CORPORATE GOVERNANCE AND BOARD CHALLENGES IN THE DIGITAL ERA

Abstract

Corporate governance has evolved through successive regulatory reforms aimed at strengthening board oversight, accountability, and transparency. However, the digital era has fundamentally altered the nature of governance challenges faced by boards. Traditional assumptions that financial, strategic, operational, and compliance risks can be managed independently have collapsed. Instead, risks now converge, amplify, and propagate across domains at unprecedented speed. This article examines how digital technologies, artificial intelligence, cybersecurity, geopolitics, organisational culture, and information overload are reshaping board responsibilities. It argues that governance excellence in the digital era depends less on formal structures and more on boards' collective sense-making capacity, judgment, and continuous stewardship.

CMA (Dr.) A. S. Durga Prasad
Former President
The Institute of Cost Accountants of India
Hyderabad
dp.anapindi@gmail.com

Uma Shankar
Former Executive Director
Reserve Bank of India
Bengaluru
usmeena@gmail.com

Introduction: The End of Comfortable Assumptions

Corporate governance has been a subject of sustained focus for decades. In India, successive committees appointed by the Government—including the Kumar Mangalam Birla Committee (1999), Naresh Chandra Committee (2002), Narayan Murthy Committee (2003), Dr. J. J. Irani Committee on Company Law (2005), and the Uday Kotak Committee (2017)—have examined governance failures, proposed reforms, and seen many recommendations translated into regulation and practice.

Yet, despite this progress, governance today faces a more fundamental challenge. For much of the last century, governance evolved around a reassuring assumption: that financial, strategic, operational, and compliance risks could be understood, overseen, and mitigated as largely separate categories. Boards reflected this thinking through committee structures, reporting lines, and assurance frameworks. That architecture has quietly collapsed.

In today's business environment, risks no longer respect boundaries. They bleed into one another, amplifying and accelerating across domains in ways that challenge even the most experienced directors. A cyber incident rapidly becomes a reputational crisis. Mandatory disclosure to stock exchanges magnifies reputational damage, while media amplification erodes trust. AI-driven decisions simultaneously raise regulatory, ethical, and brand concerns. Cultural weaknesses surface as financial underperformance or compliance failures. Many boards sense this convergence intuitively—long before they have the language or tools to describe it.

From Siloed Oversight to a Digital Risk System

Until recently, artificial intelligence, data governance, and cybersecurity were treated as discrete oversight topics. That framing is no longer tenable.

These domains have converged into a single **digital risk system,** woven through strategy, operations, culture, reputation, and regulatory exposure.

Artificial intelligence is increasingly reshaping risk management itself—altering not only how risks are identified and monitored, but how decisions are made. Global surveys of risk leaders consistently identify data quality as the foundational requirement for unlocking AI's potential.

Without reliable, high-quality data, AI systems generate outputs that may appear precise but are fundamentally misleading.

Boards do not need to understand how AI works at a technical level. They do, however, need to understand what AI changes:

- Decision velocity and delegation
- The scale and speed at which errors propagate
- Accountability for outcomes driven by opaque models
- Assumptions underpinning control, assurance, and audit

Illustrative Examples

Example 1: Cyber Risk Propagation

A ransomware attack on a company's customer database may initially appear as an IT incident, but its impact quickly cascades across the enterprise. Operations can be disrupted as systems are taken offline, regulatory exposure arises under data protection laws, and reputational damage erodes customer trust and market value. For the board, this illustrates that cyber risk is not merely a technology issue but a strategic and governance concern requiring oversight of risk preparedness, incident response capability, and management accountability across functions.

Example 2: AI Governance and Ethical Risk

The deployment of AI-driven decision systems in areas such as credit scoring, hiring, or customer profiling can create significant governance challenges if not properly supervised. An algorithm trained on biased or incomplete data may lead to discriminatory outcomes, triggering regulatory scrutiny, legal liability, and loss of stakeholder confidence. This underscores the board's responsibility to oversee AI governance frameworks, including data integrity, ethical use, transparency, and alignment with evolving regulatory expectations, rather than delegating these risks solely to management or technical teams.

Digital risk is no longer episodic or containable. It is continuous, systemic, and strategic. Regulators are already signalling this shift through AI accountability regimes, data protection laws, and cyber-resilience expectations (OECD, 2019; EU Artificial Intelligence Act, 2024).

Geopolitics Moves into the Boardroom

Geopolitics is no longer an external backdrop. It directly shapes supply chains, talent mobility, regulatory environments, capital flows, and brand perception.

Boards increasingly find that strategies approved eighteen months earlier feel outdated as geopolitical conditions evolve far faster than traditional planning cycles allow.

Boards do not need to become geopolitical experts. They need a **geopolitical posture**—a structured way to scan, interpret, and integrate geopolitical signals into strategic judgment. This includes:

- Understanding exposure concentrations
- Stress-testing assumptions about markets and suppliers
- Recognising second- and third-order effects of geopolitical shocks

In practice, this requires moving beyond static scenario planning toward continuous strategic sense-making (World Economic Forum, 2023).

Culture and Leadership as Determinants of Resilience

Culture and leadership are no longer "soft" issues delegated to human resources. They are central to enterprise resilience and therefore core governance responsibilities.

Failure to recognise this exposes boards to interconnected risks:

- Financial underperformance rooted in misalignment, incentive distortion, or leadership fatigue
- Operational risk in high-dependency areas such as cybersecurity, safety, and risk management
- Compliance failures where overloaded teams fail to escalate early warning signals
- Board fatigue itself, challenge quality and decision discipline
- Reputational damage, as cultural failures increasingly prompt scrutiny of board oversight

High-profile corporate failures over the past decade consistently demonstrate that cultural warning signs were visible long before outcomes crystallised (Financial Reporting Council, 2018).

Information Abundance and Interpretation Scarcity

Modern boards rarely suffer from lack of information. The more acute challenge is distinguishing signal from noise and achieving shared interpretation.

Information overload creates a new class of governance risk:

- Strategic delay as uncertainty paralyses decision-making
- Blind spots across interconnected risks
- Dysfunctional group dynamics, including deference, groupthink, or silence
- Reputational exposure when crises reveal that boards had information but lacked collective understanding

Governance Insight: From Data Overload to Decisive Oversight

- **Issue:** Boards receive extensive dashboards but lack early-warning signals.
- **Illustration:** Cyber reports show 99.9% uptime yet omit metrics such as incident detection time or third-party risk exposure.
- **Regulatory Context (India):** SEBI and RBI increasingly expect boards to focus on key risk indicators rather than the volume of reporting.
- **AI Oversight Practice:** Board-approved AI governance frameworks incorporating bias testing, explainability reviews, and Digital Personal Data Protection Act compliance.
- **Outcome:** In several cases, boards have paused or redesigned AI systems after identifying unfair or opaque outcomes, thereby preventing regulatory and reputational fallout.

The core issue is not data availability but **sense-making capacity**—the board's ability to integrate fragmented insights into coherent judgment.

The Rise of Personal Accountability

Personal liability, investor activism, and reputational exposure have decisively shifted from the organisation to the individual director.

Regulatory actions, public inquiries, and shareholder scrutiny increasingly focus on what boards knew, how they challenged management, and whether oversight was credible.

This fundamentally alters board dynamics. The most material governance risk today is not management capability alone but the board's own capacity, capability, and coherence.

The critical governance question therefore becomes:

Is the board a strategic asset—or merely a passive reviewer of management outputs?

From Episodic Oversight to Continuous Stewardship

In the digital era, governance must evolve:

- From episodic oversight to continuous value creation
- From static agendas to dynamic sense-making
- From rear-view compliance to forward-leaning stewardship

Digital velocity, data abundance, and systemic interdependencies require boards to anticipate emerging risks and opportunities, integrate real-time insights, and actively shape long-term value—not merely assure past performance (McKinsey &

Company, 2022).

Evolving Board Structures and Practices

Effective boards embed digital oversight into core governance processes rather than treating it as an add-on.

1. Restructuring Board Agendas and Processes

- Rebalancing agendas toward forward-looking strategy
- Allocating explicit time to digital, AI, regulatory, and transformation risks
- Using secure digital portals, real-time dashboards, and collaboration tools to enhance decision quality

2. Monitoring Governance Effectiveness

- Tracking indicators such as time spent on strategy, digital maturity, innovation outcomes, and transformation-linked risks
- Conducting annual board and committee evaluations
- Introducing term limits and structured refreshment to sustain cognitive diversity
- Commissioning periodic governance and capability audits

These mechanisms must be embedded meaningfully—not as compliance rituals, but as foundations for reflection, course correction, and renewal.

The Central Governance Challenge

The solution to modern governance challenges is not more committees, frameworks, or compliance layers.

The central challenge lies in strengthening the conditions under which directors can:

- Make sense of uncertainty
- Test management's assumptions
- Engage in high-quality, constructive challenge
- Converge on coherent, value-creating decisions

In the digital era, governance excellence is defined less by formal structure and more by judgment, discipline, and collective intelligence at the board table. MA

References

1. *OECD. (2019). Artificial Intelligence and Corporate Governance.*
2. *World Economic Forum. (2023). Global Risks Report.*
3. *Financial Reporting Council. (2018). Corporate Culture and the Role of Boards.*
4. *McKinsey & Company. (2022). The Board's New Mandate in a Digital World.*
5. *European Union. (2024). Artificial Intelligence Act.*

Congratulations!!!

CMA Delzad Dinyar Tanaz Jivaasha

Heartiest Congratulations to CMA Delzad Dinyar Tanaz Jivaasha, Member of the Institute, being bestowed the prestigious honour of CFO Next 100, 2025 for the 5th year in a row. The awards were instituted to recognize the leadership, best practices implementation and path breaking innovation by individuals. His leadership and consistent efforts to cement the importance and build a culture of Risk Management, Compliance and Governance has been appreciated with him being recognized as a leader in that space.

CMA Delzad Dinyar Tanaz Jivaasha was also declared a winner in the Risk Management & Compliance category at the Aspiring CXO Awards, 2025 for his conceptualization and implementation of best practices in core areas of importance, in the space of Risk Management, Compliance and Governance.

We wish CMA Delzad Dinyar Tanaz Jivaasha the very best for all his future endeavours.