in the late stages of the investment selection process because of investors' preferences in investment methods and techniques; whereas for private equity investors, especially venture capital investors, integrated reports are unlikely to be of relevance at all.

Security investors tend to follow a top-down approach to share appraisal, implying investors consider firm-specific information after the selection of potential investment industries. Following a top-down approach, integrated reports would be considered at a stage where investors are selecting specific investment targets. Integrated reports may be useful if they contain information enabling investors to evaluate the performances and risks of different investment alternatives. This is provided that many corporations produce integrated reports and the contents are comparable. If the preparation of integrated reports is determined by its potential usefulness to investors, it may not be necessary for all corporations to produce such reports. A top-down approach suggests the preparation of integrated reports is best suited for corporations operating in trending industries as declining industries are susceptible to being screened out in the initial selection processes. However, the identification of industry trends is a challenge in itself and each investor may have their own opinions on where a future trend lies. Integrated reports may be more useful in places where investors follow a bottom-up investment approach, as those investors directly assess firm-specific information and integrated reports may contain additional data to consider.

In terms of investment techniques, Taiwanese security investors appear to be more reliant on fundamental analysis than technical analysis, but both techniques are often used by institutional investors and investment analysts. The techniques relied on by today's Taiwanese investors have changed from what was identified in Moyes et al. (1997). However, Moyes et al. appear to be correct in their speculation that there will be more focus on fundamental analysis due to the opening of Taiwan's capital markets to foreign investors. The research evidence suggests investors value fundamental analysis, and foreign investors have significant influence on the investment considerations of Taiwanese investors. Taiwan is now parallel with countries such as the UK (Arnold & Moizer, 1984), US (Moyes et al., 1997), and China (Wang et al., 2011) in terms of institutional investors' placing greater emphasis on fundamental analysis over technical analysis. For investors who are solely reliant on technical analysis, integrated reports would be redundant as such a technique does not involve the use of any corporate disclosures.

Taiwanese investors appear to consider 'fundamental analysis' in a broader scope than what is generally examined in the literature. Studies on share appraisal techniques mostly relate fundamental analysis to analysis of financial statements and financial ratios (see for example, Moyes et al., 1997; Saadouni & Simon, 2004; Wang et al., 2011); but Taiwanese investors consider fundamental analysis to involve assessment of any information that relates to understanding the 'value' of a corporation. Taiwanese investors have different perceptions of what contributes to the value of a corporation. A corporation's value could be inferred from its financial statements, operations, industry prospects, supply chain management, competitive advantage, leaders and management team, and so on.

As Taiwanese investors consider the understanding of corporate value to be of importance and IR focuses on the concept of corporate value creation, integrated reports should be valued by investors. Such an optimistic view is under the condition that investors and corporations are in agreement with the meaning of corporate value, or rather, investors are in agreement with the corporate value as depicted in IR. An example of misalignment of values is if investors associate corporate value with short-term financial performance while corporations are emphasising sustainability developments such as the control of carbon emissions or water footprint. An emphasis on sustainability may be viewed by investors as an increase in costs instead of action that contributes to value. Such a simplistic example is what is observed in the interviews. There appears to be a misalignment between the value of integrated thinking and the values of Taiwanese investors (see Section 6.2.1 and Section 6.3.2).

While integrated reports may be of use to security investors, such disclosures are unlikely to be relevant to private equity investors. Although the research sample size is small, the investment processes and considerations of private equity investors are clearly different from security investors. Private equity investors typically have deals referred to them by businesses seeking funding, such businesses often provide business plans which have similar aspects to integrated reports. Business plans are intended to communicate information relating to business strategy, risks, opportunities, and non-financial information like intellectual capital and human capital. Despite integrated reporting being more complex with the introduction of the six capital and integrated thinking, improvements in disclosure methods may not add much value for venture capitalists as their decisions are not strongly influenced by business disclosures.

This is also supported by Kirsch et al. (2009). The decisions of the Taiwanese venture capitalist participant operating in the technology industry are reflective of Basu et al.'s (2011) suggestion that venture capital investments are often based on a strategic purpose. The Taiwan venture capitalist operating in a specific industry have a specific investment scope and invest in targets that add value to their operations or industry, instead of selecting investments based on the assessment of financial returns.

6.3.2 Factors Influencing Investment Decisions

An ideal integrated report could be thought of as one that communicates short-, medium- and long-term value creation through integrated disclosure of the six capitals, corporate strategy, governance, future risks, opportunities, prospects and performance (IIRC, 2013a). As the scope of IR is broad and relates to information not commonly addressed in current corporate disclosures, integrated reports are expected to communicate 'new' material information if prepared properly. However, Taiwanese investors raised concerns over corporations' willingness and ability to disclose detailed information about its strategy and operations (see Section 6.2.2). Furthermore, as investors may interpret the meaning of 'value creation' differently to IIRC or corporations, there needs to be an alignment of interests for integrated reports to be relevant to investment decisions (see Section 6.2.1). This subsection focuses on the concepts within IR and identifies the relationships between IR and factors currently influencing investment decisions.

Taiwanese investors are influenced by information relating to an investment target's future financial performance and growth, and such information should be captured in integrated reports. Many aspects of corporate operations are seen to

impact financial performance and growth; for instance, prior literature suggests a link between development of intellectual capital (Ming-Chin et al., 2005; Tan et al., 2007; Zéghal & Maaloul, 2010), CSR practices (Godfrey, 2005; Petersen & Vredenburg, 2009), and stakeholder management (Hillman & Keim, 2001; Moura-Leite et al., 2014) with greater financial performance. Although Taiwanese investors were uncertain of the relationship between CSR practices and financial performance, many do agree with investment in intellectual capital, especially human capital and organisational capital, and key stakeholder management. Investors also identified other variables such as government policies, industry trends and operational strategy as affecting financial performance. The identified variables should be included in integrated reports as they all relate to the six capitals, corporate strategy, risks, opportunities and performances.

Taiwanese investors also take into consideration corporate governance, CSR practices, and competitive advantages; all of these concepts are covered by IR, but integrated reports may be unnecessary or inadequate for such information. As supported by Chang and Wei (2010), the consideration of corporate governance is important when investing in Taiwanese corporations as there are traditions of family controlled corporations. Research findings suggest investors currently assess information related to corporate governance from annual reports, research reports or information databases. Unless integrated reports or annual reports are the only source of information, they may not be necessary unless they can provide new material information for investors to consider. CSR practices also influence investors' decisions and such information may be captured in social and relationship capital, and natural capital. Consistent with Holm and Rikhardsson (2008) and Cohen et al. (2011), Taiwanese investors often consider CSR a lower

priority compared to factors such as financial returns, corporate governance, and management integrity. Taiwanese investors tend to consider CSR information only if it has a direct impact on share prices; hence, a potential downfall of periodic integrated reports is that the effects of CSR practices or social irresponsibility practices are already reflected in the share prices prior to the release of the reports. Investors also value information that indicates competitive advantages and corporate know-how, and such information may be reflected in any of the six capitals. However, IR does not require corporations to disclose information that would potentially impact their competitiveness (IIRC, 2013a), so integrated reports may only include general and vague information, which is a concern identified in Section 6.2.2.

Corporate disclosures are often communications about firm-specific information, so broader macro-economic factors related to the general economy, trending industries, and governmental policies are unlikely to be detailed in integrated reports. The six capitals are firm-specific as they reflect a business model (IIRC, 2013a). Top-down analysis implies that investors are first influenced by economic and industrial outlook when selecting investments. Such factors are not determined by corporations but are important to the selection of investment targets. Corporations may provide information about their industry outlook, and future risks and prospects related to their operations, but corporations are unlikely to report on macro-economic information unrelated to the industry they operate in. Similar reasoning applies to information about government policies. Corporations can comment on government policies or industry standards that specifically impact their operations and identify how they plan on addressing the changes, but it is unlikely for corporations to provide information that is unrelated to their

operations.

Other factors important to Taiwanese investors, but which are unlikely to be reflected in integrated reports are those related to: credibility, management integrity, and the movements of foreign investors. These factors are not something that can be determined by corporations and accepted by investors. The credibility of a corporation or its management is often determined through observing the consistency and accuracy of corporate disclosures, comparing information with members of the investment community, and judging the integrity of corporate leaders and management team. Credibility is ultimately dependent on investors' own judgements. Moreover, management integrity is linked with credibility and associated with the subjective feeling of trust. Integrity tends to be demonstrated through actions instead of determined by writing. Private equity investors require a feeling of comfort towards the management team for investment deals to take place, and this is often obtained through direct interactions with corporate management instead of corporate disclosures. Security investors also need to have trust in the corporate management team for investment to take place. Similarly, the movements and investment decisions of foreign investors are independent of corporate actions. As with any investor, foreign investors have their own investment approaches and consideration when selecting investment targets. Their research publications, investment recommendations, and future investment directions are decided by themselves and should be independent of corporations' opinions.

Integrated reporting has the potential to indicate information of interest to investors; however, Taiwanese investors may not be accustomed to IR's key concepts of integrated thinking and its intended meaning of value creation. The

essence of integrated reporting is in communication of corporate value creation with a collective intention of enhancing sustainability and financial stability, but for Taiwanese investors, value creation is ultimately associated with financial performance and returns. The perception of ‘value’ held by Taiwanese investors deviates from the ‘values’ enclosed in IR. Taiwanese investors’ values may even be seen as conflicting with the initial purposes of forming IIRC, which was to aid in sustainable development (Flower, 2015). IR promotes the balance of six capitals, suggesting a focus on specific capitals while disregarding others may not facilitate the generation of the highest corporate value. Corporate operations should be chosen with regard to external environment and resource use, but if such actions require improvements beyond what is required by laws and industry standards, then Taiwanese investors may not value consideration of such factors. Moreover, investors with short holding periods may not agree with a long-term balanced approach to corporate operations, as such investors may be more concerned about achieving the highest investment returns in the short-term than what happens to a corporation in the future. IIRC’s perspective of ‘value’ is more compatible with long-term investors (Atkins & Maroun, 2015; Cox et al., 2004; IIRC, 2012; Knauer & Serafeim, 2014).

Nevertheless, if corporations provide new information, investors and researchers may consider it, but integrated reports are not expected to be much of an influence to current investment decisions. It is uncertain at this point whether investors will care about the new information introduced through IR; however, if foreign investors value this information, then it is likely for Taiwanese investors to be gradually influenced by such information as in other areas foreign investors have already influenced the investment considerations of Taiwanese investors.

6.3.3 Information Sources

Taiwanese investors are not solely dependent on a single information source, but rather collect information from multiple sources to cross-reference and ensure an accurate and complete view of an investment target is obtained. Decision makers can either directly access information sources themselves or use research reports assembled by researchers or analysts. This subsection discusses the potential usefulness of integrated reports based on the information sources investors are currently reliant on.

Taiwanese investors consider financial disclosures to be more important than non-financial disclosures; moreover, direct communications with corporate management also appear to be more important than non-financial disclosures. Quantitative financial data are considered more useful than qualitative non-financial data due to their ease of comparison amongst multiple investment targets, whereas investors consider it often difficult to analyse the impacts of non-financial information on corporate operations and performance. Similar to Kuwait investors (Almujamed et al., 2013), in Taiwan, all investors assess financial statements and financial ratios while there are relatively few who consider the broader parts of annual reports. There appears to be a difference between investors in Taiwan and investors in China with regards to the reliance on corporate disclosures. Wang et al. (2011) suggest investors in China value annual reports more than direct communication with corporate management, but the opposite is found in Taiwan. Wang et al. identifies Guanxi (relationship) as often necessary for investors to visit corporations in China. As an Asian economy with similar culture, the Taiwanese corporate environment is also built upon Guanxi (Ip, 2008; Sims, 2009). It appears that corporations in Taiwan are more open and

interactive with investors compared to those in China. Taiwanese institutional investors and private equity investors consider direct communication with corporate management as an important source of information that provides more complete and detailed information about a corporation than the information that can be found in corporate disclosures. As Taiwanese investors consider non-financial disclosures less important than financial disclosures and direct communication with corporate management, integrated reports may also be less valued. Although integrated reports are promoted as disclosure different from current corporate disclosures, it remains a further advancement of non-financial disclosures. There is also the issue of timeliness of integrated reports, where investors require updated information for decision-making instead of something disclosed annually (see Section 6.2.2).

Taiwanese investors also consider information from research reports and members of the investment community as relatively more important than corporate non-financial disclosures. Institutional investors value research reports as they contain detailed analysis of information relating to investment targets. Information contained in annual reports is often similar to information available within research reports; hence, it is not necessary for decision-makers to consult annual reports. As research reports are often used by institutional investors in place of corporate disclosures, it may be important for researchers to include integrated reporting information within their own reports for such information to be considered by investors. Although the current research does not look directly at researchers, participants have commented that it is uncommon for research reports to include non-financial information or sustainability-related information. If investment analysts consider non-financial information as irrelevant, as suggested

by Atkins, Solomon, et al. (2015), Orens and Lybaert (2007) and Campbell and Slack (2008), such views will be reflected in the research reports. Taiwanese investors have their own thoughts about the information researchers provide, so are not entirely dependent on research reports; however, it is unlikely for investors to consider integrated reports if they are perceived to be similar to annual reports. Another important source of information is the investment community. As the number of analysts and institutional investors grow, seeking information from members of the investment community has become an important source in the determination of corporate credibility. It is important to note that the non-financial information investors consider influential to investments are often unable to be communicated through corporate disclosures (see Section 6.3.2), and are instead obtained by interaction with corporate management and other parties.

Investors cross-reference information from various information sources to ensure a more accurate and holistic view of investment targets is obtained, this suggests investors are not dependent on one single source of information. Taiwanese investors are not reliant on corporate disclosures for investment decision-making and this is unlikely to change with the introduction of integrated reports. As discussed in Section 6.2.2, investors are doubtful about the practicability and reliability of corporate non-financial disclosures. Investors not only consider a variety of sources to collect dispersed information, but do so to ensure there is accuracy and consistency in the data collected. Hence, even with integrated reports, investors will likely gather information from other sources to support any claims made within the reports.

6.4 Shareholder Values and Information Demands

IIRC (2013a) identifies integrated reports to be primarily directed at capital providers, but as IR includes both financial and non-financial information and contains a mixture of shareholder values and stakeholder values, for integrated reports to become a useful source of information there needs to be alignment between shareholder values and the values advocated in IR. IR has developed into a framework directed at shareholders; it has moved away from its initial focus on sustainability (Brown & Dillard, 2014; Flower, 2015; Milne & Gray, 2013). If IIRC still has in mind accomplishing its initial purpose, it must be planning to seek investors' approval and support for the concepts it initially advocated in IR. Investors' support will incentivise corporations to follow such practices, and eventually lead to sustainability and financial stability. Such a plan appears to resemble wishful thinking. The researcher believe investors are unlikely to actively support such practices; therefore, sustainability and financial stability are unlikely to follow from a stakeholder focused IR.

One of the main problems the research evidence identifies is that Taiwanese investors' interests are not currently aligned with the value advocated by IIRC, nor are investors demanding information as complex as integrated reports. Although investors may not be perfectly in agreement with IIRC's views, shareholders may be influenced by general stakeholder values when making investment decisions. However, as there is currently a lack of investor demand for initiatives such as integrated reporting in Taiwan, IR's key driver to success is currently absent (IIRC, 2012). This section reconsiders the link between shareholder values and stakeholder values, and elaborates on the idea that disclosures as complex as integrated reports may not necessarily answer investors' demand for information.

Shareholder theory and stakeholder theory are commonly viewed to have conflicting interests; however, long-term shareholder interests are best addressed through considering the needs of the wider stakeholder group (Ali, 2015; Smith, 2003; Vilanova, 2007). Stakeholder values require corporations to meet the expectations of key stakeholder groups in society rather than operating according to a narrow focus on profits. Although Taiwanese investors consider financial value creation as the most important corporate value, investors also regard financial stability and growth to be affected by corporate investment in intangible assets and maintaining a balanced relationship with external stakeholders. Investors' investment decisions incorporate stakeholder values; however, the intentions behind considering such factors are different for shareholders and stakeholders. Stakeholder values have been influenced by increasing awareness of the social and environmental problems humanity faces, and are seen to include corporate sustainability and corporate accountability⁴⁶. Ellis (2008) argues that ethical values and social norms influence market transactions, and it is an unproven assumption that market participants act solely for financial gains. The current research findings also suggest ethical values and social norms influence investment behaviour, but consideration of such factors may be associated with making the right investment decisions and reducing investment risks, instead of due to ethics or morals.

With regards to corporate sustainability, although Taiwanese investors are not demanding corporations to actively contribute to sustainable development, investors consider it essential for corporations to act ethically within laws and standards, and to manage their relationships with key external stakeholders.

⁴⁶ Refer to Chapter One, Section 1.2 and Chapter Two, Section 2.4 for further details on stakeholder values.

Taiwanese investors do not appear to value positive CSR practices unless they have a direct impact on share prices. Similar to Scholtens and Zhou (2008), Taiwanese investors are interested in poor stakeholder relationships or corporate irresponsible practices as they may impact share prices. Investors' views are also reflective of Hillman and Keim (2001), where social issue participation is seen to add unnecessary costs for businesses, while stakeholder management with closer stakeholder linkages is considered important as it benefits financial performance. Many participants consider CSR practices to be more relevant to long-term investors. From the research findings, it is apparent that investors are considerate of certain CSR practices and stakeholder management. However, the reason is not because it is morally correct, but because of its potential impact on share prices and financial returns; this finding is similar to Petersen and Vredenburg (2009).

As with stakeholders demanding corporate accountability, investors are also requesting greater information transparency, which is an essential element of corporate accountability (Boiral, 2013). However, the 'transparency' investors call for is not necessarily related to the impact of corporate operations on stakeholders or integrated information as advocated by IR. While investors rely on both financial and non-financial information, there does not appear to be shareholder demand for information to be integrated. Taiwanese investors showed interest in factors similar to Hoffmann and Fieseler's (2012) study on German analysts. Apart from governance structure, CSR, and management quality, Taiwanese investors also showed interest in information relating to corporate strategy, revenue breakdown, and future ordering status as such information is often undisclosed by corporations but relates to understanding the future outlook and investment potential. Such information does not require disclosures as complex as

what IR is requiring. However, if integrated reports are able to reveal material information that is currently unavailable to investors, then such disclosures may be valuable. For instance, financial capital in IR relates to how funds are utilised to create value, and communication of such information would require disclosures beyond quantitative financial statements. If when corporations are elaborating on financial capital, they provide a clearer and more detailed outlook on the capital inflows and outflows of their funds for the short- to long-term, such information will contribute to the assessment of the risks associated with an investment target. Hence, integrated reports potentially include information useful to investment decision-making, but there is also a possibility that information demanded by investors may not be aligned with the focuses of IR, such as integrated thinking and corporate sustainability.

Rather than being a mechanism focused on capital providers, integrated reporting may be more suitable as an internal mechanism to align corporate operations with sustainable development or as a disclosure mechanism to communicate stakeholder accountability. For Taiwanese investors, there does not appear to be a strong connection between integrated thinking and capital returns, at least not for investors with relatively short holding periods. The meaning of value creation for Taiwanese investors appears to remain focused on economic value as reflected by the share markets and financial returns, value creation has not shifted to long-term sustainability and stakeholder accountability as suggested by Berthon (2010). Although investors agree with the link between financial value creation and intellectual capital and human capital, the emphasis of IR on the balance of different capitals, especially those related to sustainability practices, are not necessarily valued by investors. Perhaps the information encouraged by IR

is too long-term for Taiwanese investors; therefore making it of less use to investment decision-making, a concern also raised in the IR Pilot Programme (IIRC, 2012). If investors' investment trends become more focused on long-term investments rather than short-term trading, then integrated reports may be of more use.

In a sense, Friedman's (1970) argument for shareholder wealth maximisation may apply to the perspectives of Taiwanese investors. Management should aim to maximise shareholder returns, but in order to do so in today's environment, corporations need to balance corporate operations with stakeholder values. So the maximisation of shareholder returns is not a short-term goal, but instead requires long-term thinking and balancing of stakeholder interests. For corporations to maximise shareholder wealth in the long-term, it may well be that corporations have to consider integrated thinking and decide it is required to prove their operations are legitimate in society. However, because Taiwanese investors do not currently appear to consider excessive CSR practices or corporate sustainability as a necessary factor in maximising shareholder wealth, there is less investor demand for such corporate practices. Investor demand is a key driver to the success of IR (IIRC, 2012), but in the current situation in Taiwan, it does not appear likely for investors to be demanding integrated reporting.

6.5 Chapter Summary

An integrated report is, in theory, able to provide useful information to investors; however, with the doubts expressed by investors and the potential misalignment between investors' values and the values advocated in IR, integrated reports are not expected to become an essential, or even influential, source of information to the current investment decision-making of Taiwanese investors.

Taiwanese investors were unaware of any developments associated with IR prior to the interviews. Non-financial disclosures are uncommon in Taiwan, and Taiwanese investors' mindset towards sustainability and value creation appear to differ from Western literature and IR. Furthermore, there is a lack of shareholder demand for non-financial disclosures and corporate sustainability. Investors expressed doubts regarding corporations' willingness and ability to disclose information encouraged by IR, and investors also perceive issues with the reliability and usefulness of integrated reports.

Integrated reports are not suitable for all investors, as private equity investors and investors with short holding periods are unlikely to value such disclosures. Taiwanese security investors often cross-reference information and are still more reliant on financial information, research reports, and communication with corporate management or members of the investment community than on corporate disclosures reporting on non-financial information. However, if integrated reports are able to provide new and material information not available from other information sources, then integrated reports may be of use to investors.

Integrated reports are likely to be considered in later stages of the investment selection process, with many factors and information influencing the investment direction prior to any use of integrated reports. Furthermore, the non-financial information investors take interest in is often difficult or not able to be communicated through corporate disclosures. Investors already consider similar values to stakeholders when making investment decisions, although the incorporation of such values is motivated by financial considerations rather than moral reasons. It appears that integrated reports are more suitable to act as an internal guide for corporations or for disclosures directed at stakeholders and

investors with long holding periods, rather than aimed at becoming a global business norm directed at capital providers in general.

The next chapter draws the thesis to a close by summarising the main aspects of the thesis and identifying the potential for future research.

CHAPTER SEVEN

SUMMARY, CONCLUSIONS AND FUTURE RESEARCH

7.1 Introduction

The final chapter of the thesis presents a summary of the research findings and discusses how the research purpose and objectives were achieved. It also details the significance and implications of the study, as well as its scope and limitations. The thesis concludes with the researcher's reflection on the research project and the potential directions for future research. The chapter is structured as follows:

7.2 Summary of Thesis Findings

7.3 Significance and Implications of the Study

7.4 Scope and Limitations to the Study

7.5 Reflection and Concluding Remarks

7.6 Direction for Further Research

7.2 Summary of Thesis Findings

Humanity is currently progressing down an unsustainable growth path (MacNeill, 2014), and IR was developed to assist with the mitigation of environmental and social consequences emerging from such a situation. IR encourages capital providers to consider integrated thinking when making capital allocation decisions, and suggests the balancing of the six capitals will generate corporate value creation. It is however uncertain if capital providers are interested in concepts advocated in IR and the information communicated through integrated reports. The literature review identified limitations in knowledge regarding the use of integrated reporting from an investors' perspective, and also the investment decision-making processes of Taiwanese investors. As integrated reporting is

intended to become a global trend, it is important to understand the views of investors in different cultures on the use of integrated reporting, leading to the importance of this research.

The purpose of the thesis is to explore the usefulness of integrated reporting concepts to investors in Taiwan. The study is grounded in an interpretivist paradigm and employs a qualitative research approach focused on semi-structured in-depth interviews. The interview data were categorised into three themes reflecting the research objectives, and by utilising relevant literature and the researcher's own interpretations to explain the interview data, insights are provided on the usefulness of integrated reporting to investors in Taiwan. The achievement of the five research objectives is described below.

Objective 1: To examine the factors currently affecting the investment decisions of Taiwanese investors

Investors are influenced by both financial and non-financial factors. Each investor takes into account different considerations when making investment decisions and is influenced by subjective judgements, experience, and assumptions. Subjectivity is a necessary and unavoidable aspect to investing. Investors look beyond financial performance and returns when making investment-decisions, it is even considered essential to do so with fundamental analysis that looks for the 'value' of a corporation. Although investors remain predominantly interested in the current and potential financial performance of an investment target, in order to understand whether an investment target has potential in the future, investors need to analyse a broad range of financial and non-financial factors that affect corporate performance.

Security investors and private equity investors weigh the importance of certain factors differently. Security investors are influenced by both macro-economic and firm-specific information, while private equity investors are more focused on aspects of specific investment targets. As security investors have a tendency to employ a top-down investment approach, macro-economic factors set the investment direction in terms of the country and industry to invest in. The firm-specific factors influencing decisions are in the likes of financial returns, competitive advantages, and corporate governance, but often the influential factors are also intangible attributes such as the credibility of the management team or integrity of the corporate leaders. Private equity investors are similar in the sense that their investments have to achieve an acceptable rate of return for the investment, but investors are more interested in the intangible attributes and whether the investment can add other non-financial values to the capital providers. Although different investor types are influenced in a different way by various factors, the relevance of corporate sustainability does not appear to be strong for Taiwanese investors when compared to research identified in Western literature. Investors do not appear to value corporate sustainability beyond what is legally and morally required, but are influenced by corporate irresponsibility or unethical behaviour if it seems to directly impact financial performance and a business' ability to continue with operations.

Objective 2: To examine Taiwanese investors' use of non-financial information and disclosures

Investors consider non-financial information essential to investment decision-making, but consider corporate non-financial disclosures as mostly irrelevant to investment decision-making. The non-financial information investors

are interested in is generally not included, or able to be communicated, through corporate non-financial disclosures. As mentioned with the factors influencing investment decisions, investors value information related to intangible attributes such as trust and credibility, such information is determined by the decision-makers or researchers through observation of corporate actions and the consistency of information they disclose. Investors are still more reliant on financial information due to the ease of analysing and comparing quantitative information. Such information is available from sources such as databases, and corporate financial guidance and disclosures. As for the other information sources investors use to collect non-financial information, investors are more reliant on research reports as prepared by their own researchers or sell-side analysts. Investors are also more reliant on direct communication with corporate representatives and members of the investment community rather than corporate disclosures.

It is considered uncommon for Taiwanese corporations to prepare non-financial disclosures, and investors themselves are not demanding such information. Non-financial disclosures are beneficial in enhancing corporate transparency, where in actuality, any additional information corporations are able to disclose is welcomed by investors. However, it appears unlikely that such disclosures will directly influence investors' current investment decision-making processes if the information is focused on sustainability. Sustainability-related factors are generally not relevant to investors' decisions. Although integrated reports are different from sustainability reports due to their focus on investors and corporate value creation, investors consider integrated reports as another form of non-financial disclosure related to CSR or sustainability.

Objective 3: To examine the relationship of forward-looking information and value creation to Taiwanese investors

Forward-looking information is required to make investment decisions as investors are investing in the future of an investment target and not in its past, although past performance may provide indications about the future. Financially related forward-looking information is provided by corporations through their monthly and quarterly guidance, and such disclosures suggest the performances of corporations and their future potential. Non-financially related forward-looking information is important, but investors need to consider a variety of factors for such information, such as: economic trends, industry trends, competitive advantages, ability of the management team, and so on. These are all forward-looking information related to why corporations may perform well in the future.

The forward-looking information Taiwanese investors consider are reflective of their perspective of ‘value creation’. Financial value is the most important value corporations can create for investors. Investment is a process where capital providers expect returns for their capital contribution, and investment targets need to have the potential to generate future returns for investment to take place. This means that corporations may have to create value for customers, the community, and other stakeholders in order for financial value creation to result. However, most Taiwanese investors do not appear to consider value created in the forms of CSR practices or sustainability practices to contribute to financial value creation. Although CSR practices may create financial value in the long-term, investors are more interested in direct impacts and short-term benefits.

Objective 4: To explore whether integrated reports are currently used by Taiwanese investors and how relevant and useful they are in investment decision-making

None of the participants interviewed were aware of IR or any developments associated with integrated reporting, so it is apparent that Taiwanese investors are not currently using integrated reports directly as a source of information. The study is unable to assess the actual relevance and usefulness of integrated reports as Taiwanese investors have not previously used or seen integrated reports. However, the usefulness of integrated reporting concepts is inferred from analysis of the factors that influence investment decisions, investors' reliance on information sources, and investors' perceptions of value creation; which are reflected in the previous three objectives.

Integrated reports do not appear to be relevant for Taiwanese investors at the present time. It is unlikely for integrated reporting to be widely accepted and implemented in Taiwan without mandatory enforcement. Investors' values do not appear to be aligned with the values advocated in IR, but investors consider integrated reports may potentially provide useful information for the evaluation of investment opportunities as IR requires corporations to be transparent and communicate information that may not otherwise be disclosed to the public. One major problem investors expressed is the practicability of integrated reporting. Investors doubt that corporations will be willing or able to provide new material information within integrated reports as there is a trade-off between corporate transparency and competitiveness. There are also issues with the timeliness of information, disclosure of biased information, assurance of non-financial disclosures, and the difficulty of assessing non-financial information.

Despite the issues associated with corporate non-financial disclosures, investors generally welcome any additional information corporations disclose. Additional information may be taken into consideration, but there also needs to be consideration on whether the net benefits of preparing and having integrated reports outweigh its costs. As investors are not completely in agreement with the long-term view and sustainable orientation of integrated reports, such information is not directly relevant to current investment decision-making.

Objective 5: To find out what information Taiwanese investors are demanding and whether it is addressed in integrated reporting concepts

Taiwanese investors are not demanding complex information that requires corporations to prepare integrated reports. The information investors are demanding is more straightforward and already known, but undisclosed, by corporations. Commonly investors are interested in corporate strategy, revenue breakdown, future ordering status, and explanations for corporate decisions or changes in operations. Such information could be addressed through integrated reports, but the answers to those questions do not require integration of different aspects of the business model. If integrated reports enhance corporate transparency and are truly reflective of corporate operations, then information provided will be useful to investment decision-making. If integrated reports are able to resolve the doubts investors have regarding non-financial corporate disclosures, then such information may be of value. However, information focused on the concept of sustainability is unlikely to be essential or influential to the current investment decisions of Taiwanese investors.

7.3 Significance and Implications of the Study

The study makes important contributions in providing an insight to bridge the gaps identified in the integrated reporting and investment decision-making literature.

- Firstly, the study enhances extant research as it contains empirical data collected through communication with investors in Taiwan.
- Secondly, the factors influencing the investment decisions of Taiwanese investors were explored, providing insights into the factors and information investors from a non-Western economy value.
- Thirdly, the study adds to literature on how non-Western investors perceive and value non-financial information and non-financial disclosures.
- Finally, this study contributes to literature on the usefulness of integrated reporting to Taiwanese investors and the applicability and relevance of IR in a Taiwanese cultured economy.

The findings of this thesis can be viewed as words of caution when considering if change towards sustainable development should be dependent upon voluntary actions expected from corporations and investors. It is yet uncertain how integrated reporting will alter corporate and investor behaviour as integrated reporting is an emerging phenomenon that is still under development. However, research evidence from Taiwanese investors suggests the idea of integrated reporting is not currently suitable for economies like Taiwan, and may not be suitable to other economies with a similar culture and state of socioeconomic developments. Taiwanese investors remain doubtful of the reliability of corporate non-financial disclosures and the relevance of concepts advocated by IR to

investment returns. Integrated reporting would need to address the concerns identified in the findings if it is to be relevant and influential to investment decision-making. The findings of this thesis may be important to the Taiwanese government, IIRC, corporations adopting integrated reporting, and academics.

7.4 Scope and Limitations to the Study

The scope of this study is limited to the 14 investment specialists working in an organisational context and 2 independent retail investors interviewed. Although the sample size is small, the study reviewed the perspectives of a diverse range of investment specialists and there are signs of data saturation in the responses participants provided. The research findings do not necessarily represent the views of Taiwanese investors as a whole.

The primary limitations of this study arise from the research sampling technique and the subjective nature of data analysis. Snowball sampling was employed which may prevent the identification of different opinions held by other groups of Taiwanese investors not sampled. The subjective nature of the study is also acknowledged as a limitation as the research findings and conclusions drawn are reliant on the researcher's own interpretation of the data collected. However, subjectivity is essential to interpretivist research and this limitation was minimised by strengthening transparency of the study through providing detailed explanations of the researcher's actions and perspectives. Despite its limitations, this research identifies what participants consider as matters of importance for investment decision-making and thereby may serve to inform directions for future research.

7.5 Reflection and Concluding Remarks

This section contains the researcher's reflections of the research project. It is subjective and simply the researcher's personal views. The following can be considered as 'thoughts to oneself', which may help enhance research transparency by communicating the researcher's perspectives.

Although the development of IR was prompted by the need for sustainable development, the researcher is not an advocate for such a concept nor can she say for certain that changes in current economic operations are of urgent need. Interest in integrated reporting was sparked from curiosity in to whether the vision of IIRC is possible in this seemingly economic-focused world. In the process of understanding the perspectives of Taiwanese investors, it became apparent that investors are not familiar with the concept of sustainable development, and sustainability reporting appears to be viewed as an alien concept applicable only to Western societies. This is a somewhat new perspective for a student educated in New Zealand, where tertiary education has integrated the concept of sustainability into management courses. It appears the researcher has taken the concept of sustainability for granted. From interactions with Taiwanese investors, it felt as if investors do not consider sustainable development to be of use in their decision model, and they are not motivated or incentivised to think it should be. If this is the case, it is difficult to imagine how IR, a framework built on the concept of sustainability, would be accepted by Taiwanese investors.

The research findings suggest investors' values are not aligned with the values advocated within IR. It appears that it is difficult for IR to achieve both its initial purpose and current purpose at one time. IR can promote sustainable development and become less relevant for investors, or it can become an

information source useful for investors and fail in its initial purpose. In the case of Taiwanese investors, corporations need to focus on financial value creation and less on the sustainability aspects for integrated reports to be most useful in investment decisions. Such a focus does not fit with integrated thinking and is unlikely to lead to corporate sustainability. A focus on sustainable development is not of interest to Taiwanese investors. The researcher considers that IIRC was formed with good intentions, but it is questionable whether encouraging the preparation of integrated reports, and the use of such disclosures, will make a significant impact on sustainability and financial stability for Taiwan. Furthermore, the claim by IIRC to be making integrated reports a global business norm is a challenge. Integrated reporting may eventually become disclosures prepared by large corporations in some economies, to be valued by long-term investors with little relevance to other stakeholder groups.

Sustainable development and handling of global environmental problems requires the cooperation of all economies, and goals regarding sustainable development should not be disregarded by individuals based on the belief that a single person cannot make a difference. Perhaps humanity is currently too concentrated on economic developments, making it difficult to incorporate sustainability into operations. Perhaps our decisions and actions are impacted by egoistic behaviour as motivated by self-interests and incentives, which also act as a barrier to sustainable development. There need to be changes in our current economic operations and this requires a genuine change in mindset. Change towards sustainability needs to be taken one step at a time; hopefully IR is a step in the right direction.

7.6 Direction for Further Research

The thesis provided empirical insights into the usefulness of integrated reporting to investors in Taiwan. The sample size is small and there are limitations to the sampling method, so the research method could be replicated on investigations on a broader population of Taiwanese investors to see if similar or different findings would result from an extended sample.

The research findings suggest integrated reporting may not be suitable for all economies and investor types. It would be interesting to have similar empirical studies conducted on other countries, with a different or similar culture and socioeconomic background to Taiwan, in order to understand the interests of investors globally and whether investors are accepting of the values advocated in IR. Furthermore, future studies should focus on specific investment specialities. The findings identified integrated reporting as more relevant to security investors than private equity investors. Future research could focus on security investors, or more specifically, institutional investors or retail investors. It would also be interesting to compare the usefulness of integrated reports to investors with short holding periods and those with long holding periods. The research participants considered integrated reports may not be relevant to them, but they may be relevant to long-term investors such as pension fund managers. It is also important to understand the perspectives of researchers and investment analysts as the reports they produce are important sources of information to decision-makers.

This research focused on investors' perspectives, but identified that one of the main issues with non-financial corporate disclosures is the doubt that corporations will disclose detailed and unbiased information about their corporate operations. Future research could look into integrated reporting from an

organisational perspective, especially from a non-Western perspective, to understand whether investors' concerns are a barrier to the production of decision-useful corporate disclosures. Another research area is on the organisations taking part in IIRC's pilot programme. IIRC has a number of large organisations throughout the world implementing IR and preparing integrated reports, and there is also at least one Taiwanese corporation adopting IR. It would be interesting to interview those involved to discover why they chose to become involved, how they are progressing, and their views on integrated reporting.

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APPENDICIES

Appendix A: Integrated Thinking and Systems Thinking

IIRC (2013a) anticipates that as integrated thinking become an integral part of organisational practices, the information flow into management decision-making, analysis, and reporting will become more connected and considerate of a broader range of resources. This appendix first introduces the concept of integrated thinking and identifies a process organisations may follow to apply the concept into their operations. Systems thinking is then introduced and linked with IR. This is followed by a discussion on viewing organisations as ‘systems’, which may assist in integrated thinking, strategy formation, and the preparation of more complete integrated reports.

Integrated thinking has the potential to stimulate movement towards sustainable development and help identify the corporate value current reporting practices are failing to capture. CGMA (2014) indicates that in 2010, over 80 percent of corporate assets in the S&P 500 were valued as intangible assets; meaning 80 percent of value is not captured by current financial disclosures or accounting standards. Current corporate operations and reporting tend to consider resources in separate silos, while integrated thinking promotes dismantling the separate silos and connecting information to reflect the value of intangible assets (CGMA, 2014; IIRC, 2013a). Integrated thinking gradually embeds sustainability-related policies into an organisation, and this demonstrates that corporate management is acting in a reasonable and sustainable way (Accounting for Sustainability, n.d.; Knauer & Serafeim, 2014).

Accounting for Sustainability (n.d.) lists ten steps to help organisations initiate integrated thinking:

1. Top management commit to the process of embedding sustainability into the entity. Knauer and Serafeim (2014) supports this notion, suggesting top management has to spread and coordinate sustainability thinking across the entire organisation.
2. Identify the organisation's key sustainability issues. Analyse and assess how the issues may affect relationships with internal and external stakeholders and the organisation's long-term survivability.
3. Integrate identified issues with organisational strategy, making the whole organisation committed to addressing sustainability issues.
4. Create a new mindset within the organisation. The mindset has to emphasise sustainability is the responsibility of everyone within the organisation and not only the responsibility of specific departments.
5. Breakdown sustainability strategies into meaningful objectives for different organisational functions.
6. Develop processes that allow managers to take into account sustainability issues into day-to-day decisions and to ensure such issues are addressed by managers.
7. Create a culture of sustainability through training personnel and ensuring individuals throughout the organisation are aware of the benefits and importance of sustainability.
8. Include sustainability targets, such as minimising energy consumption or carbon emissions, into performance appraisals to influence personnel behaviour and reinforce the importance of meeting the targets.
9. Identify reliable champions who have a passion for sustainability. Champions need to promote sustainability, celebrate the success achieved, and encourage further innovation.
10. Monitor and report sustainability performance in disclosure mechanisms such as integrated reporting.

Apart from the guidance provided by IIRC and Accounting for Sustainability, there appears to be few resources that elaborate on the concept of integrated thinking. Stent and Dowler (2015) states the process of integrated thinking is not as straightforward as compliance with regulatory requirements because integrated thinking requires higher order thinking and changes to organisational processes.

There is a strong resemblance between ‘integrated thinking’ and ‘systems thinking’. The understanding of systems thinking could help organisations with integrated thinking and the preparation of integrated reports (Stent & Dowler, 2015). Systems thinking developed in the early twentieth century from disciplines such as ecology, cybernetics and psychology, and it is becoming increasingly important to management thinking (Mingers & White, 2010). A ‘system’ can be seen as a set of components (objects) that operates within an environment. Each component is interlinked with other components, where the sets of components (systems) work together to form an entity (Kefalas, 2011). Systems thinking is based on the idea that everything is interconnected and should be thought of as a whole (Kefalas, 2011; Mingers & White, 2010). Kefalas (2011) identified three main characteristics of systems thinking. First, system thinking is a view of the world, implying that one should view the world as a whole in order to understand how humanity fits in to this reality. Second, systems thinking is interdisciplinary, requiring the creation of a general viewpoint that combines a diverse range of disciplines. This characteristic is contrary to conventional thinking where different sciences are typically isolated from each other. Third, systems thinking requires the realisation that the world is made up of interrelated systems, where the relationships amongst objects and systems do not exist in isolation.

Organisations can be viewed as systems to emphasise the relationship between organisations and their external environment. The ‘external environment’ refers to all factors that affect the functioning of an organisation, and it is unable to be controlled by management. The external environment can be considered as ‘stakeholders’ (Kefalas, 2011). Kefalas (2011) and Mingers and White (2010) suggest managers can manage an organisation’s relationship with its external environment by identifying the organisation’s main inputs, processes, outputs and feedbacks. As explained by Kefalas (2011), ‘inputs’ are the forces that enable a system to operate. The three main inputs to any organisations are people, material and equipment, and money. ‘Processes’ are the activities that transform inputs into outputs. ‘Outputs’ are results of the processes, which can be intended or unintended, avoidable or unavoidable. The three main outputs of organisations are products, waste and pollution. ‘Feedbacks’ report the deviation between organisational goals and actual performance, and can be either negative or positive. Kefalas states that minimising negative feedback is at the heart of organisational control systems, while maximising positive feedback indicates the pursuit of organisational growth. The three functions of inputs, processes and outputs are able to be coordinated by management through goal setting, decision-making and controlling. Management decisions affect feedback, suggesting if inputs, processes and outputs are coordinated efficiently, organisations are able to achieve sustainable growth and corporate sustainability.

Many similarities exist between the ‘integrated thinking’ as defined by IIRC and ‘systems thinking’. Stent and Dowler (2015) suggests IR and systems thinking are both concerned with continuous adaption and seeing the bigger picture. This is emphasised in IR through the promotion of value creation over

time, and addressing concerns regarding sustainability and financial stability. Systems thinking also acknowledge that not all attributes of a system can be measured or quantified, and IR reflects the need for qualitative information and connectivity of information. Another similarity is the need to consider interrelationships between systems, such as relationships between capitals rather than managing resources in separate silos. Stent and Dowler used a self-designed checklist, one reflecting IR requirements, to assess the reports of four New Zealand corporations that received awards for best reporting practices. None of the corporations published a complete integrated report but all the reports fell between a score of 70 to 87 percent, suggesting a relatively small gap between current best practices and IR requirements. However, as the scores are less than 100, there is room for improvement. Current best reporting practices failed to integrate reporting processes, compare performance with industry benchmarks, and have inadequate disclosures on uncertainties and future outlook. Addressing these inadequacies is critical to producing complete integrated reports and the process of systems thinking may improve the reporting process.

Systems thinking is also closely associated with strategic thinking, strategy formulation and sustainable development. Similar to the ideas behind sustainability reporting, systems thinking relates to addressing multiple attributes of environmental, social and economic concerns (Mingers & White, 2010). Porter (2008) argues that sustainability must be approached from a systems perspective. The environment and organisations need to be understood as a complex whole in order to design effective strategies. Investigating sustainability issues through systems thinking requires an ongoing process of examination, learning, reframing and action to improve organisational practices towards sustainable development.

Furthermore, Ackoff (as cited in Mingers & White, 2010) suggests systems thinking requires continuous interactions with key stakeholders, and top management has to coordinate all members of an organisation. These processes associated with systems thinking could promote integrated thinking and continuously improve corporate sustainability, which are the intentions of IIRC.

Appendix B: Global Financial Market Rankings

The global financial markets have been ranked according to the monthly reports of market capitalisation from the World Federation of Exchanges (2015) and the London Stock Exchange (2015). The London Stock Exchange has withdrawn from the World Federation of Exchanges. It has a market capitalization of \$6,053 billion USD⁴⁷, making it the third largest stock exchange in the ranking (London Stock Exchange, 2015).

Table B Global Financial Market Rankings		
Ranking	Exchange	January 2015 (USD millions)
1	NYSE	19 222 875.6
2	NASDAQ OMX	6 830 968.0
3	London Stock Exchange	6 053 066.6
4	Japan Exchange Group - Tokyo	4 485 449.8
5	Shanghai SE	3 986 011.9
6	Hong Kong Exchanges	3 324 641.4
7	Euronext	3 320 992.0
8	Shenzhen SE	2 284 728.1
9	TMX Group	1 938 630.3
10	Deutsche Börse	1 761 712.8
11	BSE India	1 681 712.4
12	National Stock Exchange India	1 641 716.5
13	SIX Swiss Exchange	1 515 760.8
14	Australian SE	1 271 697.3
15	Korea Exchange	1 251 053.9
16	NASDAQ OMX Nordic Exchange	1 212 039.9
17	Johannesburg SE	950 662.6
18	BME Spanish Exchanges	942 036.2
19	Taiwan SE Corp.	860 627.5
20	BM&FBOVESPA	823 902.7
21	Singapore Exchange	755 414.8
22	Saudi Stock Exchange - Tadawul	510 694.6

⁴⁷ Calculated using the exchange rate 1.5063 GBP to 1 USD as at 31st January 2015

23	The Stock Exchange of Thailand	460 900.5
24	Mexican Exchange	460 128.2
25	Bursa Malaysia	451 654.6
26	Indonesia SE	420 872.5
27	Moscow Exchange	391 850.3
28	Philippine SE	279 502.3
29	Santiago SE	225 219.8
30	Borsa Istanbul	222 149.7
31	Oslo Børs	219 664.3
32	Tel Aviv SE	196 836.2
33	Qatar Stock Exchange	173 273.9
34	Bolsa de Valores de Colombia	139 530.1
35	Irish SE	136 728.0
36	Abu Dhabi SE	111 447.4
37	Wiener Börse	91 732.4
38	Dubai Financial Market	89 418.8
39	Taipei Exchange	84 570.1
40	Lima SE	76 748.2
41	New Zealand Exchange	71 875.7
42	Egyptian Exchange	70 264.8
43	Luxembourg SE	60 876.3
44	Buenos Aires SE	59 804.2
45	Casablanca SE	53 656.5
46	Nigerian Stock Exchange	51 745.8
47	HoChiMinh SE	50 078.0
48	Athens Exchange	41 299.6
49	Muscat Securities Market	38 679.8
50	Amman SE	25 237.4
51	Colombo SE	23 472.4
52	Bahrain Bourse	22 216.6
53	Kazakhstan SE	21 323.6
54	Budapest SE	13 586.4
55	Mauritius SE	8 612.3
56	Ljubljana SE	6 968.7
57	Malta SE	3 501.3
58	Cyprus SE	3 305.3
59	Bermuda SE	1 609.7

Appendix C: Focus Questions for Interviews

Investment decision-making process

- What are the processes you go through to decide what targets to invest funds into?
- Do you believe investment targets currently provide enough information for you to make informed investment decisions?

Integrated Reporting

- Have you heard of integrated reporting or similar initiatives?
- Does information regarding value creation influence your decision-making?
- What are your perceptions of the risks associated with forward-looking information?

Taiwanese cultural connection to sustainability and stakeholder values:

- Do you see any connection between your investment decisions and sustainability?
- Do you think people in Taiwan are concerned about their environment and other social issues?
- What is your own perception of sustainability and sustainable development?

Appendix D: Cover Letter for Interviews

Waikato Management School

Te Raupapa



THE UNIVERSITY OF
WAIKATO
Te Whare Wānanga o Waikato

Researcher: Pei-Chi Hsiao
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Phone: (+64) 027 954 4209
LINE ID: k.shio93

Supervisor: Dr Martin Kelly
Email: kelly@waikato.ac.nz
Phone: (64 7)856 2889 ext: 8653

Dear Sir/Madam,

Request for an interview on the relevance of non-financial information for investment decision making

There is a trend in Western economies that suggests non-financial information, or sustainability-related information, is becoming increasingly influential in investment decision making; however, there is a lack of research on the investment mindset of Asian investors regarding such matters. The purpose of this research project is to gain understanding of how Taiwanese institutional investors perceive the importance of non-financial information for investment decision making. This study will focus on aspects surrounding your institution's investment requirements and processes, your views on sustainability and stakeholder values, and seek to understand whether the new integrated reporting disclosures may provide useful information that improves investment efficiency.

This research is being undertaken by me and my supervisor Martin Kelly. The research report is being undertaken to count towards the completion of my master's degree, and lead to journal publications. Your participation will involve a semi-structured interview conducted by myself. It will last for 30 – 60 minutes. You will be provided with a summary of the findings obtained, if this is of interest to you.

The interviewer seeks to discover your initial perceptions and responses to the questions asked. No prior preparation is required or desired. Neither you nor your institution will be identified in the research report, the interviewees will be described as Institution A, Participant 1, etc. The interview will be recorded, with your consent, and the responses will be stored in a password secured USB retained by me, and is only accessible by me and my supervisor. The data will be kept for a period of five years following the completion of the data analysis. You will enjoy complete anonymity, and confidentiality, as a participant in this research project.

The interview period is to take place during mid April 2015 to mid May 2015. If following the interview you wish to opt out, you may contact me via email or phone and your responses will be excluded from the report. If you wish to opt out of this study, please contact me by 01 June 2015.

If you have any questions or require information about your involvement in this research, please do not hesitate to contact me.

Thank you,
Yours sincerely

Pei-Chi Hsiao

Appendix E: Consent Form for Interviews

Waikato Management School
Te Raupapa



Research title: Relevance of non-financial information for investment decision making in Taiwan

Consent Form for Interviews

I have read the letter related to this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time. I also understand that I am free to withdraw from the study at any time, or decline to answer any particular questions in the study. I have the choice to opt out of the study by 01 June 2015. I agree to provide information to the researchers under the conditions of confidentiality set out on the letter.

I agree to participate in this study under the conditions set out in the letter.

Signed:

Name:

Date:

Name of Employing Organisation

I agree that while participating in the study, my responses and comments may be voice recorded for the purposes of the research analysis.

Signed:

Name:

Date:

Researcher's Name and contact information:

Name: Pei-Chi Hsiao
Email: pkh4@students.waikato.ac.nz
Phone: (+64) 027 954 4209

Supervisor's Name and contact information:

Name: Dr Martin Kelly
Email: kelly@waikato.ac.nz
Phone: (+64 7) 856 2889 ext: 8653

Appendix F: Interview Guide

1. Introduction

- a. Thank the participant and give them a bar of New Zealand made chocolate as a token of gratitude
- b. Remind participant of the following information before the interview starts:
 - Purpose of the research
 - Type of information expected to be collected through interviews and the use of such information
 - Expected duration of the interview
 - Participant's rights including confidentiality, anonymity, refusal to answer and to opt-out
- c. Allow the participant an opportunity to seek any further clarifications about the study or interview
- d. Ask for the consent form to be signed

2. Starting the interview

The following planned interview questions are used to direct the interview. The researcher is expected to probe for more detailed responses and react to information provided by the participant.

- a. Background
 - How long have you been in this role?
 - Can you tell me about your experiences prior to this role and your current job position?
 - *If not mentioned also cover:* Responsibilities the position involves
- b. Investment decision-making
 - Can you describe your investment decision-making process?
 - Do you feel that investment targets currently provide enough information for you to make informed investment decisions?
 - *If not mentioned also cover:* The type of information they consider, their information sources, what factors they consider to be most important in their investment decision-making
- c. Integrated Reporting
 - Have you heard of integrated reporting or similar initiatives before?
 - *If not,* give a brief explanation of integrated reporting, including when and where it was developed, the purpose of the initiative, what type of information expected from the report. A typical explanation is: Integrated Reporting is a Framework formed in December 2013 in England by an international organisation called

IIRC. Their aim is for corporations to integrate financial information with non-financial information and align it with their corporate strategy. Non-financial information in this case relates to intellectual, human, manufacturing, social and relationship, and natural capital. These elements will be represented as KPIs, and this report would hopefully contain forward-looking information about corporation's future outlooks, risks and opportunities and how a corporation creates value in the short, medium and long-term. The audience is for capital providers and it is intended to become a globalised framework.

- Does information regarding value creation influence your decision-making?
 - *If not mentioned also cover:* What they consider corporate value creation to be
- What are your perceptions of the risks associated with forward-looking information?
 - *If not mentioned, could also cover:* Credibility and assurance of information

d. Sustainability development

- Do you see any connection between your institution's investment decisions and sustainability?
- Do you think people in Taiwan are concerned about their environment and other social issues?
- What is your own perception of sustainability and sustainable development?

e. Others

- Do you have any other comments about what we have discussed or would like to talk about anything of interest?

3. Concluding the Interview

Ask if they could refer researcher to relevant individuals for interviews

Appendix G: Additional Quotations and Examples for Findings

Section 5.2 Approaches to and Factors Influencing Investment Decision-making

Note 1: Investment as a subjective process

I may choose to set a level of investment that is below industry standard, such as the portfolio including a 2 percent stake on a certain company instead of 3 percent stake as based on the industry averages... such choices and any adjustments would be based on experience and anticipation that the corporation would underperform in the following periods. (F7)

Actually when we are writing [reports], there are a lot of things that are just guesses... [Using technical analysis] we would guess what will happen in the future and when that happens, how it would affect the index. Of course we hope for a more scientific method. (F9)

They will say this is confidential material for the corporation, so they are not willing to supply and so we cannot demand it. Will you then not buy them because of this? Probably not, because their performance is really good, that their financial results performance is really good. So we will try to find other sources of information, we will make lots of assumptions. For example, you know they have very good competitiveness, then you will assume their high end smart phone market share could possibly get greater and greater, then their technology will improve or they cost down how much. These assumptions are made by us because corporations would not tell you... I worked as a sell-side analyst, back then my pension fund clients asked me, "What do you think of the next five years?"... for normal companies or normal industry cycles, we cannot capture this far. It is like from 2008 to now, the financial crisis till now... the cycle between it and changes in the global situation is really unexpected... The things that are foreseeable now are one, two or three years because when companies make plans, usually what they announce would be more close by or more certain, so I think we have some limitations. We can only make assumptions. (F10)

The information provided in the research is from their [corporations'] perspectives and as a fund manager I still have

some of my own thoughts about it. Basically there are always risks associated with investing, there is nothing that doesn't have risk. (F13)

There needs to be the belief that a company or product will be needed and valued in the future, that the company or production will continue to exist. This belief is very much the most important first step. This step means highlighting for example, the biotech industry will be irreplaceable in the future as there is a growing population that will need the technology and support in the future. (R16)

Section 5.2.1 Investment Appraisal Methods and Analysis Techniques

Note 2: Top-down investment approach

Decisions depend on both macro and microeconomic analysis. Macroeconomic is based on a wider scale, where the fund managers would look at a country's GDP and economic trends. Microeconomic analysis would include looking at market and industrial trends and also the specific companies' past and present financial performance, such as using price-earnings ratio curves in forecasting the financial trends. (F7)

We take on a top-down method. You look at which industry is trending and we would make a pool, also called a main list, a pool to lock onto what companies are within the industry... so we follow a top-down approach, where we locate a pool of funds, then from which the sectors, then individual stocks. (F8)

Note 3: Fundamental analysis

F7 mentioned, "Knowing what the potential investee corporation does is considered the 'fundamentals' in investing"

We will look at many gross economic indexes... look at America, you must look at America right? Europe is a must, China is a must, these three are a must, and also Taiwan's own conditions. Fundamental indexes, such as economic indices, currency indices, and industrial production index, consumption, all these things, GDP, you must look at these. This is a trend, this is fundamental. (F8)

We are actually more skewed towards fundamental analysis. We would draw one year and label the events that happened that year. Then we would classify the event as a positive or negative impact, then point out the past few year's overall high and low points. We use those impact characteristics to guess, if the positive ones are more we would capture it as higher. (F9)

Note 4: Technical analysis

T1 commented, "We would like to do different kinds of analysis besides performance data analysis, so like, info ratio, sharpe ratio, beta, etcetera, those kind of technical analysis"

The other one [analysis] is we have technical analysis, that their stock prices are relatively strong. When we are searching we would basically consider whether the company is making money or not, simply speaking, whether its financials and management are okay or not, and the other is if their stock prices are acting fine or not. (F9)

F11 commented on providing historical market analysis and trends, which involves the use of technical analysis.

We also do some technical analysis, which is basically seeing why the stock prices have changed lately. If there have been changes, we would start doing some research to understand the company. For example there are some unusual changes in a corporation's stock price, lately its volatility increased by 5 percent to 10 percent. Then we conduct a technical analysis and find that the corporation's stock price usually does have some volatility but these observed are unusual movements. In this case, we would sometimes go in there first and buy the stocks... because when a corporation's stock price fluctuates, there is generally a reason behind it, and while finding out the reasons, the stock price would most definitely still raise. (F12)

Section 5.2.2.1 Economy and Industry

Note 5: Economic trends

F5 considers China "a growth area because the GDP is still growing at 7 percent"

If I think that the recovery in the US is sustainable and it may be in a recovery for many years, then I could in Taiwan or another country, find export orientated companies dealing especially with the US... following this trend, you can select many companies below within it. (F10)

My most recent investment relates to when I thought China would have good prospects. When China's Xi Jinping became president, I bought China stocks' ETF [exchange-traded funds] the first day he assumed office... The market peak of every country in the world has returned to the same place as America's 2009 financial crisis peak, the only exception is China. It is very clear that in the next 10 years, the economic foundation for China will become equal to America. It will not yet pass America, it won't happen that fast, but it will happen in one or two generations. (F13)

Also refer to Note 2 as there is a link with fundamental analysis.

Note 6: Industry trends

We are also looking for what's the market trend... what is the general market consensus for this kind of directions... We try to understand the market and we try to understand the competition. Because there is always competition out there, by studying the competitors, this gives us a more or better view for the overall picture rather than just listening to the start up company. (T2)

The past is for consideration, when you buy, you must be buying the future... You have to see how this company or industry will be in the next half or one year. Even though it may have poor performances in the past, but just because it was really bad, you could buy it cheaply now and in the future it can turn good. (F8)

Our cycle may have ups and downs, but if the trend is an uptrend, then the cycle will be like this [gesture – cycle heading up]... the trend needs to be able to be stretched upwards. So if you are not after sustainable operations, then maybe your trend, even if it is upwards, it may just break... if it is in an industry, for example, is in a downtrend industry, then no matter how good you are [at corporate governance], it is useless. (F10)

For the current state of electronic stocks, the future trends rest in cloud, Internet of Things and car batteries. For defence, I would pick communication stocks because after long-term research I saw there are two industries it can compliment, Cloud and Internet of Things. For those things you need communication. (F13)

Section 5.2.2.2 Financial Performance and Returns

Note 7: Screening investment targets

We will generally use some standards to analyse the current listed companies in Taiwan, there are around 1,800 stocks available. The standards are actually really simple, firstly it has to make money... Making a loss, such as biotech stocks, we would manage it in another way. Normally the ones we find will be making money and the returns are gradually increasing. (F9)

First I would look at financial information to screen corporations, looking at their ROE [return on equity], equity, PER [price-earnings ratio], PPR [purchase price ratio] and other related indexes. I would drag them out, get some benchmarks, and after that I will pick. The first step is still financial. (F13)

Note 8: Dividends as attractive attribute

A listed financial institution emphasised cash dividends as their strength when promoting their stocks to investors:

Our company is very unique because we have a lot of capital but our asset size is quite small, so every year we make money, most of the earnings go into cash dividends... lots of insurance companies are eager to buy equity stocks with very stable and strong capabilities to pay cash dividends to replace their fixed income position... so that is kind of why our shares have become quite popular amongst institutional investors. (F5)

F12 commented that their company prefer to invest in finance stocks because they are “more stable and the dividends policy every year is more stable.”

F13 suggested, “If they [corporations] keep most of the cash dividends for shareholders, we will be very comfortable. Including Warren Buffett, what he wants is cash generation, we are the same.”

R15 commented, “In Taiwan we will look for those that are able to give out cash dividends often, these are the more stable ones.”

Note 9: Perceived trading behaviour of Taiwanese retail investors

The main thing is still that they make money. We have quarterly reports, half year reports, we will look at them and see if they are making a loss or profit. If this corporation has potential, if the products they produce would have potential in the future... actually investors are more realistic, if you have money to let me earn, I will buy your stocks. (F4)

Over 90 percent of Taiwanese investors focus on profits as their main goal, especially those that have been investing in the Taiwan stock market since 20 years ago, their attitude of investing in random stocks are like gambling. They invest in the targets purely for financial gains in the short-term. (F6)

90 percent of people think this when they are young, we are all included in those 90 percent, we all think of quick returns... does that mean the remaining 10 percent are stupid? Those that succeed in this world, are there 10 percent that succeed or 90 percent that succeed? If you think of it this way it is easy to understand. A lot of people understand to invest in ETFs [exchange-traded funds] and to invest regularly at a fixed amount, lots of people understand this strategy but they don't do it. (F13)

Section 5.2.2.3 Future Demand and Competitive Advantages**Note 10: Continuing operations**

We do try and take a look about whether or not the company will have some sort of what we call 'going sustainability concerns'... I want to make sure if I put money into this company, that company will be up and running for at least say two years. If I put in money and I have a fear that the company will go bankrupt in the years, maybe I will not do it, because for any new idea you need time to brew it... it isn't like, "I have an idea, I have a product next month, I can have revenue the month after," it never happens. Normally we are talking about years sometimes like multiple years. (T2)

As the product cycle ends, they end. So if you return to look at the industry, if the nature of the industry or product cycle or development is not able to be long-term or sustainable... we would have less interest in it. (F10)

We also have to look at the industry, that you will be able to see whether the trend will continue in the future 5 to 10 years or if the product is only going to survive in the short-term due to a short product lifecycle. With a short product lifecycle, there may be products that comes out and destroy you. Like pagers, those that made pagers were eliminated by cell phones, they retreated all their capital... I don't invest in those with short product life cycles. (F13)

The high-tech in the past is not high-tech now, like CD-ROMs, CDs, DVDs, now it is blue-ray, correct? Those corporations in Taiwan used to have their share price as a few hundreds, now it is only a few dollars... so you will definitely see which industries are slowly falling and you definitely won't go invest in those. (R15)

Note 11: Competitive advantages

They need to show us what kind of technology breakthrough they have... they don't just come in and say, "Hey, I figured out a way to do it cheaper," they need to figure out a way to do it differently, so I think that is the key. So innovation is definitely the key of what we are looking for, the new technology, new approach, but more importantly, the new technology and new approach you can solve a real problem. (T2)

You can't just tell me that [basic information]. So then they may say how their tea cups are different from the ones currently in the market, what sort of clay they use, and perhaps its resistance to heat, pressure, drop and things, and in the future how our technology will advance to what level, and an estimate of how much market share we will hold, and the how much profits we will make. So when you as investors see it, you will be able to decide whether or not to invest in it. (F6)

Section 5.2.2.4 Credibility

Note 12: Observations

We all have a record. A lot of large corporations like TSMC, what they say are generally of no problem... But there are also some others and, honestly, we have some ideas about them in mind. After a while, you will know if you can listen to this company, if

this company is lying to people. (F8)

Furthermore, we would follow for example, things that a corporation says, their credibility. Usually it is determined one time after another, going to visit the corporation time and time again. We would go to understand what the reasons are behind the corporation not meeting their forecast and whether the reasons are acceptable. Are their reasons repetitive or a onetime uncontrollable event? And of course some corporations would deliberately hide some future risks they may face. (F12)

I would have an observation period for it, for instance, they have road shows, they have road shows every time or quarterly reports, and I would make records about what they said about this quarter and what the next two quarters would be like, I would record that. If what they said was really different to the actual figures, then I would give them a discount, but if they were conservative, I would give them a premium. Such things take time to observe.... You will observe and ask researchers to do it too. Say this company has been established for a long time, we will ask our research team to do a study on the projections announced by the company for the past five years and match it with their later actual figures, and then give a summary to us. Then they will be able to know how different, if any, their projection and the actual figures are and I will be able to know if I can accumulate and account on what they [corporations] disclose. (F13)

R15 commented, “The promises and forecasts made by the directors, have they been hitting blanks and not reaching it? You have to take note of these.”

Note 13: Consistency

There are also many research units that will go find them [corporations], go visit them. Those researchers will communicate with each other, are the results you got the same as the results I got? There may even be some researchers that have closer relationships with this company, so the information they receive may be more internal information, everyone will match what they got. If everyone got the same, then the integrity of this corporation is pretty good. But if there is one report that is different from the other two reports, which reports should be focused on? (F6)

If you give me guidance today and you failed to meet it, I cannot say that you were wrong, perhaps it just so happens that some problem occurred. Then is the reason you gave to me logical? If in the next quarter it went wrong again, fine, I can still tolerate it. Then the reason you gave me, were you deliberately lying to me or were there really something wrong that happened again? Actually we have come across these situations, we definitely do, then we also have to determine ourselves whether this is because the corporation has poor credit, that they did something wrong, that there was an economic downturn, or some other reason. If it was really an economic downturn and the corporation did not have time to react, leading to the guidance they gave you to be wrong, then you can categorise this as economic downturn, the demand was not correct, that is one situation. The other situation is that they were unable to determine or they were wrong in their determination. There could be another that they were over positive. So in management credit or company's corporate governance, this may be slightly different, but I'm just saying that in between these things, we have to try and judge, because this does influence us... The credit we are talking about today may be that they said something but it is not consistent... a corporation may mistakenly say something wrong, for example give you some guidance and of course this includes some that are right and wrong... but what we care more about is that if you continually fail to meet the guidance you tell us, there must be something wrong, right? (F10)

Typically we would believe them at first, but after a while we would have a chat with people from our trade. Whilst chatting, we might find out that perhaps we have to give a discount to what a particular spokesperson or a financial manager says. For example, what that person says we will have to discount it by 20 percent or 30 percent. Then I am not sure if there are some who are naturally positive or are artificially increasing the numbers, but you realise what they are doing after a few times and they lose credibility. (F12)

Section 5.2.2.5 Corporate Culture, Leader and Management Team**Note 14: Operating philosophy**

This boss' operating philosophy, if it is good for the society. There are some corporations that are more likely to violate the rules, while there are other bosses who contribute to society. For instance TSMC, their operations are pretty good and their boss is not unfair. (F4)

There are some corporate bosses whose philosophy is to be good to oneself but not share the good with shareholders. Such as their director and supervisor rewards are very high. If they earn \$5 dollars they only give shareholders \$2, which is very low, and they take a chunk for themselves... we would think of this as bad... We have been doing this for a long time and know that in sunset industries there are still good companies, and in sunrise industries there are still some black sheep. So this relates to corporate culture and the team philosophy... it has the ability in its product life cycle or its corporate life cycle that when it reaches a trough, it will reengineer, this depends on the people leading the corporation. (F13)

Note 15: Integrity

Some people think that investing in a company is the same as investing in the people. The director is the most important factor because for Taiwanese corporations, although it is a shareholding company, there are some that are still family owned businesses... then you are investing in this corporation, it is the same as investing in this person. Then this person's integrity, do they have integrity when they speak? Are they wholeheartedly managing this company?... there was recently just a company that ceased trading, their boss led in hyping their stock. (F6)

Corporate governance as in the leader's personal integrity, we also now require that every corporation must have an independent director. In the past, the board of directors were commonly people from their own family, their relatives, so when they are in, it has a major influence on the corporation. (F8)

Section 5.2.2.6 Corporate Governance

Note 16: Corporate governance

F10 commented, “Management credit and corporate governance, even though it is intangible, it is still very important. Then we cannot say exactly how important it is, but these are very important because it relates to their credit.”

We would hope that the shareholder structure... it is more like they need a certain proportion, because you cannot have say some major shareholders only hold a few shares but operate such a big company, there will be some transparency issues that we are not aware of, it is more likely that something is going to happen. (F12)

Also [take note of] the shareholding ratio of the directors, but in Taiwan the income tax is high so sometimes you cannot tell as there are rarely anyone that uses their own name to hold a large amount of shares... when the tax rates are so high, usually they would put other people’s names into the investment company... In Taiwan I would see if the leaders hold a lot of shares, it reflects if they are sustainable, in some corporations their management team only hold a few percent, then there are problems. If you have only a few percent, how will they align their interests with the shareholders? “My income is high and so I fly business class and spend corporate money, at the end of year bonus I receive \$5 million, \$8 million,” right? “So whatever investor gets has nothing to do with me,” I don’t like those corporations. (R15)

Section 5.2.2.7 Corporate Social Responsibility

Note 17: Priority of CSR

I think that [environmental and society impact] is second priority. Because nowadays when you talk about environmental issues, most people are quite mindful about environmental issues. Especially in our industry, we don’t really involve a huge manufacturing asset. We are like a software company. So the environmental issues to be honest are less of a worry. (T2)

We will take things like the environment and society into consideration as well, but it is not as important as management team, the whole corporate culture, integrity, and the whole management teams’ performance. It is later priority. (F13)

Note 18: Costs of CSR

It all comes with a cost, like the green corporations you were talking about, if they require things from their suppliers to be all environmental, their costs would be higher. Yeah. Their costs are higher, and say if you sell it to Europe, people may be willing to pay a higher price for it, but if you sell it to China, who will pay that price? (F5)

[Taiwanese investors] will still think that as this corporation provide more benefits to their workers, their employee costs would be relatively higher, and then if I invest in this corporation, my profits may be lower and lower. Some people think this way, but now people are more accepting. (F6)

Social responsibility or environmental responsibility, those factors will increase your costs. Basically most people would know this and there are also risks associated with it. But it depends on the industry, like this is very important if you are in the biotech or drugs industry because if you didn't properly treat the environment, then for biotech or petrochemical companies, no one will be willing to let you in. (F13)

Note 19: Responsibility of CSR

T2 commented, "We didn't really come out and say you need to go an extra mile [beyond industry standards]... just follow the regulations"

Correct, I think your vision is really good, but if it led to excessive costs then of course we will reconsider. I think they need to take this one step at a time... say if your company already makes a lot of money, then spending on this area is correct, like what I said before, Delta Electronics already made a lot of money, so it doesn't matter to them. Perhaps everyday you make hundreds of millions of dollars and you spend a few million to focus on ecology, I don't care. So the ones that do these are mostly large corporations, otherwise if your company only makes \$10 million, how can you spend \$3 million to focus on ecology? One third of your profit is gone. (F8)

Normally the minimum is to be within the law, then the rest you will have to look at the financial performance of the corporation. If their profits are already really high and they transfer a proportion

of their funds to protect the environment, it is a plus. But if your financial performance is just okay and you are just operating within the law, that is okay as well. (F13)

For example, a corporation may decide to pay their employees well above industry average, but the corporation is at a loss, they are in a way contributing to society but this is not logical. They need to achieve a balance. (M14)

Note 20: Case of Advanced Semiconductor Engineering Inc.

T1 considers it “very important that the investors not only base [investments] of the financial report” and to “review this company from different perspectives to decide whether this company or enterprise is good or not.” This participant commented that in the ASE event, “it changed my point of view because if I would like to invest, I’d rather not select it even though the financial statement looks great.”

You know ASE's event? After this event everyone paid more attention to such things [environmental impacts] because they originally thought that industrial areas wouldn't have such problems. They wouldn't have such problems as in there wouldn't be any petroleum companies that would be so extreme. Petroleum industries are more extreme because they have a greater pollution area. There are also these problems in industrial areas but previously people didn't give a second thought about it, thinking that it is just a small issue. But when the government starts to slowly manage things, they [corporations] will do more of it. (F9)

[Non-financial events] all influence in some way, they do, because in the current investing environment, all these influence our decisions. For instance, I will give an example, one or two years ago Taiwan has a corporation called ASE... what happened was that their factory emitted pollution. Of course this has little impact on them financially, because they emitted pollution and later only faced monetary penalties, so for them this had really little impact on their earnings. But the main point is this relates to pollution, so in the end the local media was reporting on them a lot because they polluted. How they polluted was by dumping things into the river, which changed its colour, then of course, isn't this considered as non-financial event? If you really look at it then it is, but in reality it was really bad for the corporate image... at the time of the event,

the company stock price, because in Taiwan, there is actually a fluctuation limit of 7 percent every day, down limit or up limit, and they may have continuously fell for two or three days. Then this is actually considered very critical. (F10)

Note 21: Case of Wei-Chuan

I remember during that [Wei-Chuan] crisis, I remember there are a few magazines promoting I-Mei because I-Mei really pay attention to these [CSR] for so long, so they have been much less profitable for twenty years anyway... I think every stakeholder, like also including consumer right, because in Taiwan we have seen several bad examples, so consumers start to basically take revenge on those corporations. (F5)

In the past they [investors] would not consider non-financial information, impossible. But in these recent years, Taiwan has been changing beyond people's expectations. The effects of those tainted food were to severe, people suddenly realised that if a corporation only focus on profits, they will really become more and more eliminated by this society. Simply speaking, if you are focusing on profits you need to make more and more money, to do so you need to either cost down or increase your gross profit or revenue. In Taiwan they are like, "Okay, reduce our cost." Cost down. So they use some bad raw material or they use inedible raw materials, this resulted in these two to three years, the tainted food issues in Taiwan. (F6)

There were really big impacts on their operations, this impact was pretty big. This happens once in a while. Say for instance there are food safety problems, of course other brands, those with better brand images, they will benefit from it. Like everyone is more positive towards I-Mei, so far they had no problem with their food so everyone thinks that perhaps their quality control is better, so everyone have more confidence in this brand. So if you use these events, you will see that, yes, there are definitely impacts. The impacts may not be directly that product, but impacting the corporation's image and impacting the companies below the same company. Furthermore, I also remember that at that time that company [Wei-Chuan] also operated supermarkets, but because no

one goes to their supermarkets at that time it collapsed. So [pause] these things happen. (F10)

Section 5.3.1 Researchers and Research Reports

Note 22: Researchers

If our researcher is more detailed, they will even go as far as breaking down, for instance, because they [corporations] may have multiple products, they will specially ask if they can breakdown their Product A, Product B, Product C into finer detail... Every corporation has upstream and downstream. When I visit downstream, I will use skills to ask them, for instance, if their downstream business is very good, then I can speculate that, “Hey, you are their upstream, so you should be doing pretty good”, just because you are doing good, you will let your downstream become good, because later on they will pass down the orders to the downstream. If the downstream is bad, how could the upstream be good? So these things, I think the skills of researchers lies in here. (F8)

It sometimes depends on what type of information each researcher or analyst can piece together. Some people may have some better relationships with the middle or top management, so the information they obtain may be more complete. Some other people are more lateral, perhaps they visit many companies and they can piece together much information from those in the same industry or the up, mid and downstream. So every analyst has their different strengths. (F12)

Section 5.3.2 Corporate Disclosures

Note 23: Use of annual reports and prospectus

Honestly apart from when researchers have to estimate models or if they are personally calling up a company, they will look at their annual reports or quarterly reports. In reality very rarely have I heard of people actually flipping through the annual reports. (F9)

If you conduct research on it, you will find that the majority of retail investors won't look at the prospectus, including fund managers too, they don't have time to look at the prospectus. It is the researchers who look at it, or analysts, analysts will look at the

prospectus and summarise the contents. (F13)

Even though Taiwan's stock markets are almost 50 years old, there are close to none investors that look at these [annual reports]. Institutional investors will, but I think it's just a quick glance through, they aren't really looking into it. (R15)

Section 5.3.3 Interpersonal Communication

Note 24: Information asymmetry

Each corporation's transparency is different. Like TSMC is really transparent, they will tell you but not too much, actually most of the things are up to your Q and A. They don't want to tell you that much either, if they reveal too much, they will in return receive a lot of challenges from people. People will keep asking, "why, why, why," and they will get really annoyed. So a lot of things they tell you are just basic information. So it is up to your Q and A to dig it out... It [TWSE] has rules regarding what is considered 'material information', but other than that it depends if the corporation wants to disclose it. So like what I said, I can get information from these official announcements, there are no problems about that. But what about the things I can't get? Back to what we said before, I go visit the company, go call the company. If they are willing to tell me, they tell me, if they aren't willing, then I can't do anything about it. And the things they do tell me, I still have to go check... If you say to them that outsiders are rumouring that you are going to merge with what corporation, they will say, "Sorry, this is business confidential, so I will not reveal it to you." Or sometimes if you ask about their orders, if they can breakdown into finer detail, they will say, "This is confidential because I have signed confidentiality with clients so I cannot tell you." You know, sometimes we might hear, for example, you've receive a major order from Apple, if you ask Foxconn, they will say, "Sorry, I can't tell you now, because I signed a confidentiality agreement with clients." (F8)

Because they [large corporation] are too powerful, when you ask them for something they are not willing to give to you. And this is really troublesome... like I ask them for revenue breakdown by client or revenue breakdown by product applications or something, sometimes they give it to you, sometimes they don't... They will say this is confidential material, so they are not willing to supply it

and so we cannot demand it. (F10)

In Taiwan, biotech is a star industry and we found out that in the process of visiting those companies, there are some with regards to the development of new medicine, they give us some outlook that are overly positive. Over positive means there are hidden risks involved. (F12)

Section 5.3.5 Cross-referencing and Credibility of Information

Note 25: Certification of non-financial information

From an accounting perspective it is really easy to certify the accounting reports or financial reporting because it is the general company rule. But when you are talking about a retail company or a high tech company or the food industry, I can't imagine anyone having that type of brains or understanding to certify all those breadth we talked about here. So for me it's almost impossible. (T2)

You should say that if they prepare it, then of course it is good. That's the only thing I can say. As your information is more complete and there is someone to backup, it is better. But whether or not this is necessary, I am afraid to comment without seeing it. So you see, accounting firms, when they seem uncertain about some numbers, they would say that they have some opinions on some parts, but they would not help you backup the numbers. So honestly, we can't do anything. I am not sure if third party certification... it may be of help? I don't know. (F10)

F8 mentioned the issue with certification of non-financial information is "currently there is no mechanism to do so."

M14 commented that verification is not possible as there are "too many different situations that corporations may not disclose." The example provided was if corporations have really poor relationships with their suppliers, these are factors corporations will not report and it is difficult to find out unless you are in the company.

Section 5.4.2 Views on Integrated Reporting

Note 26: Initial perceptions of integrated reporting

I actually think it is possible [for IR to be accepted in Taiwan] because previously there was an OTC corporation that focused on biotech... Their director came and found me, and they would tell me that they want me to communicate with the investors their company's vision and what they did, and to tell us to influence investors to see if they will buy their stocks because of this. We can't write reports, because the underwriting department will make reports. (F4)

I mean social investing has become increasingly popular, corporate governance, all this... Taiwan is probably not the area, we don't have cigarette companies, we don't have manufacturing weapons... Then pollution related we don't invest in that type of company anymore, like steel or petrol chemical, chemical companies. So most of the companies we invest are kind of environmentally friendly and we do pay attention to corporate governance, which is what we are actually doing every day. (F5)

They will disclose all those things? The domestic financial reports only provide for example, the present future development outlook and resources and for instance the status of the board of directors, where the directors come from, where the supervisors come from. Then later on would be the whole product analysis, for the annual reports, and in the financial reports the five kinds of statements all provided to you, we are mostly like that. You say integrated reporting will mention more specific things?... Is the organisation in charge of IFRS requiring this? Honestly we haven't heard of it before. (F9)

F13 commented, "Taiwan is promoting CSR, I think it is something similar. It is like corporate social responsibility right? Taiwan is strongly promoting it now. Now Taiwan wants to report on CSR, Taiwan wants to produce this report."

Note 27: Response by F8 regarding use of integrated reports

The first one is the human resource you mentioned, because Taiwan has been facing brain drain. As the salaries haven't been increasing, a lot of our human talents have been headhunted. So regarding human resource and for instance labour, are the work

hours very long? What are the rights of the workers and even their retirement funds?... The second is their SR, social responsibility. The government has really been emphasising social responsibility, I remember Taiwan's exchange has made up a social responsibility index; for instance, corporations in this index means that they think social responsibility is important. The third emphasis is on corporate governance. Maybe someone like you from overseas would think that this is weird, that isn't this taken for granted? But because in the past Taiwan has not strengthened this, they have to specifically emphasise corporate governance. Corporate governance as in the leader's personal integrity and we also now require that every corporation must have an independent director. In the past, the board of directors were commonly people from their own family, their relatives, so when they are in, it has a major influence on the corporation. So now they require independent directors who are not related to the corporation in any way, and must be from the industry, academic, or governmental officials and so forth. So they are emphasizing monitoring and supervision of the corporation. (F8)

Note 28: Corporate competitiveness in Taiwan

F6 commented, "Us Taiwanese, we don't cooperate with each other. We pull on each other, competing through lowering prices"

I have a friend that said, "Today if a corporate boss went to kneel down in front of a monk/teacher... you need to quickly sell the corporate stocks." Why? Because they are planning to do good deeds. In the industry, especially domestically, the competition is high and everyone is killing each other. The competition is really intense, so if one day they decide to put down their knife, do you think the corporation's EPS [earnings per share] will increase? (F9)

Note 29: Influence of ISO standards and Apple

Private equity investors commented that suppliers who sell to Europe and the US will need to meet a certain level of industry requirements and CSR practices. International ISO standards influence the selection of investment targets. Taiwan is a country filled with OEM suppliers, "some of the customers will say, 'if you want me to use your manufacturing facilities to produce my products, I want to see your ISO certificate'" (T2). Also, "We need to pass ISO specifications

otherwise [an international corporation] won't send us orders as they believe good quality management makes a good product" (M14). Another example is:

In China I met someone who is making baby strollers and he does it [social awareness] because he is selling to Europe. He needs to say that his product is environmental and all the components, his whole manufacturing process including his suppliers, are all complying. (F5)

Participants also mentioned the influence of Apple on Taiwanese businesses and stock market. F12 commented "the most obvious reasons for changes in Taiwan's technology industry are that they received orders from Apple," which has great impacts on their orders and revenue where "this jump in profits is not just for example a 10 to 20 percent increase, sometimes it is 30 to 40 percent increase." On the topic of considering non-financial information, F6 gave an example of the impact non-financial performance may impact a corporation's order status:

Apple might have placed an order on a company and then realised that the company is harsh to their employees, they may withdraw their orders. This will be reflected on the stock price... if they [Apple] think a corporation has higher cost, they may think it is okay and still give them the order, because that corporation takes care of their employees and cares about the environment.

Apple's orders are seen to have major impacts on Taiwan's stock markets:

In April and May, relative to the rest of the year, the index will be relatively lower because the main stocks in Taiwan are technology stocks. The second quarter is always a dull season for technology stocks because the products that should have been released was released in the second half of the year as they are preparing for Christmas and Chinese New Year. So in April and May there are practically no orders... the second quarter last year was really good. Last year was unexpectedly well. Apple's demand for products, the iPhone's demand was very strong. In the second quarter they were pulling from the first and second quarter. We could also see this from the domestic export orders, the domestic export orders were continuing to increase after the second quarter. Explaining it simply, it's like those things don't have a dull season. (F9)

Note 30: Influence of foreign investors

The opening of the Taiwan stock market to foreign investors has changed the investing process of Taiwanese investors. F6 identified that from the 1990s onwards, foreign investors “brought in their ways of investing.” Previously Taiwanese investors mainly focused on technical analysis and the movement of stock prices, but as foreign investors paid more attention to factors such as corporate operations and their future prospects, “slowly Taiwanese investors have been affected and have changed.”

F5 commented that as a corporation becomes ““more environmental conscious, social responsibility, or corporate governance, improving transparency, boards, listening to minority shareholders, those kind of stuff right, it has become easier for you to become chosen by Index Funds.”

Note 31: Initiation by large corporations

Only companies with long life spans, such as those big corporations, would care about sustainability. In Taiwan, most of the companies are SMEs with a short life span of a few years, they are too busy keeping themselves alive and have less time caring about anything else. (F7)

Usually when a company is more stable and has more impact in the industry, it [sustainable development] is something that they have to consider... for example, celebrities, stars, singers, they have some influence and these influences may be due to what they do. If there was some gossip or bad news, when it happens it will have a negative image on society. Similarly for large corporations, if they can lead and do such things, it will also prepare and ready other corporations to follow. (F12)

M14 commented, “Those sustainability reports or integrated reports would be for corporations that are large and successful and can afford to prepare such things.”

R16 considered that only corporations with accomplishments and those that are successful would have something good to write in the reports, so those corporations would be the ones that produce non-financial reports or follow integrated reporting.

The Taiwanese society is increasingly concerned and aware of the unethical operations of companies. These examples also resemble the power of collective stakeholders on corporate operations. There is strengthening of ‘public perception’

in Taiwan where corporations engaging in unethical operations are becoming “more and more rejected” by society (F8). Participants agree that the awareness of social and environmental concerns are gradually increasing as commonly noted, “These evolution are not that obvious or fast, but you can feel that as your society becomes more open, more development, more mature, you will be more concerned about these issues” (F10). Although the awareness of CSR, sustainability and ethical practices are increasing, F4 commented, “The so called ethical companies, you need to have those mindsets because this cannot be accumulated in one or two days.”

Note 32: Government leading by example

F5 commented, “[Regulators] really pushed us to improve the transparency, and nowadays they push us for corporate governance,” for instance, “we have to post a lot of announcement on our websites and monthly statements... we have to disclose how much money we made from those guys in terms of fees, fee structure, and also the risks involved.”

F11 commented on an increase in laws and regulations relating to environmental concerns; however, it does not really affect them as they are in the service industry.

F12 commented on the government promoting the awareness of environmental issues, for instance, having in place external monitors will make “companies more alert”, and emphasising the requirement of monitoring and regulations to reduce the incentive of corporations secretly disposing of waste water or gas.

M14 commented that Taiwan’s natural environment has been improving due to “heavy government advertising on such matters, glow worms are back now. They were gone for a while, so this means the environment is getting better.”

F8 noted the Taiwanese government has been supporting ‘culture and creative industries’ and by promoting such investment to investors, the government was said to be “leading by example... [as] they are saying these things will make money in the future, as you people don’t want to start it, it’s fine, the government will invest in them,” this was similar to what happened to the biotech industry which has become “extremely advanced, a lot of companies have risen up.”

F6 and F8 mentioned the government promoting CSR practices through forming social responsible indexes such as ‘Taiwan Top Salaries Index 100’. “There have been acknowledgements of corporations that do good things, and it appears that investors do support such indexes” (F6).

Note 33: Support by Government

F4 commented, “What happens in the future we wouldn’t know because these reports are what the upper level does and we just look at it... it is up to the main governing officials to lead, we are just ordinary folks and it isn’t something that we can control... in a way we are passive, we cannot be active.”

F5 mentioned motivation through governmental incentives as particularly important for organisations or investors to act:

They [regulators] give incentives, that if you hit their targets earlier than others, you get incentives. I’m not sure about social investing, but for like last year they really encourage us to make loans to culture creative industries. So if you become top three, they give you approval for one more branch, something like that... Lots of companies we do agree with the concept [CSR] but everyone needs motivation... we are a for-profit organisation, not not-for-profit organisation. So for profit-driven organisations, if we do something that can further improve our corporate image that is also fine, but that is only if your business is a retail driven business, you need lots of consumers, so you need to promote your corporate image. So I think everyone needs the motivation. I think more importantly... if regulators give us a little bit of pressure and consumers give us a little bit of pressure, then we are highly motivated to move in that direction

F7 believes “there needs to be law enforcement to enforce anything, corporations or investors will not act from the good of their hearts for these type of non-financial consideration or movements,” however, Taiwan’s regulators appears to be more passive as “an issue generally occurs before a solution, where there is a social reaction to a problem, then regulations are formed to counter such problems.”

F12 commented, “A key time for these [integrated] reports to be influential is when the government start making it mandatory,” however, he noted that there may be problems of after the deduction of those external capitals, companies may be revealed as a bad company. If in this case:

I think regarding policies, they [the government] will restrict it. At least restrict competitors to enter or to restrict the development of this company, for example, if this company wants to continue developing, they need to pay more attention to the pollutants to the environment, perhaps they have to provide so and so amount of funds to help deal with environmental problems. These things will

be costs to a company. But these things, if the government has not made it a legal norm, you cannot tell which corporations have better profitability and which have worse... I think in the future with regulations and government support...because for a democratic county the development of such policies are not fast, like what I said before it may take 10 or 20 years

Section 5.4.2.1 Views on Corporate Value creation

Note 34: Focus on financial value creation

I believe the most direct should be like revenue, the profit etcetera, but not every company that post high revenue is a good company. That is because now just like you see, just like you say, now the analysis is integrated, so you need to reveal this company or enterprise via different perspectives. Of course the financial statement is one thing, the second is that for example, it is aligned to the social responsibility, the environmental protection etcetera. (T1)

The easiest to judge is any companies' return on investment has to exceed their cost of capital. So each country and company have their own cost of capital, like Taiwan has Taiwan's risk premium right? Then every company they have a beta and every country they have their risk free rate. So financial people analyse value creation just very simply, just any company's RIC [return on invested capital], invested capital, it is normally quite close to ROE [return on equity], they have to exceed the cost of capital, that means they create value... We are not a non-for-profit organisation, so we cannot donate a lot of money to society. I mean we have to get approval from the board, but we are not a foundation or endowment. (F5)

I think the main things are firstly, market share and also to maintain this market share, their ability for innovation in products and because for now the product life cycle for electronics are getting shorter and shorter, they need something more flexible, they need to have flexible strategies. Also for corporations to create value, they need to become the suppliers of large corporations because if they get these orders it is like a recognition of the company, a recognition. (F12)