Chapter 6

Taiwan's Corporate Governance:
Explorations from the Ethical Corporate Governance Model

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ABSTRACT

This chapter discusses the meaning and internal and external mechanisms of Taiwan's corporate governance, explains why this kind of mechanism cannot prevent the agency problem, and demonstrates the importance of business ethics by looking at the flaws in Taiwan's corporate governance. Other questions addressed in this study include what limitations are in the internal and external mechanisms of Taiwan's corporate governance, what makes the agency problem seem inevitable, and whether business ethics may compensate for the shortcomings in Taiwan's corporate governance. In this chapter, the correlation between business ethics and corporate governance is reviewed and organized in order to demonstrate how this topic was viewed by previous scholars along with a proposal of how these two topics can be joined together. The question of how the agency problem in corporate governance emerges is then examined, followed by a literature review of past studies on the influences of introducing business ethics on the agency problem as well as their relationship. The findings of the new business model are discussed in the section V.

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INTRODUCTION

The corporate problems revealed by the aforementioned incidents indicate many major flaws with Taiwan's enterprises. These problems not only seriously undermine minor shareholders' interests but also hinder the public's confidence in investing in Taiwan. In modern corporations where stock ownership is very scattered, an important task is to have complete corporate governance. Ye (2002) believes the purpose of corporate governance is to reinforce a corporation's social obligations, and pointed out the cases of failed corporate governance also demonstrate serious problems in corporate trust (B. Ye, 2002, 70-72). Further, Ye (2005) takes the business ethics and personality trait approaches and stresses that more attention should be placed on a director's credentials and abilities. For the sake of complete corporate governance, each director should be required to have relevant experiences and skills and a broad perspective in order to effectively manage a company, make professional judgments and careful decisions, and lead the company to grow and develop steadily. Therefore, a CEO must have the traits of a leader and managerial skills as well as dignity and communication skills in order to help the organization earn trust and develop talents (B. Ye, 2005, p.239).

LITERATURE REVIEW

C. Stone (1993) pointed out why law cannot replace ethics through three aspects. The first aspect is that the legislation of a new law often only takes place after a certain issue has emerged quite a while ago and thus lags behind. The second aspect is with the legislative process, in which legislatures may have different or insufficient legislative knowledge, and passed bills are often compromised. Lastly, the procedures of reaching a verdict and enforcing the law are all expensive expenditures, and even law enforcers themselves may get slothful on their job (Stone, 1993, 162-166). J. Bentham (1987) conducted an in-depth discussion on what kinds of behavior should be intervened by the law and which behaviors should stay in the domain of morality and ethics. Bentham believes when the cost of law enforcement outweighs the benefits to the society, intervention should be done through the domain of morality and ethics instead of the law; the same goes for offenses that cannot be clearly defined (Bentham, 1987, 62-63).

Hsu (2004) further pointed out that though the law upholds the bottom-line of morality, it is also based on the moral foundation; therefore, he defines the relationship between the law and morality as "interdependence" and "pushing and pulling (Hsu, 2004)." From the above discussions we can see that the law and the domain of morality and ethics are complementary and interdependent. Therefore, a topic that interest many scholars is to contemplate on the issue of corporate governance from the perspective of business ethics that is not a part of the corporate governance law (please see Table 1 for details).

Hitt, Ireland, Hoskisson (2003) mentioned there are strong relationships between ethical behaviors and corporate governance, thus the board of directors should clearly instruct their authorized agents (high-level managers) on the expectations of ethical business decisions and looking after all stakeholders' interests and ask the CEO to lead the employees by example in terms of ethical behaviors(Hitt, Ireland and Hoskisson, 2003, 332-333). S. P. Robbins (2005) believe the corporate governance incidents of false accounts and manipulated financial reports in Enron WorldCom demonstrate the importance of "trust," whose values include integrity, competence, consistency, loyalty, and openness -- important traits in a leader (Robbins, 2005, 356-357). A. Davies (1999) also mentioned that the foundation and effective operation of all forms of governance require "trust," and thus classifies trust as a key topic in corporate governance (Da-