Transformation in Corporate Governance in the digital Era

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ABSTRACT

Digital technologies are forcing the Corporations to transform their existing business models and to develop new models to incorporate innovative ideas so as to match the requirements of the day. Due to the prominence of 'Go digital' concept, companies have become innovative machines concentrating more on 'Eco system' model for governance. In a networked age new and agile companies are well prepared and are tuning their strategies to meet the day's requirements, but established companies find a wide gap between their governance strategies and their business needs. Fast moving, Technology driven markets pose several challenges to the companies which have hitherto shown best performance in the market. This paper is a conceptual paper attempting to present an overview of opportunities ava liable to Companies in the Digital era and the issues and challenges on their way. Main objective of the paper is to focus on the opportunities and challenges of Corporations and Companies in the digital era and to know the areas of transformation in their governance strategies. Paper in theoretical and based upon the secondary data derived from various sources like text books, newspapers, journals and internet sources.

Key words: Corporate governance, Transformation in governance strategies of Companies, Opportunities and Challenges in the Digital era.

INTRODUCTION:

Change is inevitable, the world we look today will not remain same over the next few years. Digitalization has created wonders and brought transition in the economic activities of mankind resulting in new systems, processes, new models, fetching maximum benefits and thereby overwhelming us. To be successful in this digital world, Companies need to be aware of the fact that the corporate governance frame work must strengthen the digitalization of entire process of administration of companies.Keeping this factor in mind Companies and Corporations of today have transformed their existing business models and developed new models by incorporating innovative ideas.In today's market driven economy, the concept of corporate governance is gaining more prominence in India. In addition, EEC, GATT, and WTO regulations also have resulted in creating more awareness about good governance practices. All major economies of the world today are trying to standardize their legal systems to ensure prudent corporate governance norms and India is not an exception.

OBJECTIVES:

1. To know the opportunities of Corporate Governance in the digital era
2. To study the challenges and issues of Corporate Governance in the digital era

SIGNIGICANCE OF STUDY:

Good Corporate Governance is a topic of public debate today, as it inspires, strengthens and maintains investors' confidence, maximises the shareholders wealth for the long run, prevents corporate scandals, frauds and reduces the potential civil and criminal liability of companies. Good corporate Governance is intended to rise the accountability and prevent disasters before they occur. Only effective Boards with accountable and empowered management can provide substantial and long-lasting value to all the stakeholders in this highly digital age. Hence this study is more significant.

LITERATURE SURVEY

- Max Bankewitz, Carl Aberg, Christine Teuchert (2016) in their research article proposed a future research agenda to explain how Boards can add value for organisations to deal with the challenges caused by digital revolution via good corporate governance.
- Shamshuddin M Nadafand B S Navi (2017) in their study opined that, growing importance of Corporations in the national economies and their interactions with international agencies

and institutions have necessitated the emergence and prominence of Corporate Governance in every economy. To eliminate the risks and corrosive elements within the Companies, it is inevitable on the part of the companies to be fair and transparent to all their stakeholders, for which they must strictly adhere to the best Corporate Governance practices.

- Raj Gupta (2017) in his research article stated that digital revolution is transforming every aspect of human life from how they create and consume products and services to how they communicate, entertain and relate to each other and hence the responsibility of chief executives and Board of Directors are increasing and now it is almost immeasurable. He opined that, lack of public trust due to financial crisis and the way technology is shifting the employment environment is too hard to understand and hence Corporate Governance must be developed to reflect these rapid economic and societal changes that are happening by the moment.
- PawełZieliński (2018) in his research paper opined that scene of entrepreneur activity is dynamically changing due to increasing speed of technical advancement and changes in the social behavior of human beings. Corporate governance needs to be changed so as to ensure fast adaptations to these changes. According to him the corporate governance mechanism must clearly define how to ensure transparency and stability and it must introduce working frameworks which are highly adaptable to the digital environment.

Several researchers have presented their view points about corporate governance and its importance in the digital era. This paper is an attempt made to present the viewpoints about transformation in corporate governance in the digital era based upon viewpoints presented by different researchers in their studies.

Digital Era and Transformation in Corporate Governance:

In the Digital era, success of companies in the years ahead will depend upon how successfully companies seize the opportunities and how do they address the challenges of emerging technologies. Hence companies must devise their corporate governance mechanism to better manage the opportunities and face the challenges of everchanging technologies by mitigating the risks of the digital age. It is a well-known fact that, Good corporate governance can prevent the scope for corporate scandals, fraud and lessen the civil and criminal liability of corporate undertakings. Good Corporate governance encompasses important elements such as Honesty, Trust, Integrity, Openness or Transparency, Responsibility, Accountability etc. and enhances the image of the Corporates in the eyes of general public.

Opportunities for Corporate Governance in the Digital era:

1. IT Governance:

For delivering the organizational strategies of Companies business leaders of today increasingly make use of Information Technology. To ensure that IT investment is worth and mitigates IT risks good IT governance is the need of the day. Research studies revealed that top performing companies in the private sector have succeeded in their ventures by implementing effective IT Governance. Companies can create security awareness and cybersecurity hygiene by adopting good Corporate Governance. Companies can ensure integrity by adopting Encryption which prevents data being altered to commit frauds and corruption. Moreover, Encryption provides protection to internal data by meeting the regulatory requirements.

2. Corporate Risk and Compliance Management:

Digital transformation is making massive changes in the practice of corporate risk and Compliance Management all over the world. Though, currently India is awaiting comprehensive legal guidelines with regard to Corporate Risk and Compliance Management, in recent years, compliance with labour, industrial, financial and corporate laws are receiving enormous momentum in the corporate sector.

The government of India has enacted various Act, and created various Statutory Bodies to regulate and implement the provisions of various Acts. The principal regulatory and enforcement bodies in India entrusted with the responsibility of corporate governance are the following:

- **The Registrar of Companies (ROC):**

The designated authority to deal with the administration of Companies Act 2013 is the Registrar of Companies. Companies registered under Companies Act 2013 must compulsorily file various forms, returns and documents with the ROC as regards their day-today corporate compliance and activities.

- **The Reserve Bank of India (RBI):**

Key authority which lays down the compliance functions for banks throughout India is the Reserve Bank of India, the central bank of the country. Through its notification RBI/2006-2007/335 dated 20th April 2007, it has laid down compulsory compliance functions and strict observance of all statutory provisions of various Laws such as Banking Regulation Act 1949, RBI Act 1934, Foreign Exchange Management Act 1999, Prevention of Money Laundering Act 2002 for all banks. Strict observance of regulatory guidelines issued by Boards and Associations such as The Banking Codes and Standards Board of India, Indian Banks Association, Foreign Exchange Dealers Association of India, Fixed Income Money Markets and Derivatives Association, etc. is also made compulsory by RBI.

- **The Securities and Exchange Board of India (SEBI):**

The designated authority to regulate Securities market in India is SEBI. To protect the interest of investors, it has laid down various compliances for listed companies. SEBI has instructed the Stock Exchanges to implement various measures to ensure corporate compliances by setting up a separate monitoring cell to monitor compliances with the provisions of Corporate governance and listing of public issues.

- **The Competition Commission of India:**

It was established under the Companies Act 2002 to remove practices having adverse effect on competition, to promote and sustain competition, and to protect interests of consumers and to ensure freedom of trade by participants.

- **Office of the Enforcement Directorate:**

To enforce the provisions of two key Acts of the Government of India viz, the Foreign Exchange Management Act 1999, and the Prevention of Money Laundering Act 2002, this office was set up. The officers of the Directorate perform an adjudication function in order to impose penalty on persons for the contravention of the said laws.

3.Key governance stakeholders' role:

Directors, Company Secretaries and Mangers need to improve their IT security awareness as they play a very important role in upholding effective governance. And today almost all the topics of governance are technology related and IT issues are to be integrated in to corporate strategy and as such board members must update themselves about latest industry developments so as to ensure effective strategy development in these areas. Company secretaries should monitor the effectiveness of cyber security measures and inform the board members about the progress and threats from time to time. Directors, Company Secretaries and Managersshould be the role models for middle and front-line employees and they should implement a series of security protection policies such as overseeing third-party access carefully, regulating data backups, being alert against phishing attacks, regular software updates, two-factor authentications etc. In order to lessen the probability of cyber attacks, management is required to review the effectiveness of the IT security policies from time to time. The Management should observe if there is downward trend in incidents of cyber-crimes. Overall performance of compliance with the requirements must also be assessed. To boost the morale of employees, credit can be given to staff if their performance is satisfactory. Strict rules or punishments can be used if the performance is far below the target, so as to create an incentive for further improvement. With regard to IT auditing, Company Secretaries have to integrate technology risks into company's audit plan and inform the Board or relevant committees about this.

4. Engagement of shareholders and stakeholders via Technology:

Combination of digital technologies and social media enable companies to engage with shareholders and stakeholders as they reach them more quickly and easily. In recent years usage of technology is rising at a rapid pace and more and more companies are holding virtual meetings of shareholders for various purposes. New technologies help companies to enable shareholders to participate in voting via the internet and to collect information from issuers. Technology ensures better transparency in proxy participation. Several voting platforms are used to collect votes automatically and to provide information to shareholders before their general meeting. These systems help to maintain companies' confidential information and speed up the process of collecting voting instructions. New Communication channels facilitate the conversation between companies and wider stakeholder groups, help to clarify misunderstandings and prevent misinformation. Users of these communication channels can upload and express their views and share current social movements and content. Companies can select adequate number of interacting stakeholders, make necessary decisions, select effective strategies for future development and ensure effective shareholders and stakeholders' engagement.

Challenges for corporate governance in the digital era

1. Data breaches:

Due to the advancement of technology access to data has become very easy and this facilitates accidental spreading of confidential information. Unauthorized transfer of confidential information from a computer or data centre to the outside world is a biggest challenge for corporate governance in the digital era. According to a study, there was nearly 20% increase in data breach incidents in the year 2017. It means that technological advancements not only make it difficult to preserve a Company's confidential internal data, but also creates big impact on business environment due to data leakage.

2. Insider threats:

It means that someone close to a Company with authorized access may misuse that access to negatively impact the Company's Critical information systems. This practice is also showing a rising trend in recent times. A survey for Insider Threat Report in 2018 from CA Technologies revealed that 53% of the respondents agreed that there had been insider attacks against their Companies in the previous 12 months and 27% of the Companies opined that insider attacks had become more frequent. The main factors behind insider attacks as per that survey were:

- Excessive access privileges given to many users
- More devices have access to sensitive data
- Rapid rise in complex technologies which are difficult to control.

3.Network attacks:

- **Browser attacks:**

Internet browsers are used by the people to search for information either to view it or to interact with it.Browser attacks happen when unwanted software on an internet browser alters the activity of the browser.Data thieves use the latest browser catching and scripting capabilities and attack on vulnerable websites. When new visitors arrive, the infected site tries to force malware to spread into their systems by exploiting vulnerabilities in their browsers. Sensitive data can be captured by the attackers through this malicious behavior.

- **Brute force attacks:**

In this case, the attackers try to discover the pass word of a system or service through trial-and-error method. It may take long time, so attackers use software to automate the task of typing thousands of passwords.

- **Denial-of-service attacks**:

It means causing interruption to an authorized user's access to a computer network via malicious intent. According to a survey conducted by Kaspersky Labs, out of 5,200 people surveyed from different businesses in 29 countries, 50% of the respondents opined that Denial-of Service attacks are growing in frequency as well as complexity. This implies that network attacks are showing a growing trend in the 21st century.

- **Ransomware:**

In this type of cyber-attack, perpetrators encode a Company's data and then demand monetary payment via cryptocurrencies like Bitcoin for the decode key. The number of ransomware incidents are increasing and millions become the victims of these attacks. Renault , a car manufacturer, Honda's production facilities and 55 speed cameras were forced to close down due to ransomware attacks.

Studies revealed that, in 21st century network attacks affected the corporate sector severely.

SUGGESTIONS:

- Board needs to maintain a balance between compliance with legislation, regulation, codes of practice and performance aspects of the Board.
- Each Board must determine what role is appropriate for it to undertake keeping in mind the various opportunities available to seize and the various challenges to which their organization is exposed.
- A well-designated Architecture Governance has to be put in place considering all factors of roadblocks which hinder the success of projects related to e-Governance. A Strategic framework for designating and implementation of e-governance may be helpful.
- The overall vision for the effective implementation of e-governance has to be planned
- To fulfill the vision, e- readiness must be assessed and must be compared with respect to other countries.
- Making a policy choice in favor of computerization, though its implementation requires huge investments for the purchase of hardware and software solutions , it would produce better results.
- Honest efforts to mobilize resources for this onerous task is the need of the day. One way to deal with the situation could be that arrangements for leasing out.
- Establishing the best optimal connectivity between various departments of government of India so that transfer of documents, papers and images could be done through Internet thereby choosing better speed as an alternative to manual effort
- Supplying information to users in their local language so that they can understand and are comfortable with.
- Make e-services friendly and more transparent."

- Create awareness by using posters and dramas on different e-services and its use. can also use multilingual concepts in mobiles to make them understand.

CONCLUSION:

Both progress and transformation are required for a company in the digital era. To achieve this the Board must have strong determination to address the challenges to their strategy. Board must design the agenda, practices and style to ensure progress in their business cycle considering the various opportunities available to seize in the digital era.There is a need to understand that good corporate governance means not just compliance with regulatory aspects of various Laws. Good corporate governance is all about ensuring compliance with required standards which requires clarity, focus and consistency of not only the Board but also of all stakeholders to achieve the desired goals.

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