

Governance in the ESG

-Corporate Governance and Sustainable Business Policy in Taiwan

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Publication

- Constructing a Corporate Beneficial Ownership System Using a Risk-Based Approach, Dissertation for J.S.D. (NCCU)
- Essential Legal Course for the Sustainable Generation: From CSR, ESG, and SDGs to Social Innovation Enterprises (Co-author)
- Transparency of Legal Agreements, Trust Relationships, and Beneficial Ownership: an Anti-Money Laundering Perspective
- Study on Independent Directors Convening Shareholders' Meetings in Public Companies
- Attribution of Ultimate Beneficial Ownership in Anti-Money Laundering: With a Discussion on Nominee Shareholders and Nominee Directors



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Learning Objectives

Explain the meaning and functions of the “G” in ESG

Understand Taiwan’s corporate-governance architecture

Connect board oversight, risk, internal control and disclosure to ESG

Apply the analytical framework to real corporate cases



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What Does “G” Mean?

Governance = Power + Decision-making + Oversight + Accountability

Good governance is not about eliminating corporate power. It is about controlling how corporate power is exercised.

- How corporate decisions are made

- How management is monitored

- How shareholders and stakeholders receive information

- How risks, conflicts and misconduct are controlled

- How responsibility is allocated

Core question: Who decides, who monitors, and who is accountable?



ESG: Three Dimensions, One Governance Problem

E + S become durable corporate practice only when Governance makes them actionable.

E — Environmental: climate, emissions, resources, biodiversity

S — Social: people, human rights, employees, communities, supply chains

G — Governance: boards, shareholders, management, risk, ethics, transparency



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The Hidden Question Behind ESG

Who decides the ESG strategy?

Who monitors implementation?

Who receives reliable information?

Who can challenge management?

Who is accountable when things go wrong?



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Outline

- What does governance mean?
- Why E and S ultimately become G
- Taiwan's corporate-governance system
- ESG governance in Taiwan
- Case Study: VW's Emission Scandal
- Four recent corporate cases for group discussion



What Does “Governance” Mean?



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Corporate Governance vs. ESG Governance

Traditional governance focuses on ownership, boards, management and accountability

ESG governance adds climate, human-rights, supply-chain and stakeholder risks

The institutional question stays the same: who has authority and who provides oversight?

Article 1, the Company Act, Taiwan

- 1. The term "company" as used in this Act denotes a corporate juristic person organized and incorporated in accordance with this Act for the purpose of profit making.*
- 2. When conducting its business, every company shall comply with the laws and regulations as well as business ethics and may take actions which will promote public interests in order to fulfill its social responsibilities.*



The Main Corporate Actors

Inside the company

Shareholders — capital and ownership rights

Board — direction and supervision

Management — execution and operations

External discipline/Involvement

Creditors — capital allocation and engagement

Regulators — legal and market oversight

Stakeholders — information, impacts and expectations

Investors/Minority shareholders-
limited capital providers and less
non-significant ownership right



The Agency Problem

Shareholders → Board → Management → Corporate Resources

Shareholders provide capital

Board directs the main policy on resources allocation

Management controls daily corporate resources

Fiduciary Duty:

Duty of Care: act with skill and caution; Make informed and smart choices; BJR

Duty of Loyalty: No self-dealing; Avoid conflicts of interest

Disclosure: be full transparent and share facts

Information asymmetry can make monitoring difficult

Governance mechanisms reduce risks of self-dealing, concealment and excessive short-termism



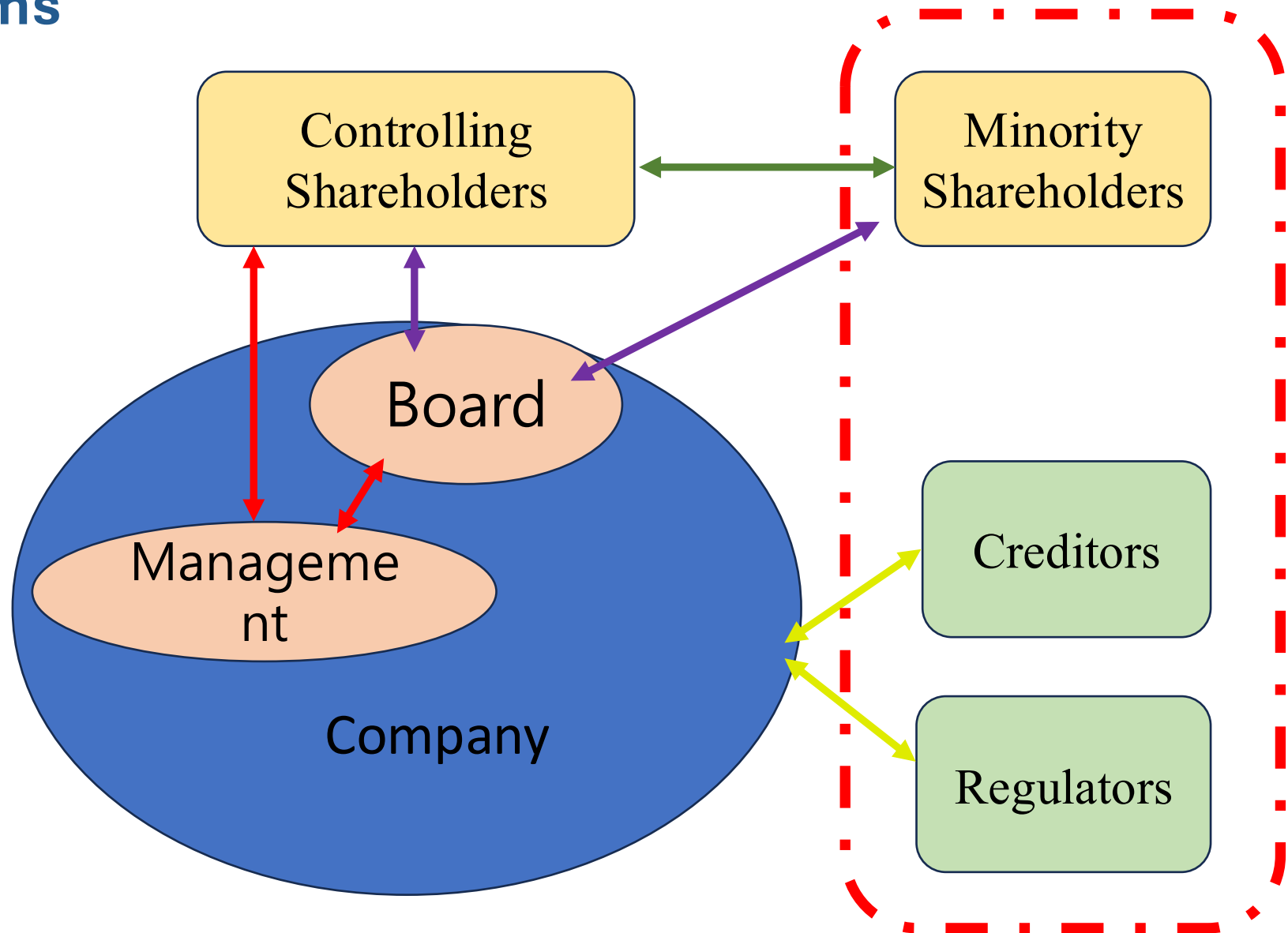
The Agency Problems

Shareholders v.
Board/Management

Controlling Shareholders v.
Minority Shareholders

Creditors v. Company

Stakeholders v. Company or
Shareholder(s) ?



Key Actors of Governance: Board vs. Management

Board: strategy, oversight, risk, major transactions and accountability

Management: execution, operations, implementation and reporting

Core question: Who decides, Who monitors, and Who is accountable?

Good governance does not mean the board runs daily operations

It means the board can ask informed questions and challenge the management team



Governance Is Also About Information

Management usually knows more than outside investors

Disclosure reduces information asymmetry

Reliable information supports voting, investment and accountability

ESG data becomes a governance issue when investors rely on it



Why Governance Matters to ESG



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Why E and S Ultimately Become G

E / S = issues; G = the system that makes the response accountable.

A climate target requires strategic decisions and capital allocation

A human-rights policy requires due diligence, controls and remediation

An anti-corruption program requires oversight, reporting and consequences

ESG performance therefore depends on governance capacity



Example ?

Anti Corruption

Employee warfare and Labor Protection

Human Right Issues

Climate Risk



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ESG Risk Is Enterprise Risk

ESG Issue → Business Risk → Corporate Impact → Board Oversight

ESG issue → operational risk

Operational risk → financial / legal / reputational impact

Material risk → board oversight

Board oversight → governance responsibility



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Taiwan's Corporate Governance System



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Taiwan's Governance Architecture

Company Act — corporate structure, shareholders, directors and managers

Securities and Exchange Act — public companies, disclosure, market integrity and investor protection

TWSE / TPEX rules — listing-specific governance and disclosure requirements

FSC — financial-market regulation, policy and guidelines



Taiwan's Reform Journey

2013 — Corporate Governance Roadmap

2018 — New Corporate Governance Roadmap

2020 — Corporate Governance 3.0: Sustainable Development Blueprint

2022 — Sustainable Development Roadmap

2023 — Sustainable Development Action Plan; Sustainability Report (ESG Report) for certain sectors

2025 — all listed and OTC companies to file Sustainability Report

2026 — Sustainability Best Practice Principles most recently amended



The Board of Directors

The board directs and supervises rather than managing every daily task

Board responsibilities include strategy, major transactions, risk and oversight

ESG expands the board's information agenda

Directors need sufficient information to oversee sustainability-related risks relevant to the business



Independent Directors in Taiwan

Listed / OTC companies are subject to detailed independent-director requirements

Current Corporate Governance Best Practice Principles: at least 3 independent directors and at least one-third of the board

Independence strengthens monitoring and reduces conflicts

Independence is an institutional safeguard — not a guarantee of good judgment



Audit Committee

Composed of independent directors

At least three members; at least one with accounting or financial expertise

Connects financial reporting, internal control, risk and governance

A governance mechanism for challenging management information



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Remuneration & Incentives

Governance asks how executive incentives shape corporate behavior

Short-term incentives can encourage short-term decisions

ESG-linked incentives can connect compensation with longer-term objectives

Metrics must be measurable, credible and resistant to manipulation



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Shareholder Rights

Voting rights and shareholder meetings

Director nomination and election

Shareholder proposals

Electronic voting and participation

Minority shareholder protection



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Institutional Investors & Stewardship

Shareholders activism

Investors can influence governance through voting and engagement

Stewardship asks investors to monitor portfolio companies

Engagement can address governance, climate, human capital and disclosure

Market discipline complements government regulation



Internal Control, Risk & Business Integrity

Internal control provides processes, checks and escalation

Risk management identifies and prioritizes material risks

Anti-corruption and conflicts of interest require governance controls

Whistleblowing and investigations create escalation channels

ESG risks increasingly connect to enterprise risk management



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Taiwan's Governance Toolkit

**Taiwan's "G" = Institutions + Information + Oversight +
Accountability**

Board of directors

Independent directors

Audit committee and other functional committees

Internal control and risk management

Shareholder rights and stewardship

Disclosure and market discipline

Business integrity and stakeholder engagement



ESG Governance in Taiwan



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From Corporate Governance → ESG Governance

Traditional governance: ownership, board, management and control

Sustainability governance: ESG strategy, materiality, stakeholder engagement and disclosure

The institutional architecture remains the same: authority + oversight + information + accountability



Taiwan's Sustainability Governance Framework

Board — oversight and strategic direction

Sustainability committee / senior sustainability function — coordination

Management — execution and operational integration

Risk / legal / compliance / internal audit — control and assurance

Reporting — communication to investors and stakeholders



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Board Responsibility for Sustainability

Sustainability should be connected to corporate strategy and operations

Material ESG risks should be assessed and managed

The board needs sufficient information to exercise oversight

The key question is whether ESG has entered actual decision-making



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ESG Disclosure = Governance

Investors use ESG information in decision-making

Material ESG information therefore becomes a governance concern

Questions: who prepares, who reviews, who approves, who verifies?

Poor disclosure can create legal, regulatory and reputational exposure



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Greenwashing as a Governance Problem

A sustainability claim is also an information-governance decision.

Who approved the sustainability claim?

What evidence supports it?

Was the methodology consistent and documented?

Was legal / compliance review appropriate?

Did management and the board receive material warnings?



Case Study: Volkswagen Emission Scandal (the Dieselgate event)



CASE STUDY — Volkswagen Emission Scandal

Facts:

VW has had a major push to sell diesel cars in the US, backed by a huge marketing campaign trumpeting its cars' low emissions. The U.S. Environmental Protection Agency (EPA) revealed in September 2015 that Volkswagen used *illegal software*, so-called "*defeat device*", to cheat diesel emissions tests covering 482,000 cars in the US only. VW later revealed that it could affect about 11 million cars worldwide - including petrol vehicles. Also called “VW Dieselgate”

What happened:

- The Defeat Device: VW installed software in diesel cars that sensed when a laboratory test was happening.
- The Deception: During tests, the cars turned on full pollution controls to pass legal limits. On the road, those controls turned down, causing cars to emit nitrogen oxide (NOx) up to 40 times higher than legal limits.



CASE STUDY — Volkswagen Emission Scandal

Impacts:

- Affected Vehicles: About 11 million cars worldwide across VW, Audi, Porsche, Skoda, and SEAT models (model years 2009–2015).
- Financial Cost: VW paid over US\$30 billion globally in fines, vehicle buybacks, and legal settlements.
- Leadership Fall-out: CEO Martin Winterkorn and several other top executives resigned and faced criminal charges.
- Industry Shift: The scandal forced stricter real-world emissions testing and sped up the global shift toward electric vehicles.



CASE STUDY — Volkswagen Emission Scandal

US Legal Proceedings:

- **Corporate Criminal Guilty Plea:** In January 2017, Volkswagen AG pleaded guilty to three federal felony counts.
- **Fines and Restitution:** VW agreed to pay a \$2.8 billion criminal fine and \$1.5 billion in civil resolutions to environmental, customs, and financial regulators.
- **Consumer & Environmental Settlements:** Under a massive civil settlement, VW set aside over \$15 billion to fund vehicle buybacks, compensate owners, and invest in zero-emissions infrastructure.
- **Individual Criminal Prosecution:** The U.S. Department of Justice indicted six high-level executives. Some mid-level engineers and compliance managers received prison sentences ranging from 40 to 84 months. Former CEO Martin Winterkorn was also criminally charged with fraud and conspiracy in 2018.
- **Oversight:** VW was placed on three years of probation under a court-appointed independent corporate compliance monitor



CASE STUDY — Volkswagen Emission Scandal

ESG Governance Question:

How could a company of Volkswagen's size allow this to happen?

What happens when corporate targets, internal information and public ESG claims become disconnected?

How could a company of Volkswagen's size allow this to happen?

Discussion would focus on from individual misconduct to corporate governance

The analytical equation:

E + S + G → Compliance + Disclosure + Accountability.



CASE STUDY — Volkswagen Emission Scandal

“Clean Diesel” to “Defeat Device”:

Business Objective → Engineering / Software solution → Regulatory Testing and Satisfaction
→ Real World Driving → Regulatory Discovery

Failure of the relationship between:

Engineering → Compliance → Management → Board → Regulators → Customers

The problem was not simply “bad software.”



CASE STUDY — Volkswagen Emission Scandal

Was VW's "Clean Diesel" Claim "Greenwashing" ?

Question: Was Volkswagen's conduct:

- A. Environmental non-compliance?
- B. Corporate fraud / misrepresentation?
- C. Greenwashing?
- D. Governance failure?



CASE STUDY — Volkswagen Emission Scandal

All four misconducts were made by VW.

Environmental → Excess Nox emissions

Regulatory → Violation of emission requirements

Consumer → Customers were marketed environmentally friendly vehicles

Governance → Internal decision-making and oversight failure

Disclosure → Materials information was not truthfully communicated

Greenwashing → Environmental benefits were represented in a misleading manner

Thus,

Greenwashing is the communication problem.

“Dieselgate” was also a governance and compliance problem.



CASE STUDY — Volkswagen Emission Scandal

Then we would like to ask:

- WHO DECIDES?
- WHO MONITORS?
- HOW KNOWS?
- WHO CAN CHALLENGE?
- WHO IS ACCOUNTABLE?



CASE STUDY — Volkswagen Emission Scandal

- WHO DECIDES?

Who decided that the emissions problem should be solved through the software approach?

Engineers?

Senior management?

Business-unit leadership?

Board-level management?



CASE STUDY — Volkswagen Emission Scandal

- WHO MONITORS?

Who was responsible for checking whether:

“What works in testing” = “What happens in real-world operation”?

- Potential monitoring mechanisms:

Compliance

Internal audit

Technical validation

Legal

Management

Supervisory Board



CASE STUDY — Volkswagen Emission Scandal

- WHO KNOWS?

This is perhaps the most important question.

- Different people may have possessed different pieces of information:

Engineer → technical problem

Compliance → regulatory requirement

Management → commercial target

Board → strategic objective

- **The governance problem can arise when:**

No one person — or no effective governance mechanism — sees the complete picture.



CASE STUDY — Volkswagen Emission Scandal

- WHO CAN CHALLENGE?

Could someone say:

“This solution does not actually comply with the environmental standard under normal driving conditions.”

And if someone did raise the concern:

Could that **person effectively stop the project?**



CASE STUDY — Volkswagen Emission Scandal

The ESG lesson:

ESG governance fails when information cannot travel upward — or when inconvenient information cannot effectively challenge corporate objectives.



CASE STUDY — Volkswagen Emission Scandal

GROUP DISCUSSION:

Scenario

You are the Board of Directors / Supervisory Board of Volkswagen in 2014.

You learn that engineers are having difficulty meeting both:

Performance + Cost + Emissions Targets....



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CASE STUDY — Volkswagen Emission Scandal

Discuss in groups:

Group presentation

20minutes discussion

3 minutes presentation per group

Each group must finish with:

“The most important governance failure was _____ because _____.”



CASE STUDY — Volkswagen Emission Scandal

Discuss in groups:

Question 1 — Governance

Who should have responsibility for identifying and escalating this conflict?

Question 2 — Information

What information should the board receive before approving the project?

Question 3 — Internal Control

What independent testing or verification should be required?

Question 4 — ESG / Greenwashing

When does an environmental marketing claim become a governance problem?



CASE STUDY — Volkswagen Emission Scandal

Discuss in groups:

Question 5 — Accountability

If the system fails, how should responsibility be allocated among:

Engineers

Management

Compliance

Board

Corporate entity

Another stakeholder(s) ?



Four Recent Corporate Cases for Personal Assignments



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CASE 1 — Tata Sons: Who Controls the Board?

September 2026: a public governance dispute emerged between Tata Trusts and Tata Sons

Tata Trusts holds 66% of Tata Sons and opposed the reappointment of chairman N.

Chandrasekaran

Tata Sons said the reappointment was legal and consistent with internal governance protocols

The dispute raises questions about shareholder rights, board authority and governance arrangements

References:

<https://www.reuters.com/legal/transactional/tata-sons-rules-rift-what-happens-next-2026-09-25/>



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CASE 2 — Fiducian's ESG Claims Without Effective Oversight

August 2026: NSW Supreme Court ordered Fiducian Investment Management Services to pay A\$7.3 million

The fund marketed itself as ethical / socially responsible but underlying funds held companies with fossil-fuel exposure

The court found failures to adequately monitor underlying investments and review investment strategies

ASIC described it as the first greenwashing penalty involving a responsible entity's governance, compliance and oversight failures

References:

<https://www.moneymangement.com.au/fiducian-pays-7-3m-penalty-in-latest-asic-greenwashing-action/>



CASE 3 — ASX's “Progressing Well”

ASX admitted making misleading statements about its CHES replacement project

ASIC alleged the market was told the project was “progressing well” before later delays and major write-downs

In 2026 the first release went live, while the regulatory case concerned earlier market statements

ASIC obtained commitments to strengthen oversight, governance and project delivery

References:

<https://www.asic.gov.au/about-asic/news-centre/find-a-media-release/2026-releases/26-143mr-asx-ordered-to-pay-205-million-penalty-for-misleading-conduct-relating-to-chess-replacement-project>



CASE 4 — Shein: Growth, ESG and Voting Power

August 2026: Shein was reported to be proceeding with a Hong Kong IPO

The company has expanded ESG reporting and formed an external advisory board

At the same time, reporting highlighted labor, environmental and governance concerns

The proposed dual-class structure would give founders 90% of voting power after the IPO

References:

<https://www.reuters.com/business/retail-consumer/sheins-stock-market-listing-will-not-mask-sustainability-challenges-2026-08-24/>



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