

DIGITALISING CORPORATE GOVERNANCE USING BLOCKCHAIN

B L O C K C H A I N

"There are always new, grander challenges to confront, and a true winner will embrace each one."

Introduction

Digital Economy refers to economy based on digital platform. It is also referred as Internet Economy, New Economy or Web Economy².

"The aggressive use of data is transforming business models, facilitating new products and services, creating new processes, generating greater utility, and ushering in a new culture of management."

- Professor Walter Brenner of the University of St. Gallen in Switzerland

Digitalization is the on-going order of the day which makes the roles of the people much simpler, speedier, and accurate and in some cases, it helps combining the roles as well. From a small organization to big ones, today, everyone is minded running their business with small amount of support. In the awake of this, digital transformation has played a key role.

Corporate governance of the business is another area where organisations are endeavoring to capitalize benefits of digitalization to get more out of less.

Understanding how Digitalization enhances

² Wikipedia (assessed on 24-02-2022).

Corporate Governance

Corporate governance is often based on three 'P's - **Process**, **People**, and **Performance**.

Governance is the process by which people achieve their company's purpose, and that process is developed by analysing performance. Processes are refined over time to consistently achieve the purpose.

People are the founders, the board, the stakeholder, consumer and impartial observer. They determine a purpose to work, develop a resulting process to unfold it, evaluate their performance outcomes, and use those outcomes to grow themselves and others as people.

Performance analysis is a key skill in any industry. One of the primary functions of the governance process is the ability to look at the results of a process and determine whether it was successful, and then apply those findings to the rest of the organization.

A good digital strategy and program will connect the three seamlessly and ensure that companies are in better control of the direction they take. At the crux of digital corporate governance is the ability to empower the company boards with tools to make better strategic decisions.

Following are few examples about how digital solutions can help lift corporate governance:



- An advanced portal can give greater value to board efficiency by managing board activities in a more structured way. As a safe and put under one control operating system to manage sensitive board materials and processes, it could ensure safety, efficiency and office activity for board members, business managers and controlling persons, making efficient coordination between board members and business managers.
- Instant cloud-based access to board materials with granular file-level control. Geographical mobility, multi-device support, and real-time data sharing abilities.
- Using a secure e-meeting solution with integrated functions such as e-proxy can be a great way to transform traditional meetings into digital meetings, and can be used for shareholder meetings, board meetings, online conferences, and trainings in either a hybrid or virtual setting. This is permissible under the Companies regulations as well. Like, the Vero Voting system - Vero Voting can take care of the communication and making the event announcement and invites seamlessly. The organisation only needs a list of email addresses and names of the candidates and upload it to the system and do the rest. This includes sending email with all the information required for the meeting

and tracking the attendance of the voters. All communication comes from one source removing the chances of confusion. Some of the web conferencing apps such as Zoom, Teams, WebEx and other conferencing software can easily integrate to the Vero voting platform³.

- By using e-signatures, digital HR tools and other electronic solutions, businesses can streamline operations and improve control of processes.

Innovative use of Blockchain Technology

One of the newest technologies - Blockchain has made a lot of headlines all over the world mainly, due to it's being the platform on which thousands of crypto currencies are created. However, the unique features of this technology can completely transform both the concept and the impact of corporate governance.

The Distributed ledger technology (DLT), which is the core of Blockchain technology, has emerged as a ray of hope for those who want to ensure transparency in transactions. It is a method of recording and sharing data across a network. The way the DLT system works is that it comprises of three elements:

- A ledger;
- Sharing of the database; and
- Network of computers.

Blockchain technology generally provides two important elements. These elements are extremely relevant for corporate governance⁴.

- Transparency due to its verifiable system of recording data and transactions; and
- Trust since the data is immutable or incorruptible.

Some of the ways in which Blockchain can support Corporate Governance are as under:

- Transparency of Ownership** – Many times it is a struggle to find out who the actual owners are due to the way shareholding is structured in many companies. There are layers and layers to be unearthed before one can arrive at the actual beneficial owners. If the

Blockchain technology is used to record the data of the shareholders of a company, then in that case all shareholders and other interested parties would be able to view the arrangement of ownership at any point of time and identify changes instantly as they occur.

Like, Ford is using Blockchain technology to track its raw materials like cobalt from the suppliers. As soon the cobalt is mined, they will get on the ledger, and Ford can track where it's going from there⁵. Barclays is using Blockchain technology for streamlining fund transfers and KYC (Know-Your-Customer) processes.

- ii) **Deterrent for Insider Trading** – This is one of the areas where the Blockchain technology can come in handy. Firstly, by its very nature of existence, there is no need for intermediaries in the process and secondly, once it records a transaction, that can neither be modified nor can it be erased. So, if a company devised a mechanism which uses Blockchain, all the network users can see the trading done by various parties. Since even the historical data will be stored and it is almost incorruptible, this can be a strong and effective tool to deter insider trading. Manipulation of the data will be next to impossible, and this can be a key component in the fight for transparency of transactions.

In December 2017, Australian Stock Exchange (ASX) announced its intention to replace CHES using distributed ledger technology developed by its technology partner DigitalAsset.

CHES (Clearing House Electronic Subregister System) is the system that performs the processes of clearing, settlement of equity transactions, asset registration, record shareholdings and some other post trade services which are critical to the orderly functioning of the market. ASX is now taking the opportunity

to replace CHES with a next-generation post-trade platform using contemporary technology “**Distributed Ledger Technology**” (DLT) which will provide a broader range of benefits to a wider cross section of the market⁶.

- iii) **Annual General Meeting (AGM)** – All questions from shareholders can be included in the Blockchain and thus become transparent. Similarly, all the answers to those questions by the management could also be included. A historical data gets created and it will ensure greater vigilance and transparency at the end of both the board and the shareholders. Moreover, there will not be any limitation for the shareholders the traditional duration of the AGM to ask questions but can be enabled to ask questions during a longer period, e.g., from the record date till the conclusion of the AGM.

Santander and Broadridge was the first who used Blockchain technology for investor voting at an Annual General Meeting. On March 23, 2018, they ran a pilot project in parallel to the AGM, with blockchain being utilized to produce a “shadow” digital register of the proxy voting taking place in the traditional model. The co-collaboration model was extended to additional global custodians participating during the Santander AGM⁷.

- iv) **Real-Time Accounting** – Blockchain technology could be used for daily, but important function of bookkeeping and accounting. Under Blockchain, every entry is made in real-time and is time-stamped. By being made in real-time, there is an immediate updation which takes place, and one will have access to real time data. Further, since every entry will be permanently time stamped, it prevents any alteration or adjustment once the data has been posted. The company's entire ledger would then be visible immediately to the stakeholders.

For example, Pfizer is one of the large companies using Blockchain technology. Biogen and Pfizer led organization Clinical Supply Blockchain Working Group (CSBWG) for tracking records and managing the digital inventory of pharmaceutical products⁸.

Similarly, Walmart has been a Blockchain use-case for a very long time. The company is using IBM's supply chain technology – Hyperledger Fabric platform to back up their supply chain process. The system continuously gathers information at every step from the tender offer from the carrier to the proof of delivery and the approval of payment. This information is automatically captured and synchronized in real-time and is visible only to the parties involved in the transaction⁹.

- v) **Smart Contracts** – A smart contract is a computer program that automatically executes/enforce predefined terms of a contract which has been made using the Blockchain technology. Smart contracts can dramatically reduce costs of verification and enforcement. For example, Arizona introduced a new law which allows enforceable legal agreements to be created via smart contracts¹⁰.

Conclusion

In this fast-changing digital world, every economy and every organisation need to adopt and take advantage of digitalisation to create value since the organisations that control the data value chain stands the best chance of becoming the leader.

Blockchain technology is a disruptive technology that is evolving. Its benefits are expanding at a multifold pace. If employed correctly, Blockchain technology can transform Corporate Governance by making transactions transparent, reduce the risk of frauds, effectively manage the interests of the shareholders, and bring about efficient

administration of an organisation.

We could conclude in saying that we should get "empowered, not overpowered" by digitalization. Digital transformation governance extends far beyond technology. However, the board does not need to be filled with technology wizards. Rather, "it must understand what can be accomplished at the intersection of business and technology" and it must be prepared to help shape how technology can transform the organization to maintain or grow its competitiveness and sustainability.



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