Chapter 3
The Impact of IR4 on Corporate Governance of Listed Companies

Lokke Moerel
Tilburg University, The Netherlands

ABSTRACT

The digital revolution transforms business models and presents new privacy issues and ethical dilemmas. Research by MIT Sloan CISR reports that U.S. listed companies that have a digitally savvy board show substantially better financial performance. What is a digitally savvy board? What are the differences between the old and the new world? What are the new ethical dilemmas and how do you prevent making the same mistakes as big tech? Why does innovation fail so often within the existing structures of established companies? Why does the three lines of defense model for risk management have an inhibitory effect on innovation in practice? The author discusses these questions and provides suggestions for improvement of corporate governance of established companies. In the next chapter, the author provides rules of the road for how established companies can monetize their data including some pitfalls for established companies and discusses a number of ethical dilemmas that companies encounter in practice when implementing new digital technologies and services.

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INTRODUCTION

Friend and foe agree that our society is undergoing a digital revolution that will lead to a transformation of our society as we know it (Moerel, 2014, p. 4). In addition to all economic and social progress and prosperity, every technological revolution also brings along disruption and friction (Brynjolfsson & McAfee, 2014). It is now clear that new digital technologies (and, in particular, *artificial intelligence*, AI) enable many new services that can substantially disrupt existing business models. These new business models, in turn present new privacy issues and ethical dilemmas (Moerel & Prins, 2016, pp. 9-13) (van den Hoven, Miller, & Pegge, 2017, p. 5), and social resistance to the excesses of the new data economy is becoming increasingly visible and urgent. It is a challenge for established companies, to say the least, to both drastically innovate in order to remain future-proof and, at the same time, take social responsibility.[1]

The question that now arises is whether our current *corporate governance* regulation requires adjustment in order to be able to navigate these times of transformation. This is not a strange question, as corporate governance is now transcending the boundaries of the roles and interaction between the traditional decision-making bodies of the company (board of directors and general meeting of shareholders) and is increasingly spilling over into compliance, risk management and responsible entrepreneurship (Raaijmakers & Buma, 2019). Note that in this chapter, I do not distinguish between the *one-tier* and *two-tier* board models, but refer to the board as the interaction between non-executive directors and executive directors, whether they formally form one board (*one-tier* system, such as in the UK) or two separate boards (*two-tier* system, such as in The Netherlands), whereby next to the board of directors there is a seperate supervisory board.

Relevant here is that under both Dutch and UK corporate governance rules, the board is expected to lead a process of change where it is necessary to bring about a change in corporate culture for *long-term value creation* (Raaijmakers & Buma, 2019, p. 69) (van de Loo & Winter, 2016). Part of the culture of a company is the increasing attention to ethics and to why people act the way they do. To that end, the board must identify good and bad practices and dilemmas that employees encounter in the company, so that they can be trained to strengthen the corporate culture (Raaijmakers & Buma, 2019, p. 69).

In concrete terms, I see that digitisation leads to the following practical questions: Why does innovation at established companies often better succeed if placed outside existing structures? What needs to change in governance to enable innovation within the existing structure? If innovation is better achieved in small and *agile* teams, how does this fit into the *command and control* structure of compliance-driven organisations, in particular in regulated sectors, such as our financial institutions?