



Contents lists available at ScienceDirect

## Research in International Business and Finance

journal homepage: [www.elsevier.com/locate/ribaf](http://www.elsevier.com/locate/ribaf)



# An empirical study of equity agency costs and internationalization: Evidence from Taiwanese firms

Yi-Chein Chiang\*, Chun-Lein Ko

*Department of International Trade, Feng Chia University, Taichung 407, Taiwan*

### ARTICLE INFO

#### Article history:

Received 7 October 2007

Received in revised form 19 December 2008

Accepted 5 January 2009

Available online 14 January 2009

#### Keywords:

Equity agency costs

Internationalization

Shareholder wealth effects

Information transparency

### ABSTRACT

Under methodologies of the event study procedure and the multiple regression analysis, this study investigates equity agency costs and internationalization, using a Taiwanese sample from 2000 to 2004. The evidence shows that the shareholder wealth effects of security offering announcements are unfavorable for higher equity agency costs, especially unfavorable for higher equity agency costs of foreign-exposed multinational corporations (MNCs) because internationalization renders monitoring more difficult in comparison to domestic corporations (DCs).

This study suggests MNCs to increase their information transparency in order to achieve lowered equity agency costs, and help to reduce information asymmetry, thereby enable firms to raise capital on the best available terms.

© 2009 Elsevier B.V. All rights reserved.

## 1. Introduction

There are no equity agency costs in a 100% owner-managed firm. However, as a firm's ownership structure changes and ownership separates from control, managers may not act in the owners' best interests increasing equity agency problems.

According to Bodnar and Weintrop (1997), growth opportunities are greater for multinational corporations (MNCs) than domestic firms (DCs). However, the equity agency costs induced by internationalization may also be greater for MNCs. Even if managers at MNC headquarters make decisions

\* Corresponding author. Tel.: +886 4 24517250x4261; fax: +886 4 24510409.

E-mail address: [ycchiang@fcu.edu.tw](mailto:ycchiang@fcu.edu.tw) (Y.-C. Chiang).

that maximize owners (shareholders) wealth, foreign subsidiary managers may not necessarily do so (Fosberg and Madura, 1991). Instead, foreign country characteristics complicate monitoring of foreign subsidiary managers. Such characteristics often include: geographic distance from headquarters, differences of language and culture, and lower frequencies of consolidated financial statements (Wright et al., 2002). Therefore, equity agency problems may become more acute for MNCs, and will induce high equity agency cost, ultimately creating negative wealth effects for shareholders.

While there has been much research about equity agency costs, nearly all focus on the effect to DCs. Only Wright et al. (2002) involve study of equity agency costs of MNCs. Wright et al. (2002) focus on American MNCs and their results show that firms with higher degrees of foreign operations have greater equity agency costs. The proof method is that valuation effects associated with security offering announcements are more negative for firms with higher degrees of international business. However, they do not use the measure of equity agency costs directly. In our view, negative valuation effects may not come solely from higher equity agency costs, but from other factors such as the possibility of higher risks from international operations.

Taiwan faces the problems of scant natural resources, small market scales, and high wage costs. In order to increase market share and low production factor costs, many firms operate abroad. The degree of foreign involvement for Taiwanese firms has increased year by year. In addition, equity agency problems may have increased with the degree of internationalization, as well as the unfavorable shareholder wealth effects associated with security offerings to which Taiwanese MNCs are susceptible.

This study's samples are listed Taiwanese firms that announced security offerings from 2000 to 2004. In the first stage, we used the event study method to obtain the 2-day cumulated average abnormal returns of security offering announcements (shareholder wealth effects). In the second stage, we used the multiple regression models to investigate shareholder wealth effects of security offering announcements associated with the degree of internationalization and equity agency costs.

Our results indicate that the shareholder wealth effects of equity offering announcements are more unfavorable than those of bond offering announcements, and the effects to MNCs are more unfavorable than those of DCs. In addition, the shareholder wealth effects of security offering announcements are unfavorable for higher equity agency costs, especially for equity agency costs from highly foreign-exposed multinational corporations (MNCs). The evidence is consistent with the view that MNCs are susceptible to higher equity agency costs because internationalization renders monitoring more difficult in comparison to DCs.

According to empirical results, this study suggests that MNCs increase their information transparency in order to achieve lowered equity agency costs. For example, except for required disclosures in the annual consolidated financial statements, MNCs can provide more information voluntarily in order to reduce the current information asymmetry between MNCs and DCs. If investors can receive sufficient information, they likely will be more willing to become shareholders and bondholders, possibly decreasing the firm's costs of capital.

The framework of this study is organized as follows. Section 2 contains samples and the variables. Section 3 is the methodology. Section 4 is the result. Finally, Section 5 concludes this study.

## 2. Data and methodology

### 2.1. Sample and data source

This study's sample consists of all Taiwanese listed firms with bond or equity offering announcements from 2000 to 2004. Specifically, there are 591 Taiwanese firms with bond offering announcements and 217 with equity offering announcements, as shown in Table 1. The number of bond offerings is more than that of equity offerings, possibly owing to the fact that the market interest rate was relatively low during this period.

The data in this study was collected from the Taiwan Economic Journal databank (TEJ) and the website of the Taiwan Securities & Futures Information Center.

Download English Version:

<https://daneshyari.com/en/article/1003220>

Download Persian Version:

<https://daneshyari.com/article/1003220>

[Daneshyari.com](https://daneshyari.com)