



A Study on Corporate Governance in Taiwan and Japan

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Abstract- Corporate governance has emerged as a pivotal topic in contemporary management and legal studies, essential for maintaining capital market confidence and sustaining corporate competitiveness. This paper explores the conceptual frameworks and practical implementations of corporate governance in Taiwan and Japan. It begins by defining corporate governance through the lenses of Agency Theory and Stakeholder Theory, examining the balance between shareholder returns and broader social responsibilities. The study then analyzes the core supervisory mechanisms in both nations: Taiwan's internal control systems rooted in the COSO framework and Japan's dual-track structure involving the Statutory Auditor (Kansayaku) and Audit Committee systems. Finally, the paper identifies critical challenges facing both jurisdictions, including Taiwan's struggle with agency conflicts stemming from concentrated family ownership and Japan's structural rigidity and path dependence. The study concludes that both nations must address deep-rooted structural issues and integrate ESG considerations to align with global governance standards.

Keywords: Corporate Governance, Agency Theory, Stakeholder Theory, Internal Control, Taiwan, Japan, ESG.

Part I. The Concept of Corporate Governance

Corporate governance has become one of the most prominent topics in contemporary management and legal studies. It concerns how corporations can ensure that both investors and stakeholders are treated in a reasonable and equitable manner, thereby maintaining the confidence of all parties involved. Only through sound corporate governance can a company build credibility in the capital market, secure funding, and sustain long-term competitiveness [1]. Corporate governance may be understood in both a narrow and a broad sense. In the narrow sense, corporate governance refers to the internal governance of a company—specifically, the relationships and mechanisms among shareholders, the board of directors, internal supervisory bodies, and the management in participating and deciding upon the company's operations and business affairs. In the broad sense, corporate governance extends beyond the checks and balances between shareholders and internal supervisory institutions. It further incorporates the roles and functions of stakeholders, including employees, customers, suppliers, creditors, government agencies, and local communities [2].

From a positive perspective, corporate governance functions as a managerial mechanism to ensure the accountability of corporate executives, protect the lawful rights and interests of shareholders, and simultaneously balance the interests of other stakeholders. From a preventive perspective, it requires management to pursue corporate objectives in a manner consistent with the company's best interests, while establishing effective supervisory mechanisms that encourage efficient use of resources, enhance competitiveness, and ultimately promote social welfare.

The legal foundation of corporate governance in Taiwan is primarily based on the Company Act and the Securities and Exchange Act. Following the civil law tradition, Taiwan adopts a tripartite structure consisting of the shareholders' meeting, the board of directors, and the supervisors. However, in order to strengthen the supervisory function, a series of governance reforms have been introduced since 2003, gradually incorporating the independent director system and the audit committee system, allowing public companies to replace supervisors with an audit committee. In recent years, regulatory authorities have actively promoted the initiative known as Corporate Governance 3.0 – Blueprint for Sustainable Development, which emphasizes enhancing the functions of the board of directors, improving transparency in information disclosure, and implementing sustainability governance. Specific measures include increasing the proportion of independent directors to at least one-third of the board and expanding the scope of mandatory sustainability reporting.

1. Agency Theory

Agency theory primarily examines the relationship between shareholders (principals) and managers or directors (agents) within the corporate structure. Because of the separation of ownership and control, agents may not always act in the best interests of shareholders, thereby giving rise to what is known as the "agency problem" [3]. The core dilemma of this relationship lies in information asymmetry: managers possess internal information that shareholders cannot fully observe or monitor. Combined with conflicts of interest, this asymmetry gives rise to problems such as moral hazard and adverse selection [4].



These frictions give rise to what is known as agency costs, which include the monitoring costs incurred by shareholders in supervising agents, the bonding or contractual costs borne by agents to assure shareholders of their good faith, and the residual losses that remain unresolved even after such mechanisms are applied. To address these problems, various institutional mechanisms have been developed. For example, performance-based compensation systems and stock options are employed to align managerial incentives with shareholder interests; boards of directors, independent directors, auditing systems, and disclosure requirements strengthen internal oversight; and market mechanisms, such as the managerial labor market and the threat of takeovers, provide external disciplinary forces [5].

In corporate law, agency theory is concretely reflected in the regulations governing directors' fiduciary duty and duty of care, the rules concerning related-party transactions, and the requirements for information disclosure. Overall, agency theory does not seek to eliminate conflicts of interest entirely; rather, it provides a conceptual framework for understanding and designing governance mechanisms that aim to achieve an optimal balance within the reality of divergent interests.

2. Stakeholder Theory

The stakeholder theory represents both a revision and a challenge to the traditional doctrine of shareholder primacy. The classical view holds that the sole purpose of a corporation is to maximize profits for its shareholders. However, in his influential 1984 work, R. Edward Freeman argued that a corporation does not operate in isolation but rather within a complex network of multiple participants [6]. Within this framework, any group that can influence the achievement of corporate objectives or is affected by corporate actions is regarded as a stakeholder. Such stakeholders include not only shareholders but also employees, customers, suppliers, creditors, local communities, and government agencies.

This theory contains two core dimensions. From a normative perspective, a corporation has a moral obligation to act responsibly toward its various stakeholders. It must balance the pursuit of profit with considerations of fairness and justice, ensuring that business decisions align with ethical principles while maintaining economic efficiency [7]. From an instrumental perspective, effective stakeholder management helps reduce conflicts and transaction costs, while building trust and cooperation that enhance corporate performance and promote long-term sustainability [8]. Therefore, corporate governance should not be evaluated solely on the basis of shareholder returns. Instead, the decision-making process should incorporate diverse perspectives and interests, such as the implementation of Environmental, Social, and Governance (ESG) initiatives, Corporate Social Responsibility (CSR) programs, and supply-chain responsibility management [9].

Nevertheless, this theory also faces several challenges. First, the scope of stakeholders is often too broad, making it difficult to define precisely who qualifies as one. Second, the interests of different stakeholders frequently conflict, and corporations, operating under limited resources, find it difficult to satisfy all parties simultaneously. Third, the comprehensive inclusion of all stakeholder perspectives may increase decision-making costs and reduce efficiency. Despite these limitations, stakeholder theory continues to provide an important decision-making framework, enabling corporations to balance economic efficiency and social responsibility amid the forces of globalization and sustainability. It reminds us that a corporation's legitimacy arises not merely from generating returns for its shareholders but from cultivating mutual trust and reciprocity among the diverse groups upon which it depends.

Part II. Core Framework of Corporate Governance in Taiwan and Japan

1. Supervisory Mechanisms in Taiwan

According to Article 3, Paragraph 1 of the Regulations Governing the Establishment of Internal Control Systems by Public Companies (hereinafter referred to as the "Internal Control Regulations") promulgated by the Financial Supervisory Commission (FSC) of Taiwan, an internal control system is a management process designed by the company's executives and approved by the board of directors to assist the board, management, and other employees in ensuring sound and lawful operations. The internal control framework comprises five fundamental components: control environment, risk assessment, control activities, information and communication, and monitoring. Each of these elements is explained in detail as follows.

1.1 Control Environment

The control environment is one of the core elements of a company's internal control system and is regarded as the foundation and cultural context of the entire internal control structure. It determines the attitudes of organizational members toward internal control and risk management, thereby influencing the effectiveness of control implementation. According to the COSO Internal Control—Integrated Framework, the control environment encompasses factors such as the overall governance and management style, integrity and ethical values, allocation of authority and responsibility, and human resource policies [10]. In other words, it reflects the



organization's overall attitude toward control and discipline, shaping employee behavior through both institutional mechanisms and organizational culture.

The key elements of the control environment can be divided into several dimensions. The first is integrity and ethical values, which constitute the foundation of corporate culture. If senior management lacks honesty and moral integrity, the internal control system will inevitably degenerate into a mere formality [11]. The second element is the governance structure and the independence of the board of directors, as sound governance ensures effective supervision over management. Furthermore, the organizational structure and allocation of authority and responsibility guarantee a clear division of duties, preventing fraud or errors that may result from ambiguous accountability [12]. In addition, personnel recruitment, training, and performance evaluation constitute essential components of the control environment, as employees' competence and attitudes directly influence the effectiveness of internal control.

The control environment is not merely an institutional design but also embodies the organizational culture and the "tone at the top." When senior management demonstrates a high level of integrity and commitment to compliance, these values are transmitted downward and become the behavioral norms of the organization [13]. Conversely, if top management tolerates or condones misconduct, even the most rigorous internal control procedures can be circumvented. Hence, the control environment serves as the fundamental basis for all other control activities, risk assessments, and monitoring mechanisms.

1.2 Risk Assessment

Risk assessment is a core component of both internal control and risk management systems. Its purpose is to identify, analyze, and manage potential risks that may affect the achievement of organizational objectives. According to the COSO Internal Control—Integrated Framework, risk assessment is a continuous process that requires enterprises, after setting clear objectives, to systematically identify internal and external threats, analyze their likelihood and potential impact, and adopt corresponding control measures [14].

The risk assessment process generally consists of four steps. First, it requires the clear definition of organizational objectives, as the concept of risk can only be understood relative to the goals being pursued. Second, it involves risk identification, which encompasses both internal risks (such as institutional deficiencies, fraud, or technological obsolescence) and external risks (such as market volatility, regulatory changes, or natural disasters) [15]. The third step is risk analysis and evaluation, which commonly employs qualitative or quantitative methods to assess the likelihood of risk occurrence and the severity of its potential consequences, followed by prioritization. The final step is risk response, which includes strategies such as mitigation, transfer, acceptance, or avoidance, and the design of specific control measures based on these responses [16].

An effective risk assessment is not a one-time task but rather a continuous and cyclical process. The business environment and market conditions change rapidly—emerging technologies, geopolitical developments, and regulatory updates can all introduce new risks. Therefore, organizations must regularly review their existing assessments and integrate them with internal audit and supervisory mechanisms to ensure that risk responses remain dynamic and adaptable [17].

Moreover, risk assessment serves not only as a preventive tool but also as a strategic resource. Through systematic risk assessment, enterprises can identify potential threats in advance and allocate limited resources to the most critical areas of exposure, thereby enhancing operational resilience and decision-making efficiency. In the absence of effective risk assessment, companies are prone to suffer significant losses resulting from insufficient information or erroneous judgment [18].

1.3 Control Activities

Control Activities are an indispensable component of the internal control framework. They refer to the specific policies and procedures designed by an organization to ensure that management decisions and control measures are effectively implemented. According to the COSO Internal Control—Integrated Framework, control activities constitute the operational execution aspect of internal control. Through directives, processes, and mechanisms, they transform the abstract results of risk assessment into concrete actions, ensuring that organizational objectives are achieved [19].

Control activities take various forms and can generally be classified into three categories. First, preventive controls, such as segregation of duties, inventory security locks, or system access design, aim to prevent the occurrence of errors or fraud. Second, detective controls, including internal audits, reconciliation procedures, or exception report analyses, are designed to identify deviations or irregularities in a timely manner. Third, corrective controls focus on remedial actions taken to address identified problems, ensuring that risks do not accumulate or escalate over time [20].

In addition, control activities emphasize the principle of segregation of duties, which involves assigning authorization, execution, recordkeeping, and review responsibilities to different individuals in order to reduce the likelihood of fraud and error [21]. At the same time, information technology plays a crucial role in modern control activities. For instance, automated verification procedures and access control mechanisms within



Enterprise Resource Planning (ERP) systems can significantly enhance the efficiency of internal control. However, the effectiveness of control activities ultimately depends on the quality of their design and implementation. When controls exist only in form and are not continuously updated, organizations risk falling into a situation where systems are “in place but not effectively enforced.” Therefore, management must regularly review control measures and ensure their reliability through internal audits and external examinations.

1.4 Information & Communication

Information and communication constitute one of the core components of an internal control system. Their purpose is to ensure that an organization can collect, process, and transmit accurate and timely information, enabling personnel at all levels to perform their duties effectively and support sound decision-making. According to the COSO Internal Control—Integrated Framework, the effectiveness of internal control depends not only on institutional design and implementation but also on the transparency of information and the openness of communication within the organization [22].

At the information level, an organization must establish a reliable information system that encompasses both financial and non-financial data to support performance measurement, risk monitoring, and compliance management. High-quality information should possess the attributes of relevance, timeliness, completeness, and verifiability in order to effectively support decision-making by management and the board of directors [23]. Modern enterprises generally rely on information technology—such as Enterprise Resource Planning (ERP) systems and business intelligence (BI) analytics tools—to ensure the consistency and timeliness of data across different departments [24].

At the communication level, effective internal communication requires the free flow of information vertically, horizontally, and across departments. For example, management must clearly communicate control policies, ethical standards, and compliance requirements to all employees; at the same time, frontline employees must be able to promptly report irregularities or risk signals back to management [25]. In addition, communication with external stakeholders is indispensable. This includes providing transparent disclosure of both financial and non-financial information to shareholders, regulatory authorities, and auditors, thereby maintaining trust and organizational legitimacy [26].

The greatest challenges in information and communication lie in the issues of information overload and information silos. When excessive information is provided without adequate filtering, it may lead to decision-making delays; conversely, when departments are isolated by high informational barriers, critical risks may be overlooked. Therefore, enterprises must establish clear information flows and accountability structures, and strengthen integration through the use of technological tools.

1.5 Monitoring

Monitoring is the final but equally critical component of the internal control framework. Its primary purpose is to continuously evaluate whether the design and implementation of internal control are effective and to promptly correct deficiencies when identified. According to the COSO Internal Control—Integrated Framework, monitoring is not a single, isolated activity but a continuous and dynamic process that ensures the organization’s control system adapts to changes in the environment and evolving risks [27].

Monitoring activities are generally divided into two types: ongoing monitoring and separate evaluations. The former is embedded in daily management activities, such as supervisors’ routine inspections, performance feedback, and internal reporting, enabling deviations to be detected quickly through real-time observation. The latter involves periodic or ad hoc independent assessments, such as internal audits or external audits, characterized by their objectivity and comprehensiveness. The combination of both approaches ensures a balance between timeliness and professional rigor, thereby enhancing the reliability of internal control.

In addition, effective monitoring requires the establishment of clear feedback and remediation mechanisms. When monitoring activities identify control deficiencies, they must be promptly reported to the appropriate level of management or the board of directors, and corresponding improvement plans must be implemented. Failure to respond effectively to such deficiencies will weaken the overall efficiency of the internal control system. In this process, the use of information technology has become increasingly important—for instance, through the application of data analytics and continuous auditing techniques to automate monitoring and enhance both timeliness and accuracy [28]. The value of monitoring activities lies not only in the detection of problems but also in ensuring continuous improvement. As the business environment and risk landscape constantly evolve, even the most rigorous control designs may gradually lose their effectiveness without dynamic oversight. Therefore, monitoring functions as the “regulatory mechanism” within the internal control system, ensuring that internal controls remain effective over time and continue to support the achievement of organizational objectives.

2. Supervisory Mechanisms of Corporate Governance in Japan



Japan's corporate governance supervisory framework primarily consists of two mechanisms: the Statutory Auditor System (Kansayaku System) and the Audit Committee System. Traditionally, Japanese companies operated under the former, which provided relatively limited supervisory power. However, in response to growing demands from international investors, many corporations began adopting the Audit Committee System after 2003 to strengthen oversight of management. The Japanese Corporate Governance Code emphasizes the board of directors' supervisory responsibilities, including formulating corporate strategy, supporting appropriate risk-taking, and objectively evaluating management performance. The ultimate aim of these mechanisms is to enhance corporate transparency and investor confidence.

2.1 The Board of Directors and Supervisory Mechanisms

Japan's corporate governance supervisory structure is centered on the board of directors, reinforced by multiple layers of oversight. The board is responsible for formulating management policies and supervising their execution, while directors are bound by both the duty of care of a prudent manager and the fiduciary duty of loyalty. The chairperson of the board is prohibited from exercising unilateral authority, and major transactions must be conducted in accordance with the company's articles of incorporation and board resolutions. To enhance independence, listed companies generally appoint independent directors and may adopt the "Company with Committees" model, in which the Nomination, Audit, and Compensation Committees play leading roles in supervising appointments, remuneration, and audit-related matters [29]. Under the traditional framework, the Statutory Auditors (Kansayaku) and the Board of Statutory Auditors (Kansayaku-kai) examine the execution of directors' duties from the perspectives of legality and appropriateness. They are empowered to request reports and inspect corporate books and records. In contrast, companies adopting the "Company with Audit and Supervisory Committee" model have replaced the separate Kansayaku system with an internal board-level audit committee responsible for supervisory functions.

Externally, accounting auditors conduct financial audits, while capital markets exert pressure through the Corporate Governance Code and disclosure requirements. Moreover, shareholders may file derivative suits to hold directors accountable for violations of law or breaches of fiduciary duty. Overall, Japan's governance system operates under a dual-track structure that accommodates both the committee system and the Kansayaku system, unified by comprehensive internal control and disclosure obligations that underpin its supervisory framework [30].

2.2 Independent Directors and the Committee System

In Japan's corporate governance framework, the independent director system and the committee structure serve as the core mechanisms for strengthening supervisory functions. Independent directors are external members who have no special interest or relationship with the company or its management. Their primary role is to enhance transparency in decision-making, prevent managerial entrenchment, and safeguard the rights of general shareholders, particularly minority shareholders. With the increasing internationalization of capital markets, independent directors have become a crucial counterbalancing force in matters such as executive compensation, nomination procedures, and internal control oversight [31].

At the same time, the Companies Act of Japan, since its 2003 amendment, introduced the concept of the "Company with Committees" (Shimei Iinkai-tō Secchi Kaisha). Under this system, corporations are required to establish three statutory committees—the Nomination Committee, the Compensation Committee, and the Audit Committee—all operating under the authority of the board of directors. A majority of the members of each committee must be independent directors, thereby ensuring objectivity and enhancing the independence of the board's supervisory function [32]. The Nomination Committee is responsible for recommending candidates for directorship, the Compensation Committee determines directors' remuneration, and the Audit Committee oversees accounting practices and the legality of management activities. This system, inspired by the U.S. corporate governance model, aims to enhance supervisory effectiveness through the professionalization and externalization of committee functions. Overall, the introduction of the independent director and committee system signifies Japan's gradual shift from the traditional Statutory Auditor (Kansayaku) framework toward a board-centered model of external oversight, aligning more closely with global corporate governance trends.

2.3 Oversight of Executive Compensation and Management Appointments

In Japan's corporate governance framework, the oversight of executive compensation and management appointments is a crucial mechanism to ensure managerial transparency and prevent executive opportunism. First, the remuneration of directors and senior executives must be determined by resolutions of the shareholders' meeting or the board of directors, and in accordance with the Companies Act, both the amount and the method of determination must be publicly disclosed. This system aims to prevent directors from exploiting their positions for personal gain and to ensure that compensation is linked to corporate performance. With ongoing market reforms, an increasing number of companies have adopted performance-based compensation and



stock-based remuneration schemes to strengthen the alignment between managerial and shareholder interests [33].

In terms of personnel oversight, the Companies Act of Japan authorizes the general shareholders' meeting to appoint and remove directors. Under the "Company with Committees" structure, the Nomination Committee within the board of directors is responsible for deliberating and recommending appointments of directors and senior executives, thereby ensuring that personnel decisions are not dominated by a single chairperson or internal factions. In addition, the Compensation Committee independently determines directors' remuneration, thereby preventing conflicts of interest and upholding fairness. Through the participation of outside directors, these institutional designs establish a formalized system of oversight over management. Overall, Japan has progressively built a checks-and-balances framework by promoting transparency in compensation and professionalization in personnel decisions, ensuring that corporate governance meets the expectations of both investors and the broader public [34].

2.4 Shareholder Participation and Information Transparency

In Japan's corporate governance framework, shareholder participation and information transparency are fundamental elements in maintaining market confidence and protecting shareholder rights. First, shareholders exercise their voting rights through the general shareholders' meeting, holding ultimate authority over the election and dismissal of directors, the determination of compensation, and other significant management matters. To enhance shareholder engagement, Japan has, since the 1990s, promoted electronic voting systems and advance information disclosure, enabling shareholders to review agenda items and form opinions before meetings. In addition, under the Companies Act, shareholders are granted proposal rights and inspection rights, and may file shareholder derivative actions to strengthen checks and balances against management.

In terms of information transparency, Japan's capital market imposes strict disclosure obligations on corporations. In addition to the requirement that financial statements be audited by certified public accountants and publicly disclosed, listed companies must also comply with the Tokyo Stock Exchange Corporate Governance Code, which mandates disclosure of information concerning board composition, management policies, remuneration structures, and risk management frameworks. Furthermore, the Financial Instruments and Exchange Act of 2006 introduced the Internal Control Reporting System (commonly known as J-SOX), requiring companies to establish comprehensive internal control and disclosure procedures. Through these mechanisms, shareholders can make informed investment decisions based on transparent information and effectively monitor whether directors fulfill their duty of care as prudent managers. Overall, Japan's corporate governance framework, through the dual pillars of shareholder participation and information transparency, has progressively aligned itself with international governance standards.

2.5 Corporate Governance Code

Since its implementation in 2015, Japan's Corporate Governance Code has served as a key framework regulating the governance structure of listed companies. Its distinguishing feature lies in its principle-based approach, rather than reliance solely on mandatory legal rules, emphasizing the "comply or explain" principle. In other words, if a company does not fully adhere to the provisions of the Code, it must publicly disclose reasonable explanations to investors and the market in order to maintain transparency and trust. This form of soft regulation allows corporations to achieve a balance between flexibility and accountability in the practice of governance [35].

The Corporate Governance Code covers multiple dimensions, including the diversity and independence of board composition, the linkage between compensation systems and long-term corporate value, information disclosure and shareholder communication, and the transparency of medium- and long-term management strategies. In particular, its emphasis on independent directors and external oversight reflects Japan's steady convergence toward international governance standards. Moreover, the Code is not a static document but is subject to continuous revision in response to market demands and global developments. For example, the 2021 revision placed greater emphasis on sustainability and human capital investment. Overall, the distinguishing feature of the Code lies in its flexible, principle-based approach to promoting governance reform—balancing legal requirements with market forces—and fostering the sound long-term development of corporations [36].

Part III. Challenges in Corporate Governance of Taiwan and Japan

In the post-globalization era, corporate governance has evolved beyond mere regulatory compliance to become a core determinant of national capital market competitiveness. The two major East Asian economies—Taiwan and Japan—face increasing global demands for greater transparency, efficiency, and shareholder value. However, owing to their distinct historical backgrounds, legal frameworks, and ownership structures, the challenges encountered by both countries in the process of governance transformation exhibit striking contrasts.



1. Theoretical Dilemmas in Taiwan's Corporate Governance: Types of Control and Agency Conflicts

The core challenge of Taiwan's corporate governance lies in its unique structure of concentrated family ownership and control. From the perspective of agency theory, the primary agency conflict in Taiwan arises between controlling shareholders and minority (non-controlling) shareholders, rather than the typical conflict between managers and shareholders observed in mature Western markets.

Theoretically, when control rights become highly separated from cash flow rights, the risk of asset expropriation increases significantly. Although Taiwan's legal framework has introduced governance mechanisms originating from the Anglo-American legal system, such as independent directors and audit committees, intended to establish external checks and balances, their effectiveness is often constrained by limited substantive enforcement.

The primary challenge lies in the lack of genuine independence among independent directors. In cases where family-controlled shareholders possess absolute power over nomination and voting, the selection process for independent directors can hardly escape the influence of controlling shareholders. Consequently, when matters involving related-party transactions, executive compensation decisions, or major asset transfers arise—issues closely tied to the core interests of the family—the question remains whether these external overseers can truly fulfill their fiduciary duty to act in the best interests of all shareholders.

Secondly, the institutional adaptation dilemma presents another major challenge. Rooted in the civil law tradition, Taiwan's legal system emphasizes mandatory regulatory norms, which differ fundamentally from the market discipline and private litigation environment characteristic of the Anglo-American legal system. Although the Securities and Exchange Act has continuously strengthened requirements for information disclosure and internal control, the absence of strong and active institutional investors engaging in proactive oversight—combined with the high cost of shareholder litigation—has caused governance reforms to remain largely formalistic compliance exercises, rather than achieving substantive accountability.

2. Theoretical Dilemmas in Japan's Corporate Governance: Path Dependence and Capital Efficiency

The challenges of Japan's corporate governance center on issues of low capital efficiency and decision-making rigidity. These problems stem from Japan's postwar tradition of corporate capitalism, characterized by a keiretsu-style system of cross-shareholding among affiliated companies. This structure has historically created strong managerial resistance to external shareholders, resulting in severe agency conflicts of inefficiency.

Japan's core reform objective is to break free from this path dependence and to transform its corporate system from a traditional stakeholder-oriented model toward one focused on maximizing shareholder value. Although the Corporate Governance Code (CGC) introduced in 2015 adopted a "comply or explain" soft-law approach, significantly increased the required proportion of outside directors, and mandated companies to disclose their Return on Equity (ROE) targets, two structural challenges continue to hinder effective implementation in practice.

3. Common Challenges: Strategic Integration and Accountability in the ESG Era

Both Taiwan and Japan, in their pursuit of global best practices, face a growing set of common challenges, most notably the strategic integration of Environmental, Social, and Governance (ESG) considerations into corporate management.

At the theoretical level, both Taiwan and Japan face the challenge of transforming from a model centered on short-term shareholder value to one that prioritizes long-term sustainable value. This transformation requires boards of directors not only to fulfill their financial accountability to shareholders but also to assume social accountability to a broader range of stakeholders, including the environment, communities, and employees.

A key challenge lies in the integration of climate risk and corporate governance. International frameworks such as the Task Force on Climate-related Financial Disclosures (TCFD) require companies to incorporate both physical and transitional climate risks into financial reporting and top-level governance. However, many Asian corporations still perceive ESG primarily as a compliance cost rather than a strategic opportunity, leading to recurring instances of greenwashing. Moreover, many board members lack sufficient climate literacy to effectively oversee management's decarbonization pathways and net-zero commitments, causing ESG decisions to remain at the level of public relations discourse rather than driving the transformation of core business strategies.

Overall, the corporate governance reforms in Taiwan and Japan represent institutional responses shaped by distinct historical legacies as both economies confront global governance standards. Taiwan must overcome the endogenous inertia of family-controlled enterprises and transform its formal external oversight mechanisms into substantive systems of checks and balances. Japan, on the other hand, must decisively break free from its path dependence on corporate capitalism and embed the principle of capital efficiency into the cultural foundations of corporate decision-making. Only by confronting and addressing these deep-rooted structural and cultural challenges can both countries establish resilient, efficient, and sustainability-oriented corporate governance frameworks suited to the demands of the modern global economy.



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