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DIGITISATION OF COMPLIANCE TO STRENGTHEN CORPORATE GOVERNANCE

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Digitisation in India

Digital technology has become a vital factor in accelerating the pace of India's social and economic growth by enhancing access to information, markets and public services. E-governance initiatives for citizen centric services were introduced in mid 90s. Later national level e-governance programme called National e-Governance Plan (NeGP) was initiated in 2006. 'Digital India' initiative was launched by Prime Minister Shri Narendra Modi in the year 2015, in order to integrate, re-engineer and transform e-governance in India. The vision of Digital India program is to transform India into a digitally empowered society and knowledge economy. Digital India aims to transform the entire ecosystem of public services through the use of information technology and internet services. India is experiencing extraordinary digital growth¹.

Corporate Governance

Corporate governance is a set of management practices which go beyond the Rule book to govern their commercial activities and includes the duties and responsibilities of the Management/ one-level below the Management. It is important to have best corporate governance practices for long term viability of a corporate entity. It has become important as the stakeholders wish to have an insight into the transparency and viability of the Management's performances in the long term.

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¹ <https://www.digitalindia.gov.in/content/vision-and-vision-areas>

The goals of corporate governance is to achieve increased profitability and efficiency while promoting good conduct and to establish processes to identify risks and mitigating them, thereby balancing the interests of the stakeholders through the Management/ Board of Directors.

There is no denial that corporate governance strategies require technology and management processes to establish efficient risk mitigation systems. Digital tools, therefore, play a significant role for administrative functions to enable secure and faster dissemination of information on real time basis.

Digitisation and emerging business models

On a global platform, multinational companies are resorting to new digital tools to bring about a dynamic organisational structure, wherein the hierarchical structure is discarded and platform model is introduced. This levelled structure of organisation allows a better method for co-operations amongst various stakeholders. The individual stakeholders are made responsible for their role and are rewarded for creating contents which benefit the organisation. Thus, the hierarchical model of monitoring the implementation of corporate governance is replaced and significantly contributes to the overall profitability of the organisation.

How digitisation improves Corporate Governance

The role of Board of directors has evolved from a formal consulting body to a one with more active role in running the business of the corporate entity. Such role demands frequent and faster interactions, which requires seamless transmission of data from the Management to the Board on real time basis, which is made possible with the use of efficient digital tools. The digital world has revolutionised the administrative tasks in manner to finish it off in minutes as against days and weeks in earlier regime. With the help of adequate technology, the leaders can now work more efficiently with more relevant data and efficient processes that enable faster decision making. Thereby, digitisation enables better and more efficient corporate governance norms.

Areas where digitisation can enhance efficiency

- 1. Digital signatures** - this makes the otherwise slow and labour-intensive processes, faster and more efficient. Use of digital signatures also provides audit trails providing adequate safety measures and ensures trust services for probative values. It increases the speed of communication between the parties involved, certainty to documents exchanges and increases the security levels of internal document process systems. The field of digital signatures have evolved with technology and as more digitally signed documents get uploaded/ stored in clouds, new security threats are surfacing in recent times. Nevertheless, this has opened up new areas for digital privacy, integrity and accuracy of shared data.
- 2. Digital meetings** - sharing of seamless information between various stakeholders reduces mundane administrative tasks, thus enhancing value add in terms of skilled works. Digital meetings enhance efficient storing of past data and retrieving the same, thus saving the costs of Mid-level and Top- Management to focus on decision making.
- 3. Shareholder - company interaction:** The company and shareholders primarily communicate with each other in connection with Shareholders' meetings and exercise of the shareholder rights at such meetings. E-mails, company websites and public dissemination of information on portals of regulators are some of the ways in which companies interact with their shareholders. Different systems of electronic voting, live broadcast of investor calls and general meetings are being used to facilitate the smooth conduct of general meetings. Many stakeholders were consulted before the Indian Laws allowed conduct of virtual meetings of shareholders. The use of technology and digital tools in this context is aims at simplifying the interactions smoother and safer.
- 4. Dematerialised securities:** Prior to mandatory dematerialisation of securities, there existed potential risk of forgery and duplication of share certificates leading to shareholder disputes. The concept of fungibility in securities has thus reduced the shareholders to a large extent. The demat of securities has thus, enabled implementation of corporate governance a much easier task.

5. Maintenance of statutory records: The Ministry of Corporate Affairs launched digitalisation of filings by companies under Companies Act, 1956 in the year 2006 itself. The e-governance project from the Government India, Ministry of Corporate Affairs was launched under the brand name "MCA 21", which paved way for digital transformation for statutory filings in electronic mode since the year 2006. This paved way for authentic maintenance of repository for corporate sector and a registry for all the filings in public domain. This subsequently paved way for companies to maintain statutory registers in digital (computer readable) form under the Companies Act, 1956 / 2013 with the enactment of the Information Technology Act, 2000.

Since, the digital environment has become an integral part of the Management Information systems, the modern corporate world is embracing the technology in leaps and bounds. However, while choosing a digital environment for effective corporate governance, certain features are to be kept in mind, as briefed below

Features of digital environment

- 1. Safeguarding the data:** it is important to protect the data from tempering due to unauthorised access, and provide a back-up plan for retrieval of records, in case of crash of the digital tools. Any failure of the digital tools should not result in the loss or damage of records so maintained in digital formats.
- 2. Validation of Signatory:** it is important to impart adequate training to the personnel handling the digital records, more so, the person authenticating the data in digital formats. The person entrusted with the responsibility shall be estopped from denying or repudiating the claims made on the documents authenticated and maintained in digital formats.
- 3. Systems security:** All the digitally maintained data shall have a storage facility, which can be in the digital cloud. Each entry shall be duly authenticated, adequately secured and validated by authorised personnel to ensure consistency in the intended performance without interruption. Such secure and reliable digital environment helps in rejecting the invalid records so that any wrong data is not circulated. This goes a

long way in ensuring timely and accurate data for the top Management to implement best corporate governance practises within the organisation.

- 4. Retrieval and ease of access:** Retrieval of data is equally important so that the authorised person has easy access to retrieve the intended data. Any unauthorised access gets thwarted at this level so as to restrict/ reject tampering. Easy retrieval for future references shall be ensured to get the machine language in human readable format.
- 5. Formats:** Each law requires certain data to be maintained by the company and in cases like Income Tax and Companies Act, standardised formats for Balance sheet, statutory registers are already provided as part of the Law. Hence, such formats to be embedded in the digital tools to follow such laws. The maintenance of records shall be for such period as prescribed under law which is generally for 8(eight) years from the date of occurrence of the event. The records to be maintained shall be non-erasable and limited editing shall be allowed. It is the responsibility of the authorised person to choose the appropriate tool to meet the governance standards and avoid being penalised.
- 6. Backup:** it is suggested that periodical backups be obtained which shall be duly authenticated with date and time stamps and stored at secure places despite having adequate security features.
- 7. Limit Accessibility:** In order to avoid breach of security, it is advisable to limit the access credentials to limited personnel, with login audit trails embedded in the system so that any unauthorised tampering attempts are thwarted in initial stages itself.
- 8. Reproduction of non-electronic original records:** Any retrieval of records in physical formats shall be duly authorised. Also the physical records so reproduced shall also be authentic, legible and true copy of its electronic versions.
- 9. Indexing:** Proper indexing is very important to maintain permit ease of access for retrievals.
- 10. Integrity & Confidentiality:** Authorised persons should take all efforts to preserve and safely store the records, ensure proper signing of records and prevent

unauthorised access of records so as to ensure data security, integrity and confidentiality of the electronic records.

Technology from Regulators

Digital transformation has offered new challenges to the regulatory authorities engaged in law enforcement for corporate governance of organisations having shares listed on the stock exchanges. The concerns caused by the disruptive technology calls for application of new tools and techniques for regulatory assessment as compared to the traditional ones. The authorities concerned are in the process of re-designing their policies to promote free and fair governance in the free and fair digital economy. Some of the regulators have embraced the digital world to ease their governance functions, some of them are listed below

- ▶ Ministry of Corporate Affairs – MCA 21
- ▶ Finance ministry – online filing of all returns under Goods & Service Tax
- ▶ Labour Ministry has launched online portal for compliance monitoring of Labour Laws
- ▶ SEBI has mandated all corporate information to be filed through digital interface
- ▶ There are also proposals for digitisation of Compliance of Labour Codes

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Some of the digital tools that can be used as a patch in existing intranet systems for Corporate governance include Tracking systems for Group Transactions

- Identification of the repeat transactions
- Reckoning of the Statutory Limits for expenditure/ tax calculations on yearly basis
- Update the internal approval limits on regular basis
- Borrowing limits. Utilisation limits etc.,

Conclusion

Thus, it can be seen that many organisations are adopting digital tools to monitor the internal compliances. On the other hand, the regulators are also embracing the digital mode to monitor the compliance. Hence, an intersection of these two require a robust digitisation of compliance systems to ensure that any gaps in corporate governance

processes are identified and thwarted in initial stages itself. The Business leaders are fully aware of the need to go digital and are adopting the same to suit their requirement. Nevertheless, some companies are yet to adopt the digital transformation. Hence, one can conclude that digital transformation of an organisation is more of the broader social and cultural circumstances to pick up the right tool suiting the business needs.

The regulators in India and across the globe are also working on enhanced ease of doing business, e-adjudication and comprehensive data analytics. This calls for a drastic change in the way companies organise their records, calling for support of emerging technologies including artificial intelligence and Machine Learning techniques. This enhances the user experience and enables quicker processing of required data for effective decision making.

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