Impact of Cybersecurity Regulations on Corporate Compliance Practices in Japan

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Abstract

Purpose: The aim of the study was to analyze impact of cybersecurity regulations on corporate compliance practices in Japan.

Methodology: This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low cost advantage as compared to a field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

Findings: In Japan, cybersecurity regulations have significantly influenced corporate compliance practices. The Act on the Prohibition of Unauthorized Computer Access, along with the Penal Code, outlines stringent measures against cybercrimes, mandating corporations to adopt robust cybersecurity protocols to protect against unauthorized access and data breaches. Furthermore, comprehensive data protection laws, such as the Act on the Protection of Personal Information (APPI), require companies to obtain explicit consent for data processing, ensuring a higher standard of data privacy and security compliance.

Unique Contribution to Theory, Practice and Policy: Institutional theory, resource dependence theory & contingency theory may be used to anchor future studies on cybersecurity regulations on corporate compliance practices. Organizations should prioritize building a robust cybersecurity governance framework that integrates regulatory compliance requirements into broader risk management strategies. Policymakers and regulators should adopt a risk-based approach to cybersecurity regulation that takes into account the diverse needs and capabilities of organizations across different sectors and geographical regions.

Keywords: Cybersecurity Regulations, Corporate Compliance Practices

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INTRODUCTION

In evaluating the level of corporate compliance with cybersecurity standards, audits and surveys serve as crucial tools for assessing adherence to established protocols and regulations. According to a study by Ponemon Institute, which surveyed over 2,000 IT and IT security practitioners across various industries, only 48% of organizations reported having a comprehensive security strategy in place to combat cyber threats (Ponemon Institute, 2020). This indicates a significant gap in cybersecurity preparedness among corporations, with nearly half lacking robust measures to address evolving cyber risks.

Moreover, audits conducted by regulatory bodies or independent assessors play a vital role in evaluating corporate compliance with cybersecurity standards. For instance, in the financial sector, regulatory authorities often conduct audits to ensure that banks and financial institutions adhere to industry-specific cybersecurity regulations and guidelines. A report by the Federal Financial Institutions Examination Council (FFIEC) found that while many financial institutions have made significant investments in cybersecurity, gaps still exist in areas such as incident response planning and cybersecurity risk management (Federal Financial Institutions Examination Council, 2019). These findings underscore the importance of regular audits in identifying areas for improvement and enhancing overall corporate compliance with cybersecurity standards.

In developed economies like the USA and the UK, corporate compliance with cybersecurity standards has been a significant focus in recent years due to the increasing frequency and sophistication of cyber threats (Mandiant, 2019). According to a study conducted by cybersecurity firm Mandiant, in the USA, only 38% of organizations were able to detect a sophisticated cyberattack within one week in 2019, compared to 56% in 2018 (Mandiant, 2019). This trend indicates a concerning decline in the ability of corporations to maintain effective cybersecurity measures, despite growing awareness and investment in this area. Furthermore, a survey conducted by PwC in the UK revealed that while 90% of large organizations have a cybersecurity strategy in place, only 56% regularly assess their compliance with these standards (PwC, 2018). This suggests a gap between the existence of cybersecurity protocols and their effective implementation within corporations in developed economies.

In Japan, a report by the Ministry of Internal Affairs and Communications highlighted that while cybersecurity awareness among Japanese corporations is increasing, there are still challenges in implementation and adherence to standards (Ministry of Internal Affairs and Communications, 2020). Despite efforts to strengthen cybersecurity regulations, such as the introduction of the Act on the Protection of Personal Information (APPI) and the Basic Act on Cybersecurity, there remains a gap between policy development and corporate compliance (Ministry of Internal Affairs and Communications, 2020).

Similarly, in Germany, a study conducted by the Federal Office for Information Security (BSI) found that while cybersecurity investments are rising, many companies struggle to fully integrate cybersecurity measures into their business processes (Federal Office for Information Security, 2019). Despite the existence of robust cybersecurity regulations, such as the IT Security Act (IT-SiG), compliance among small and medium-sized enterprises (SMEs) remains a challenge due to resource constraints and lack of awareness (Federal Office for Information Security, 2019).
In South Korea, a report by the Korea Internet & Security Agency (KISA) revealed that while large corporations often have robust cybersecurity measures in place, smaller businesses struggle to keep pace due to limited resources and expertise (Korea Internet & Security Agency, 2020). Despite initiatives like the Cybersecurity Management System (CSMS), which provides guidelines for establishing cybersecurity policies, the effectiveness of these measures varies among different sectors and company sizes (Korea Internet & Security Agency, 2020).

Furthermore, in Australia, a study conducted by the Australian Cyber Security Centre (ACSC) found that while awareness of cybersecurity risks is high among Australian businesses, many still lack comprehensive cybersecurity strategies (Australian Cyber Security Centre, 2018). Despite the implementation of mandatory data breach notification laws and the release of cybersecurity guidelines by the Australian Signals Directorate (ASD), compliance with these standards remains a challenge for organizations across various industries (Australian Cyber Security Centre, 2018).

In Canada, a report by the Communications Security Establishment (CSE) indicated that while cybersecurity awareness among Canadian organizations is increasing, many still face challenges in implementing effective cybersecurity measures (Communications Security Establishment, 2019). Despite the existence of cybersecurity frameworks such as the Cyber Security Strategy and the Digital Charter, organizations struggle with issues such as inadequate cybersecurity budgets and a shortage of skilled cybersecurity professionals (Communications Security Establishment, 2019). Additionally, in France, a study by the National Cybersecurity Agency of France (ANSSI) found that while there is a growing emphasis on cybersecurity among French businesses, significant disparities exist in cybersecurity readiness across different sectors (National Cybersecurity Agency of France, 2020). While large corporations tend to have more robust cybersecurity measures in place, small and medium-sized enterprises (SMEs) often lack the resources and expertise to address cybersecurity threats effectively (National Cybersecurity Agency of France, 2020).

In developing economies, the level of corporate compliance with cybersecurity standards may vary due to factors such as limited resources and infrastructure (Brazilian Internet Steering Committee, 2019). For example, in countries like Brazil, where cyber threats are on the rise, there is a growing awareness of the importance of cybersecurity among corporations. However, according to a report by the Brazilian Internet Steering Committee, only 40% of companies in Brazil have a dedicated budget for cybersecurity measures (Brazilian Internet Steering Committee, 2019). This indicates a significant disparity between awareness and action in implementing cybersecurity protocols. Similarly, in India, a study found that while 87% of Indian organizations recognize cybersecurity as a top priority, only 37% have a comprehensive cybersecurity strategy in place (Chakraborty & Srivastava, 2017), highlighting a substantial gap in compliance with cybersecurity standards among corporations in developing economies.

In Brazil, a report by the Brazilian Internet Steering Committee (CGI.br) revealed that while awareness of cybersecurity risks is increasing among Brazilian businesses, many still struggle to implement comprehensive cybersecurity measures (Brazilian Internet Steering Committee, 2020). Despite efforts to strengthen cybersecurity regulations, such as the General Data Protection Law (LGPD) and the creation of the Brazilian National Cybersecurity Strategy, compliance remains a challenge due to factors such as limited resources and a shortage of cybersecurity professionals.
(Brazilian Internet Steering Committee, 2020). Similarly, in India, a study by the Data Security Council of India (DSCI) found that while cybersecurity awareness is on the rise, many Indian organizations lack adequate cybersecurity infrastructure and policies (Data Security Council of India, 2019). Despite initiatives like the Cyber Swachhta Kendra and the National Cyber Security Policy, compliance with cybersecurity standards remains a significant challenge for Indian businesses, particularly small and medium-sized enterprises (SMEs) (Data Security Council of India, 2019).

In Nigeria, a report by the Nigeria Information Technology Development Agency (NITDA) highlighted that while awareness of cybersecurity risks is increasing, many Nigerian organizations still lack adequate cybersecurity measures (Nigeria Information Technology Development Agency, 2020). Despite efforts to improve cybersecurity through initiatives like the Nigeria National Cybersecurity Policy and Strategy, compliance remains a challenge due to factors such as limited cybersecurity infrastructure and funding constraints (Nigeria Information Technology Development Agency, 2020). Additionally, in South Africa, a study by the Council for Scientific and Industrial Research (CSIR) found that while there is a growing recognition of cybersecurity as a priority, many South African businesses struggle to implement effective cybersecurity measures (Council for Scientific and Industrial Research, 2019). Despite the existence of cybersecurity frameworks such as the South African National Cybersecurity Policy Framework, compliance remains a challenge due to issues such as skills shortages and limited cybersecurity awareness (Council for Scientific and Industrial Research, 2019).

In Kenya, a report by the Communications Authority of Kenya (CA) indicated that while awareness of cybersecurity risks is increasing, many Kenyan organizations still face challenges in implementing effective cybersecurity measures (Communications Authority of Kenya, 2020). Despite efforts to strengthen cybersecurity regulations, such as the Kenya National Cybersecurity Strategy and the Data Protection Act, compliance remains a challenge due to factors such as limited cybersecurity expertise and inadequate funding for cybersecurity initiatives (Communications Authority of Kenya, 2020). Moreover, in Ghana, a study by the National Cyber Security Centre (NCSC) found that while there is a growing emphasis on cybersecurity among Ghanaian businesses, many struggle to implement comprehensive cybersecurity measures (National Cyber Security Centre, 2019). Despite initiatives like the Ghana National Cybersecurity Policy and Strategy, compliance with cybersecurity standards remains a significant challenge for organizations across various sectors, particularly small and medium-sized enterprises (SMEs) (National Cyber Security Centre, 2019).

In Nigeria, a report by the Nigeria Information Technology Development Agency (NITDA) highlighted that while awareness of cybersecurity risks is increasing, many Nigerian organizations still lack adequate cybersecurity measures (Nigeria Information Technology Development Agency, 2020). Despite efforts to improve cybersecurity through initiatives like the Nigeria National Cybersecurity Policy and Strategy, compliance remains a challenge due to factors such as limited cybersecurity infrastructure and funding constraints (Nigeria Information Technology Development Agency, 2020). Furthermore, in South Africa, a study by the Council for Scientific and Industrial Research (CSIR) found that while there is a growing recognition of cybersecurity as a priority, many South African businesses struggle to implement effective cybersecurity measures (Council for Scientific and Industrial Research, 2019).
measures (Council for Scientific and Industrial Research, 2019). Despite the existence of cybersecurity frameworks such as the South African National Cybersecurity Policy Framework, compliance remains a challenge due to issues such as skills shortages and limited cybersecurity awareness (Council for Scientific and Industrial Research, 2019).

The stringency of cybersecurity regulations, measured on a scale, encompasses various factors that dictate the rigor and thoroughness of legal requirements imposed on organizations to safeguard their digital assets and data. These regulations typically include elements such as the scope and specificity of cybersecurity mandates, the severity of penalties for non-compliance, the frequency of regulatory updates, and the extent of regulatory oversight and enforcement mechanisms (OECD, 2019). For instance, a regulatory framework with stringent requirements may mandate regular cybersecurity audits, impose hefty fines for data breaches, and require organizations to adhere to specific technical standards for protecting sensitive information.

The level of corporate compliance with cybersecurity standards, measured through audits or surveys, is directly influenced by the stringency of cybersecurity regulations in place. Organizations operating in environments with more rigorous regulatory regimes tend to demonstrate higher levels of compliance, as they face greater pressure to meet stringent legal requirements and avoid penalties for non-compliance (Dey et al., 2019). Conversely, lax or ambiguous regulatory frameworks may result in lower levels of compliance, as organizations may perceive less urgency in investing resources to meet minimal standards or may exploit regulatory loopholes to prioritize other business objectives over cybersecurity.

Problem Statement

In the rapidly evolving digital landscape, the proliferation of cyber threats poses significant risks to organizations, necessitating the implementation of robust cybersecurity measures. Governments and regulatory bodies worldwide have responded by enacting cybersecurity regulations to mitigate these risks and protect sensitive information. However, the extent to which these regulations influence corporate compliance practices remains unclear. While some studies suggest that stringent cybersecurity regulations lead to improved compliance and better protection against cyber threats (Kshetri, 2021), others argue that overly prescriptive regulations may impose undue burdens on organizations, hindering innovation and diverting resources from other critical areas (Murray, 2020).

Theoretical Framework

Institutional Theory

Originating from sociologists such as Meyer and Rowan (1977) and DiMaggio and Powell (1983), Institutional Theory posits that organizations conform to external institutional pressures, including regulatory mandates, to gain legitimacy and ensure survival. In the context of the impact of cybersecurity regulations on corporate compliance practices, Institutional Theory suggests that organizations adhere to regulatory requirements not only to avoid penalties but also to maintain their reputation and legitimacy in the eyes of stakeholders (Barnes et al., 2019). Compliance with cybersecurity regulations can enhance an organization's credibility and trustworthiness, thereby influencing its competitive advantage and long-term viability in the marketplace.
Resource Dependence Theory

Developed by Pfeffer and Salancik (1978), Resource Dependence Theory emphasizes how organizations rely on external resources to survive and thrive. This theory suggests that organizations comply with cybersecurity regulations as a strategic response to their dependence on external stakeholders, such as customers, suppliers, and regulatory agencies (Choi, 2020). By adhering to regulatory requirements, organizations can mitigate risks associated with cyber threats and reassure stakeholders of their commitment to protecting sensitive information, thereby maintaining crucial resource dependencies.

Contingency Theory

Contingency Theory, proposed by scholars such as Lawrence and Lorsch (1967) and Donaldson (2001), argues that organizational structures and behaviors are contingent upon various environmental factors, including regulatory contexts. In the context of cybersecurity regulations and corporate compliance practices, contingency theory suggests that organizations adapt their compliance strategies based on the specific regulatory requirements and the nature of their industry and competitive landscape (Choi, 2020). By aligning compliance efforts with external regulatory demands, organizations can effectively manage cyber risks and ensure resilience in dynamic and uncertain environments.

Empirical Review

Barnes, Kılıç and Schilling (2019) investigated into the intricate dynamics between compliance with cybersecurity regulations and investment in information security within corporate settings. Utilizing a rigorous quantitative approach, their study sought to uncover the nuanced relationship between regulatory adherence and resource allocation strategies. Through meticulous data analysis and advanced statistical modeling techniques, the researchers endeavored to elucidate how organizations respond to varying degrees of regulatory pressures and mandates, particularly in terms of their investment decisions regarding information security measures. Their findings yielded valuable insights into the strategic considerations and behavioral patterns that underpin corporate compliance practices in the context of cybersecurity regulations. By examining the interplay between regulatory requirements and organizational responses, Barnes (2019) shed light on the complex mechanisms through which regulatory frameworks influence corporate investment priorities and decision-making processes, thereby contributing to a deeper understanding of the broader implications of cybersecurity regulations on corporate compliance practices.

Choi, Kallapur and Wang (2020) delved into the realm of cybersecurity compliance practices through the theoretical lens of Resource Dependence Theory, seeking to uncover the underlying drivers and strategic imperatives that shape organizations’ adherence to regulatory mandates. Employing qualitative research methods, including in-depth interviews and thematic analysis, their study delved into the intricate interplay between external regulatory pressures, internal resource dynamics, and organizational compliance behaviors. By exploring the strategic responses of organizations to regulatory mandates within the framework of resource dependence theory, Choi (2020) provided nuanced insights into the complex mechanisms through which organizations navigate the regulatory landscape and manage compliance obligations. Their research underscored the pivotal role of resource dependencies in shaping compliance strategies and decision-making.
processes, offering valuable perspectives on the strategic imperatives that drive organizational responses to cybersecurity regulations. Through the integration of theoretical frameworks with empirical observations, Choi (2020) contributed to a deeper understanding of the factors influencing corporate compliance practices and the broader implications of cybersecurity regulations on organizational behavior and governance.

Jones, Smith, and Brown (2018) assessed the effectiveness of cybersecurity regulations in improving corporate compliance practices over time. Employing a mixed-methods approach, their research sought to capture the evolving landscape of regulatory compliance and its implications for organizational behavior. Leveraging both quantitative data analysis and qualitative inquiry, their study provided a comprehensive assessment of the long-term trajectory of compliance efforts, shedding light on trends indicative of gradual improvements in compliance practices alongside persistent challenges. By examining changes in compliance behaviors and organizational responses over time, Jones (2018) contributed valuable insights into the effectiveness of cybersecurity regulations in shaping corporate behavior and governance practices. Their research highlighted the dynamic nature of compliance efforts and the ongoing challenges faced by organizations in navigating the complex regulatory landscape.

Patel (2021) evaluated the impact of cybersecurity regulations on organizational resilience in the face of cyber threats. Integrating quantitative surveys with qualitative interviews, their study aimed to explore the multifaceted relationship between regulatory compliance and organizational preparedness for cyber threats. Through their comprehensive research design, Patel. (2021) provided rich insights into the mechanisms through which regulatory compliance contributes to organizational resilience, highlighting the importance of proactive compliance measures in mitigating cyber risks and safeguarding organizational assets. By examining the intersection of regulatory compliance and organizational resilience, their study offered valuable perspectives on the role of regulatory frameworks in enhancing organizational cybersecurity posture and resilience in today's evolving threat landscape. Through their rigorous empirical analysis contributed to a deeper understanding of the complex interplay between regulatory compliance, organizational behavior, and cybersecurity resilience, offering practical implications for policymakers, regulators, and organizations seeking to bolster their cybersecurity defenses and enhance their resilience against cyber threats.

Kim and Lee (2019) evaluated the implementation of cybersecurity regulations within the banking sector, a highly regulated industry with significant cybersecurity implications. Leveraging qualitative research methods, including interviews, observations, and document analysis, their study sought to uncover the complexities of regulatory compliance within the banking sector. Through detailed examination of regulatory enforcement mechanisms, organizational responses, and cultural factors, Kim and Lee (2019) provided rich insights into the intricate dynamics shaping compliance behaviors and practices within banking institutions. Their research shed light on the challenges and opportunities associated with regulatory compliance in a highly regulated industry, offering valuable perspectives on the implications of cybersecurity regulations for organizational behavior and governance within the banking sector.

Wang (2022) explored the relationship between regulatory compliance and cyber risk management practices across diverse industries. Employing a quantitative research design, their study sought to
assess the prevalence and effectiveness of compliance-driven risk management strategies within organizations. Through rigorous statistical analysis and inferential modeling, Wang (2022) provided empirical evidence supporting the notion that regulatory compliance efforts are positively associated with the adoption of robust cyber risk management practices. Their research highlighted the instrumental role of regulatory frameworks in shaping organizational cybersecurity strategies and mitigating cyber risks in today's digital landscape. By examining the relationship between regulatory compliance and cyber risk management practices, Wang (2022) offered valuable insights into the mechanisms through which regulatory mandates influence organizational behavior and governance practices, contributing to a deeper understanding of the broader implications of cybersecurity regulations for organizational cybersecurity posture and resilience.

METHODOLOGY

This study adopted a desk methodology. A desk study research design is commonly known as secondary data collection. This is basically collecting data from existing resources preferably because of its low-cost advantage as compared to field research. Our current study looked into already published studies and reports as the data was easily accessed through online journals and libraries.

FINDINGS

The results were analyzed into various research gap categories that is conceptual, contextual and methodological gaps

Conceptual Gap: While the studies by Barnes (2019) and Choi (2020) offered valuable insights into the relationship between cybersecurity regulations and corporate compliance practices, there appears to be a conceptual gap in understanding the underlying mechanisms driving compliance behaviors. While Barnes (2019) focus on the strategic considerations and behavioral patterns influencing compliance practices, Choi (2020) delved into the role of resource dependencies in shaping compliance strategies. However, there is a need for research that integrates these perspectives to develop a more comprehensive conceptual framework for understanding corporate compliance with cybersecurity regulations. Such a framework could help elucidate the interplay between organizational factors, regulatory pressures, and compliance behaviors, providing a deeper understanding of the drivers and barriers to compliance across different organizational contexts.

Contextual Gap: Despite the wealth of research on cybersecurity regulations and corporate compliance practices, there appears to be a contextual gap in understanding how compliance behaviors vary across different industry sectors. While studies by Barnes (2019) and Kim and Lee (2019) focus on compliance within corporate settings and the banking sector, respectively, there is limited research exploring compliance practices in other industries. Understanding how compliance behaviors differ across industries can provide valuable insights into the contextual factors shaping organizational responses to cybersecurity regulations. Moreover, there is a need for research that examines the impact of industry-specific regulatory frameworks on compliance practices, as regulatory requirements may vary significantly across different sectors.
Geographical Gap: The studies by Patel (2021) reviewed primarily focus on compliance practices in Western contexts, such as the United States and South Korea. However, there is a geographical gap in understanding compliance practices in other regions, particularly in emerging economies or regions with less developed regulatory environments. Research conducted in these contexts could shed light on the challenges and opportunities associated with compliance with cybersecurity regulations in diverse socio-economic and regulatory contexts. Moreover, exploring compliance practices in different geographical regions can help identify best practices and lessons learned that may be applicable across contexts, contributing to a more nuanced understanding of the global implications of cybersecurity regulations on corporate compliance practices. Addressing these conceptual, contextual, and geographical gaps in the literature can help advance scholarly understanding of the impact of cybersecurity regulations on corporate compliance practices and inform policy and practice in this critical domain.

CONCLUSION AND RECOMMENDATIONS

Conclusions

In conclusion, the impact of cybersecurity regulations on corporate compliance practices is a multifaceted and dynamic phenomenon that requires careful consideration from both scholarly and practical perspectives. Through a review of empirical studies, it is evident that cybersecurity regulations play a crucial role in shaping organizational behavior and governance practices, influencing investment decisions, resource allocation strategies, and compliance behaviors within corporate settings. Studies have highlighted the complex interplay between regulatory pressures, organizational responses, and compliance outcomes, underscoring the importance of understanding the underlying mechanisms driving compliance practices.

However, despite significant advancements in research, several gaps remain that warrant further exploration. Conceptually, there is a need for a more comprehensive understanding of the factors influencing compliance behaviors, including the role of organizational factors, regulatory pressures, and industry-specific contexts. Moreover, there is a need for research that examines compliance practices across different industry sectors and geographical regions to uncover variations in compliance behaviors and regulatory environments. Addressing these gaps in the literature can provide valuable insights into the implications of cybersecurity regulations for corporate compliance practices and inform policymakers, regulators, and organizations seeking to enhance their cybersecurity posture and resilience in an increasingly digital world. Overall, continued research in this area is essential to advance scholarly understanding and support evidence-based policymaking and organizational decision-making in cybersecurity governance and compliance.

Recommendations

Theory

To further advance theoretical understanding, future research should focus on developing integrated frameworks that incorporate various factors influencing corporate compliance practices with cybersecurity regulations. Scholars could draw from diverse theoretical perspectives, such as Institutional Theory, Resource Dependence Theory, and Contingency Theory, to develop
comprehensive models that elucidate the complex interplay between regulatory pressures, organizational responses, and compliance outcomes. These frameworks should account for the influence of organizational culture, leadership dynamics, and industry-specific contexts on compliance behaviors, contributing to a deeper theoretical understanding of the mechanisms driving corporate compliance with cybersecurity regulations.

**Practice**

In terms of practical implications, organizations should prioritize building a robust cybersecurity governance framework that integrates regulatory compliance requirements into broader risk management strategies. This involves conducting comprehensive risk assessments, developing tailored compliance programs, and allocating sufficient resources to cybersecurity initiatives. Moreover, organizations should foster a culture of cybersecurity awareness and accountability across all levels, ensuring that employees understand their roles and responsibilities in complying with regulatory mandates. Additionally, organizations should invest in continuous monitoring and evaluation mechanisms to assess the effectiveness of compliance efforts and identify areas for improvement. By adopting proactive and strategic approaches to compliance, organizations can enhance their cybersecurity posture and resilience against evolving cyber threats.

**Policy**

From a policy perspective, policymakers and regulators should adopt a risk-based approach to cybersecurity regulation that takes into account the diverse needs and capabilities of organizations across different sectors and geographical regions. Regulatory frameworks should be flexible and adaptive to accommodate rapid technological advancements and emerging cyber threats, while also providing clear guidelines and standards for compliance. Moreover, policymakers should foster collaboration and information sharing among stakeholders, including government agencies, industry associations, and cybersecurity experts, to facilitate collective efforts in enhancing cybersecurity governance and compliance. Additionally, policymakers should consider the potential impact of regulations on small and medium-sized enterprises (SMEs) and provide support mechanisms to help them navigate compliance challenges effectively. By adopting a holistic and collaborative approach to cybersecurity regulation, policymakers can create an enabling environment that promotes cybersecurity resilience and fosters innovation and growth in the digital economy.
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