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# From Crisis to Opportunity: How Digitalization Enhances Corporate Governance in the COVID-19 Era

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## ABSTRACT

*The COVID-19 coronavirus is a worldwide pandemic that has spread worldwide due to its widespread distribution and severeness. The global efforts to combat the disease have compelled businesses across all sectors to adopt cutting-edge digital solutions in order to preserve sound corporate governance. In this article, I will discuss the developments happened in rules and regulations pertaining to corporate governance and digitalization in India, the impact of digitalisation in Corporate, how it enchances corporate governance, and its advantages.*

**Keywords:** Corporate Governance, Digitalization, COVID-19.

## I. INTRODUCTION

The WHO defines a pandemic as "the global spread of a new illness." On March 11, 2020, the WHO labelled the COVID-19 outbreak a pandemic due to the disease's widespread worldwide distribution and severeness. Like Ebola, Zika, and Severe Acute Respiratory Syndrome (SARS) viruses in recent years, it's feasible that the corona virus may eventually go away. Even if it happens, the upcoming catastrophic pandemic is more of a matter of "when" than "if." The extensive effects of the global efforts to combat the COVID-19 coronavirus are complicating matters for businesses and organisations. These problems have compelled businesses across all sectors to adopt cutting-edge digital solutions in order to preserve sound corporate governance. In this Article, I will discuss the developments happened in rules and regulations pertaining to corporate governance and digitalization in India, the impact of digitalization in Corporate, how it enchances corporate governance and its advantages.

### (A) Meaning and Definition

To understand how digitalization can have an impact on corporate governance, and going through the developments, it is pertinent to understand the meaning of Corporate Governance

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and digitalisation. Corporate Governance is a very comprehensive term and with the period of time the scope of this definition has taken a wide shape. If we read the word corporate governance, then we will get it is the combination of two words such as corporate and governance. The word corporate signifies something pertaining to a company and Governance signifies the way of governing or the mechanism of governing. “Corporate governance describes the methods used to regulate businesses and their goals. It indicates who is in charge, who is responsible, and who makes choices. It is essentially a toolset that gives management and the board the ability to handle the difficulties of operating a business.”<sup>3</sup> In order to balance the interests of several stakeholders, including customers, suppliers, employees, and the community, corporate governance involves developing suitable decision-making processes and controls within organisations. It acts as the broad framework for directing and managing businesses.<sup>4</sup> The board of directors is in charge of governing their corporations. The shareholder's role in governance is to choose the directors and auditors, as well as to make sure that a strong governance framework is in place.<sup>5</sup>

The use of digital technology to modify a company model and create new sources of income and value is known as digitalization. The conversion of an organization's operating model to a digital one is known as digitalization. Digital technology makes new data flows, insights, and capabilities possible. To transform digital information into new potential for creating value, businesses must create new business practises and reevaluate how work is done. The entire operational model of the firm may need to be completely revised as a result of this.

The CEOs of corporations and their boards of directors must consider the broad ramifications of this tremendous digitalization wave. It has become considerably more challenging for them to lead and manage their enterprises. They must develop digital skills in the spirit of lifelong learning without becoming or relying primarily on digitalization specialists.<sup>6</sup>

## II. EVOLUTION OF CORPORATE GOVERNANCE

The Companies Act of 2013, the Listing Obligations and Disclosures Requirements Rule of 2015, the SEBI Issue of Capital and Disclosure Requirements, and several more laws that particularly address the concepts of corporate governance make up India's legal framework. For the purpose of creating a stable business climate in the nation, there have been notable

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<sup>3</sup> <https://www.cgi.org.uk/about-us/policy/what-is-corporate-governance> Accessed on 04th Dec 2021

<sup>4</sup> *ibid*

<sup>5</sup> <https://www.icaew.com/technical/corporate-governance/principles/principles-articles/does-corporate-governance-matter> Accessed on 04th Dec 2021

<sup>6</sup> Georg Schaffner et al., *Digitalization impacts on corporate governance*, 7 Journal of Governance and Regulation, 51-63 (2018).

developments during the past 20 years. Therefore, the phrase "corporate governance" was first used by the Industry Association on Confederation of Institutes (IACII) in the late 1990s.<sup>7</sup> The phrase "corporate governance" was adopted by Indian firms voluntarily. Four fundamental concepts, such as fairness, transparency, reliability, and responsibility in the administration of the company's operations, were integrated into the model of corporate governance that was suggested. There are several committees that have been established to periodically suggest changes to the corporate governance policies and regulations. The Ministry of Corporate Affairs and the Securities and Exchange Board of India worked together to create the current corporate governance guidelines that govern the company's operations. The Mandatory Corporate Governance Voluntary Guidelines 2009 marked the beginning of the corporate sector's transformational era. These requirements, which are enforced by clause 49 of the Listing Agreement for companies listed on stock exchanges, cover fundamental rules that organisations must follow with regard to their audit committees, boards of directors, and other disclosure requirements for related party transactions, as well as whistleblower policies and other matters.<sup>8</sup> The Companies Act of 2013 was crucial in establishing good corporate governance procedures for efficient business management. Significant measures were added, including the requirement to adhere to the Institute of Company Secretaries of India's secretarial standards, independent directors, women directors on boards, corporate social responsibility, and corporate governance. These measures, which are described in Section 118 of the Companies Act of 2013, enforce adherence to these standards as well, thereby highlighting the significance of these standards within the corporate governance framework.<sup>9</sup>

### **III. DIGITAL TRANSFORMATION AND CORPORATE GOVERNANCE IN INDIA**

The government expanded the information technology sector to improve the economy after economic liberalisation in 1991. Information technology enters a new phase with the launch of Digital India 2015. India is gonna be transformed digitally as part of Digital India. In order to empower society and advance a knowledge-based economy, digitalization is intended. In addition, the project seeks to develop top-notch digital communication and infrastructure, as well as to digitalize various services (including those provided by the government) and promote widespread digital literacy.

The liberalisation reforms had resulted in major changes in the governance of private firms and

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<sup>7</sup> *Supra note 3.*

<sup>8</sup> *ibid*

<sup>9</sup> *ibid*

the financial sector, particularly in the banking and stock markets.<sup>10</sup> The major overseer of India's stock markets and corporate governance norms is the SEBI (Securities and Exchange Board of India). 1992 saw the establishment of it. With the adoption of a new corporations Act and the tightening of corporate governance standards for all corporations in 2013, and ever since, there have been significant changes to the Indian corporate governance environment. SEBI issued a new comprehensive listing regulation (Listing Obligations and Disclosure Requirements, 2015) in 2015 to ensure that disclosure obligations and reporting systems are followed. In addition, SEBI established the Kotak Committee in 2017 to revamp the corporate governance structure.

Companies have been given permission to conduct Board Meetings, during the pandemic, via video conference or other audio-visual means in order to pass resolutions on issues that were previously required to be passed in meetings that required the physical presence of directors. This has been done by periodically amending the companies (Meetings of Board and its powers) Rules 2014 to give companies relief during the COVID19 pandemic. The facility was permitted to be used by businesses until June 30, 2021. The Companies (Meetings of Board and its Powers) Rules, 2014 were then amended by notification dated June 15, 2021 to delete Rule 4, allowing the Board of Directors to debate and adopt resolutions through Video Conferencing or other audio visual means in response to the Second COVID 19 wave. The policy will provide corporate boards greater freedom in how they conduct business and assist the government in achieving its objective of making doing business easier. E-voting and streamlined voting via registered emails are permitted, and companies are allowed to convene Extraordinary General Meetings (EGMs) via video conferencing or other audio visual means (OAVM). The government has extended the deadline to December 31, 2021 due to COVID 19's Second Wave. Companies whose 2020 or 2021 annual general meetings were due have been given permission to conduct their meetings by video conference or other audio-visual methods on or before December 31, 2021.<sup>11</sup>

Due to the difficulty of providing physical copies of financial statements, corporations are now permitted to provide financial statements, along with Board Reports, Auditor's Reports, and other documentation required to be attached, simply via email.<sup>12</sup> Amendments to financial statement formats, businesses (Accounts) Rules, companies Audit and Auditor's Rules, and the companies (Auditor's Report) Order, 2020 improved the quality of disclosures. The Companies

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<sup>10</sup> Jayati Sarkar et al., *A Corporate Governance Index for Large Listed Companies in India*, Pace University Accounting Research Paper No. 2012/08 (2012), <https://ssrn.com/abstract=2055091>.

<sup>11</sup> <https://www.caclub.in/relief-steps-taken-by-mca-during-covid-19-pandemic/> Accessed on 04th Dec 2021

<sup>12</sup> *ibid*

(Auditor's Report) Order, 2020 is already in effect and will apply to the audit of financial statements for the financial year 2021-22, making it easier for auditors and companies to comply.<sup>13</sup>

A company's independent directors have been exempted from holding at least one mandatory meeting. It has not been regarded as a violation if a company's Independent Directors have been unable to hold such a meeting. With modifications to the Companies (Appointment & Qualification of Directors) Rules, 2014 from time to time, the ministry extended the period for existing independent directors to apply online for inclusion in the databank of independent directors to thirteen months. Newly incorporated companies have been given an additional 180 days to comply with the requirement of making a declaration for the initiation of business. The inability of listed companies to send notices for rights issues to their shareholders via registered mail, speed post, or courier will not be considered a violation of section 62(2) of the Act until December 31, 2020, provided that these companies comply with SEBI Circulars and provide the mode/manner of issuance of notice by electronic transmission by listed companies.<sup>14</sup>

These schemes and relief measures were passed by the Indian governments and regulators in order to maintain good corporate governance and the long-term health of companies during the pandemic.

#### **IV. DIGITIZATION ENHANCES CORPORATE GOVERNANCE**

In 2020, the pandemic compelled businesses and organisations from all sectors to adopt cutting-edge digital solutions. While the effects of remote work on employees, managers, and executives have been extensively discussed, board members were a vital group that needed to adjust quickly.

Shifting away from traditional operational methods and organizational bureaucracy is crucial for cultivating a digitally adept and progressive corporation. Today, virtually everything from banking to government services is accessible with a simple touch on a portable, authenticated device that seamlessly synchronizes with other vital services. The cloud is omnipresent.

Process, People, and Performance are the three main components that are frequently used to define corporate governance. These three components will be effortlessly integrated into a well-designed digital strategy and programme for your business, giving you more influence over the course your business takes. The core of digital corporate governance is equipping boards of directors with the information they need to make better strategic decisions, some of

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<sup>13</sup> *ibid*

<sup>14</sup> *ibid*

which may have to do with bolstering the company's digital strategy.<sup>15</sup>

Fulfilling the duty and responsibilities of a board member is not as simple as it may appear. It is critical for a director's success to maximise his or her time. Boards of directors can benefit from digital technologies such as paperless board portals as they move toward digitalization. The major goal of a paperless board portal is to increase the productivity of board and committee meetings at various levels, particularly at the board member level.

A board portal is designed expressly for board members' habits, allowing them to have rapid access to meeting information on tablets, anywhere, at any time, in a highly secure manner. You will no longer need bulky luggage stuffed with documents. Furthermore, you may capture handwritten or sticky notes straight on the tablet and share them with your colleagues with a single click. Board portals boost efficiency and cut down on wasted time, thanks in part to a powerful search function that allows directors to locate any of their notes in their documents.<sup>16</sup>

Many individuals are aware that managing board meetings entails difficult, diligent, and time-consuming responsibilities, and issues develop when documents are not given on time or changes must be made at the last minute. Board portals reduce the need for paper and messenger expenditures, as well as the amount of time employees spend on paperwork. This digital management approach is becoming increasingly efficient, faster, and substantially less expensive.<sup>17</sup>

As a result, we can claim that good digital corporate governance does not end at improving top-level competencies. It begins at the bottom, with an advanced approach to reinvent how people and processes work, laying the groundwork for a forward-thinking organisation.

## V. CONCLUSION

The Ministry of Corporate Affairs has taken significant steps to ease and comfort the corporate sector during the pandemic time by lowering various regulations and digitising compliance filings. These efforts established the groundwork for a bright future for digital corporate governance and will have a significant impact on transparency, efficiency, and board decision making. The ministry is constantly working to improve the measures to meet the needs of the people.

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<sup>15</sup> <https://www.tricorglobal.com/blog/digital-corporate-governance-a-strategic-step-towards-building-forward-thinking-organizations> accessed on 13th Dec 2021.

<sup>16</sup> *ibid*

<sup>17</sup> <https://www.tricorglobal.com/news-and-events/tricor-financial-times-board-director-programme-report-reveals-critical-gaps-in-digital-governance-cybersecurity-and-risk-management> accessed on 13th December 2021.

The nicest aspect about digitalization is that we have already had a year of lockdown and have relocated the majority of our work online. As the threat of a third wave approaches, we are already prepared with rules, regulations, and policies to deal with a pandemic crisis. During the pandemic time, the Ministry of Corporate Affairs had already taken major steps to assist companies in complying with the terms of the Companies Act, 2013 and other linked regulations in a flexible manner. If this pandemic thing comes again, we will be able to deal with it calmly.

To conclude, digitalization, like good governance, is a journey rather than a destination. As digitalization evolves, it will continue to bring problems and possibilities for good governance while also serving as a key driver of good governance. Existing belief systems should not be regarded as the final answer to future difficulties and possibilities. To succeed in constantly changing circumstances, good governance requires a leadership that questions prevailing belief systems and evolves solutions on a continuous basis. This exciting voyage has barely just begun.

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