



Digitalization & Corporate Governance: Imperatives & Implications

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Corporate Governance in the Digital Change has transformed to a digital form. The challenges and leveraging upon the opportunities will be a critical factor in a successful Corporate Governance among organizations.

The Perspective

Technological development and the growth of the digital economy have profoundly changed the character of corporations, capital markets, and indeed the structure of the global economy at large. Naturally, this carries corporate governance implications. Corporate governance is one of many areas to experience a burst in digitalization triggered by the COVID-19 pandemic. The pandemic has pushed organizations in every industry to embrace new, digital solutions. But while much has been written about the impact of the shift to remote work on employees, managers, and executives, there's another critical group that's been forced to transform itself overnight: board members.

Digital technologies are increasingly changing the nature of competition and generating externalities that impact society. On the one hand, digitalization allows organizations to create substantial economic value in shorter periods of time through improved economies of scale, scope, and learning, resulting in increasing returns on capital and competitive concentration. On the other hand, ensuing societal concerns with inequities, regulatory lapses, and lack of transparency and truthfulness represent significant challenges for effective corporate governance. Going Digital is often misunderstood to be a destination; it is a journey. Good Governance has also significantly been influenced by this disruptive force. This journey has impacted the Boards and its methods of governance

The process of digitization, which represents one of the sharpest turns in the long-running transformation journey of enterprises throughout history, represents a transformation that affects not only internal operational environment of a business but also all stakeholders, including the shareholders, management and suppliers by utilizing communication technologies and other emerging technologies. It is no longer sufficient to merely move an organization's manual processes to a digital platform to achieve digitization goals. With the rapid advancements in technologies, companies can reap the benefits of intelligent systems to accelerate business performance and optimize intra-company communication to a highly efficient level. The digitalization processes of the economy and business cannot bypass an important sphere of management - corporate governance. The coronavirus pandemic has spurred the transition of corporate procedures to the digital environment. Almost all corporate



events of the board of directors and general meetings of shareholders have moved to a remote or online format

Corporate Governance

Corporate governance is an important framework for ensuring efficient, profitable, and ethical advancement of your businesses. Effective corporate governance is built on four pillars: fairness, accountability, responsibility, and transparency. Fairness refers to the quality of independent judicial actions. In other words, for a decision to be fair, it must be taken independently and duly. Clearly, making a fair decision also requires a robust rule of law. Fairness serves to ensure inclusive protection, which is centrally located in the relationship of corporate governance principles and maintains the existence of the other three principles since the need for fair decision-making processes is the result of transparency, responsibility, and accountability. Transparency refers to the lack of hidden agendas or conditions. The main reason for ensuring and maximizing transparency is to limit the information asymmetry between the stakeholders of a corporation. In this way, no stakeholder will be able to identify a suitable environment in which to maximize their interests or wealth. Corporate governance is about people, transparency, and accountability". As a contribution to this statement, the interaction between people and technology for better transparency and accountability can also be considered as a basis for the new corporate governance paradigm

Corporate governance is often defined on the basis of the big 'P's - Process, People, and Performance. A good digital strategy and program for your company will connect the three seamlessly and ensure that you are in better control of the direction your company takes. At the crux of digital corporate governance is the ability to empower the company boards with tools to make better strategic decisions, and some of these decisions could very well revolve around improving the company's digital strategy. Good digital corporate governance doesn't stop at enhancing the capabilities at the top level. It starts bottom-up, with an advanced strategy to revolutionize how people and processes operate and lay the foundation for a forward-thinking organization.

Digitalization

Modern trends in the economy's development are characterized by a significant influence of digital information technologies. In layman terms digitalization can be defined as adaptation of a system, process etc to be operated with the use of computers and the internet. Digitalization aims to create more efficient business model that that promises standardized quality and cost efficiency in the organization. Digitalization enables leaders to work more efficiently, with more efficient processes and relevant data, enabling faster decision making and taking advantage of new opportunities with the help of adequate technology. Thereby, achieving better and more efficient corporate governance processes.

Digitization and Corporate Governance

Digital transformation in the area of corporate governance is interpreted as a process of improving existing and creating new business processes for effective management and interaction between all stakeholders. For the successful implementation of digital governance,

first of all, an organization should be agile and ready for changes. Organizational agility translates into business value. McKinsey & Company has defined the concept of Organizational Agility as the ability an organization has to renew itself, adapt, change quickly and succeed in a rapidly changing and turbulent environment. Understanding this concept is fundamental in order to instill digital transformation in any organization. Having great agility allows the workforce to stay motivated while responding to change. This way, they will be able to continue to perform to the best of their abilities no matter the challenges and business environment changes that come their way.

The impact of technology on Corporate governance

	Now	Future: Digital Corporate Governance
Cybersecurity risks	High	Low
Efficiency	Low	High
Fairness	Not guaranteed	Guaranteed
Interactiveness	Low	High
Information symmetry	Not guaranteed	Guaranteed
Transparency	Low	High

The digitalization of corporate governance has a number of strong advantages that undeniably make it especially important in the modern realities of the business vision. An enterprise shall reap competitive advantage with strategic leverage of digitization. There are however certain threats and challenges which also need to be duly considered and dealt with.

Table 2. SWOT analysis of corporate governance digitalization.

Strengths ▪ Convenience and speed of making management decisions ▪ Versatility of digital solutions for corporate governance ▪ Application of artificial intelligence in management processes ▪ Full automation of production and service processes ▪ Flexibility increase and acceleration of business processes	Weaknesses ▪ Not all employees are ready to change and use digital technology ▪ Additional costs for digitalization organization ▪ The need to involve qualified workers with information systems skills ▪ The need to upgrade production assets, including automated and robotic complexes ▪ Staff training in new information technologies and methods of working in the information environment
Opportunities ▪ Improving the image in the eyes of employees and clients ▪ Competitive advantage ▪ Workspace virtualization ▪ Digital format of internal and external workflow ▪ Use of cloud technologies for secure data storage ▪ Fast generation of reports ▪ Qualitative changes in the control of the enterprise	Threats ▪ Cybercrime ▪ The rapidly changing world of digital technologies ▪ Regulator problem (public or private) ▪ Change of corporate culture ▪ Control of ethical responsibility ▪ Corporate blackmail and, as a result, market manipulation

Capabilities of digital corporate governance solutions

Corporate governance technologies enable organizations to move a large part of their manual and paper-based workflows to online processes. Board portals and e-Meeting systems, which enable virtual meetings, are some of the ways to implement digital corporate governance. Use of integrated solutions provided by a single service-provider at an enterprise level will ensure seamless data sharing, reduced security risks, and improved user experience. Digital corporate governance solutions come with the following core capabilities:

- Seamless transfer of manual/paper-based board meeting processes to a secure digital platform.
- Instant cloud-based access to board materials with granular file-level control.
- Virtual work groups for committee collaborations, commenting and discussion tools, project boards.
- Geographical mobility, multi-device support, and real-time data sharing abilities.
- Board pack creation, agenda building, attendance recorder, minutes publication, and action items management capabilities.
- Online proxy appointment/online voting.
- Virtual/hybrid meeting capabilities.
- Meeting management solutions to simplify administration of large-scale meetings like AGMs.

Giving digitalization a purpose : The transformative capacity of technology is undeniable, as are its possibilities. Technology gives us so many options, it's easy to get lost in the reeds. To avoid this, one of the directives a Board of Directors can impart is to give purpose to this digitalization. As logical as it may seem, to link technology to the purpose of the company (which implies the company itself as having a clearly verbalized purpose), and putting purpose at the center of digital transformation will turn technology into a true driver.

Digital resilience : The Coronavirus crisis has left important lessons, two of which stand out for corporate governance: that the future requires resilience and digitalization. We live in an era of rapid change, which means that we will definitely be exposed to new challenges and future crises. If we consider the impulse in digitalization that has taken place during this pandemic, what we find is the very survival of companies requires digital resilience, translating into the ability to adapt future digital strategies to respond to situations of change, complexities or crisis.

Building digital competency : There is a need for the Directors on the board to constantly upgrade themselves in the use of technology. Since Good Governance will not just stay limited to meeting and attendance, and the fast pace of Digitalization, Directors will need to include the demand greater and continuous involvement as the new Normal. Frequent and deeper engagement with stakeholders and will demand greater collaboration and inclusiveness rather than exclusivity. A digitally savvy board is key to effective digital transformation. In a business

environment completely interwoven with technology, the baseline skill set of a typical director should also expand to include an adequate level of digital literacy. Every board member should have a foundational understanding of the technology landscape and how it would impact or drive the business. Only then can boards be truly empowered to set bold but realizable transformational strategies and engage with management meaningfully on digital transformation.

Ensuring a framework for smooth implementation of digital corporate governance:

Digital corporate governance systems must be well thought out and enable you to achieve the crucial goals of corporate governance. A high-level implementation requires that there be little room for error in terms of data security. Increasing governmental vigilance requires that you have an appointed team/member to ensure that your technical systems and corporate processes are both compliant with regulatory rules. Regular audits of technology partners/systems as well as ensuring relevant accreditations will go a long way in maintain corporate security and minimizing risk. However, not even the most secure system in the world is risk averse. It would be prudent to also have an action plan in place in the event a security breach may occur on your systems.

Implement ESG criteria in the digital transformation process : it is important that the presence of ESG criteria are in both the roadmap and strategy of digitalization, as well as in the accountability and evaluations for success. And that happens when Boards of Directors also make ESG priorities their own.

Digitization leads to better disclosures : Some technologies have the capacity to improve disclosure practices, both from a regulatory standpoint by facilitating enforcement and increasing regulatory efficiency, and from a company perspective by helping companies make better and potentially less costly disclosure. The corporate governance framework should promote transparent and fair markets, and the efficient allocation of resources. It should be consistent with the rule of law and support effective supervision and enforcement. To the extent that new technologies can facilitate the effective realization of this aspect of Corporate Governance as well as contribute to better quality of data, they can be important corporate governance tools.

Conclusions

Corporate governance is considered as a system of relationships between shareholders (owners) and the company's managers on the issues of ensuring the company's efficiency and protecting the interests of beneficiaries, as well as reducing the opportunities for opportunistic behavior of management. The main aim of a company's corporate governance is to increase its value and create the required level of transparency of the company. Corporate governance is an important basis for ensuring effective, profitable, and ethical business development, and the digitalization of the structure requires reform at all levels of the organization and it will bring significant results in the long-term plan. Digitalization in corporate governance is considered as a process of creation of information resources, which makes it possible to better adaptation of corporate governance to the requirements of stakeholders and increase competitiveness using digital technologies. Digital transformation in the field of corporate governance is

interpreted as a process of improving existing and creating new business processes for effective management and interaction between all stakeholders. Savings in cost, effort, time, and resources are certainly one of the primary additional advantages of digital corporate governance solutions.

Digitization is a journey and not an end, and so is Good Governance. As Digitization continues to evolve it will continue to pose challenges and opportunities to Good Governance and will be an important driver of Good Governance.

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