
Improving Corporate Governance in Joint-Stock Companies with State Participation

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Abstract: This article analyzes and systematizes the main methods and approaches to evaluating the effectiveness of corporate management. The practice of independent evaluation of the corporate management system of joint-stock companies in Uzbekistan was evaluated and ways of its improvement were developed.

Key words: corporate governance, corporate governance effectiveness, corporate governance principles, corporate governance code, independent assessment.

INTRODUCTION

Increasing the investment attractiveness of joint-stock companies and ensuring high rates of national economic growth by attracting foreign strategic investors has led to increased attention to the quality and efficiency of corporate management. At the moment, as the operation of a joint-stock company in our country requires the participation of foreign investors, it is important to introduce modern methods of corporate management, prepare financial reports based on international standard requirements, ensure and control management efficiency, correctly formulate the dividend policy and ensure high income for shareholders. It is not difficult to imagine.

Currently, according to experts' assessment and results of empirical studies, the market value of corporations increases by 20-30 percent due to the improvement of corporate management efficiency. In addition, the formation of an effective corporate management system leads to an increase in the capitalization of the national stock market, the emergence of the possibility of using external sources of financing, and ultimately the development of business activities in the country and their competitiveness.

For this reason, the extent to which corporate governance is implemented in investee companies and its effectiveness are increasingly important when making investment decisions. In a similar way, the criteria and methods for evaluating and diagnosing the effectiveness of the corporate management system of companies are also improving. This, in turn, is the reason for the formation of a strong competitive environment among rating agencies in terms of developing services for determining company ratings on corporate governance.

Literature review

According to the Code of Corporate Governance of the Republic of Uzbekistan, corporate governance means the executive body of joint-stock companies, the supervisory board, shareholders in order to effectively organize the activities of the joint-stock company, modernize production facilities, technical and technological re-equipment, produce competitive products and export them to the foreign market. , representatives of the labor team and other interested parties, including creditors, is understood as a system for achieving harmony of the interests of these individuals [13].

At the same time, there are different views on effective corporate governance. In particular, the essence of effective corporate governance is manifested in ensuring the establishment of reliable relations between the corporation and its stakeholders [1].

Effective corporate governance provides for the legal, ethical and sustainable maximization of shareholder value based on ensuring fairness and transparency for all stakeholders - the company's customers, employees, investors, suppliers, government and society - in corporate structures [5].

Effective corporate governance helps companies operate more efficiently, increase capital raising opportunities, reduce risks, and protect against poor management [9]. Also important in this regard are corporate governance mechanisms and controls in that they aim to reduce or eliminate the principal-agent problem [2].

Effective corporate governance also requires the implementation of industry-specific international standards. Currently, the principles of modern corporate governance of the Organization for Economic Cooperation and Development (OECD) are systematized as follows [7]:

1. Providing the necessary foundations for effective corporate governance mechanisms;
2. Rights of shareholders, equal treatment and main ownership functions;
3. Institutional investors, stock markets and other intermediaries;
4. The role of stakeholders in corporate governance;
5. Information openness and transparency;
6. Duties of the Council.

It is also possible to highlight a number of principles as important principles of effective corporate governance (see Figure 1). In our opinion, the following principles are extremely important in ensuring the effectiveness of corporate governance:



Figure 1 Principles of effective corporate governance

1. **Capability.** The primary principle of effective corporate governance is the ability of the supervisory board and the executive body to effectively manage and control the company, as well as having the necessary qualifications, experience and talent. In particular, M. Nadler emphasizes the need for strategic thinking and understanding of the business and the industry

to which it relates in order to create more effective boards [4]. A 2016 survey by KPMG found that only 39% of UK directors were satisfied with the level of skills and experience of boards. 82% of respondents indicated that there are barriers to finding directors with the right qualifications and experience based on the nature of the business [8].

2. **Integrity.** The board should direct the company to operate in an honest and ethical manner. In order for the board to be effective, it needs to be concerned about ethical principles both inside and outside the board. In addition, the board of directors is now gender-diversified, with a significant proportion of female directors, to ensure integrity and ethics in the board. However, there is no consensus on the effect of increasing the weight of female directors on the board on company performance (in most studies, performance is measured by the company's return on assets - ROA). In other words, the researchers' conclusions in this regard can be divided into two: 1) there is a positive relationship between female directors and the company's performance [3]; 2) there is no significant correlation between these two indicators[6]. Supervisory boards in listed companies governed by the Co-determination Act for the Coal, Iron and Steel Industry (Montan-Mitbestimmungsgesetz) in accordance with Section 5.4.1 of the German Corporate Governance Code the percentage of members of the same sex must be at least 30% (for example: 30% women + 70% men or 30% men + 70% women) [11].
3. **Leadership.** Leadership directs the company's work team towards achieving a common goal and provides the necessary guidelines. The heads of the supervisory board and the executive body must implement the principles of effective leadership.
4. **Accountability.** Accountability is based on transparency. Corporate accountability represents the obligation and responsibility to provide an explanation for the company's activity, behavior, or reasons for it. Boards should ensure that relations with shareholders and other stakeholders are organized on a transparent and balanced basis.
5. **Sustainability.** Sustainability is an emerging but important principle of corporate governance. From this point of view, this principle requires understanding the role of the company in matters of social responsibility and nature protection.

Research methodology

A selective literature review was used in the research using the Web of Science database. In the analysis of the practice of assessing the effectiveness of corporate management in Uzbekistan, the Scientific and Educational Center of Corporate Management conducted research in a number of joint-stock companies of our republic, in particular, Uzsanoatkurilishbank, "Ipotekabank" ATB, "Doridarmon" AK, Universalbank XTB, "ASIA ALLIANCE BANK", "Ozdonmahsulot", "Kafolat" "Insurance Company" JSC, "Uzavtosanoat" JSC, Uchkurgonmoy JSC used the results of independent assessment. For the assessment, the "Questionnaire for independent evaluation of the corporate management system in joint-stock companies" developed and approved by the State Committee for Assistance to Privatized Enterprises and Development of Competition of the Republic of Uzbekistan and the Scientific and Educational Center of Corporate Management was used as a basis [12].

Analysis and discussion of results

In the course of the research, the existing approaches and methods for evaluating the effectiveness of corporate management were studied, and the characteristics of their structure were determined. We will discuss these methods in detail below.

GAMMA. *The important components of Standard & Poor's rating agency's corporate governance assessment methodology (GAMMA)3 are the following:*

1. influence of shareholders;
2. rights of shareholders;
3. corporate system of transparency, audit and risk management;

4. performance of the board of directors, strategic processes and effectiveness of the reward system.

GMI. In the GMI (Governance Metrics International) methodology for evaluating corporate governance, the main elements include legislation on the composition of the board of directors, financial transparency and external control, shareholder rights, the ability to control the ownership structure through the market, the powers of executive bodies and the existence of a corporate code of conduct..

The corporate governance assessment methodology developed by the rating agency "Expert RA" of the Russian Federation is the right of shareholders, consists of such components as the activities of management and control bodies, disclosure of information, compliance with the interests of other interested parties and corporate social responsibility.

Also, in Russia, the Federal Agency for State Property Management has developed a methodology for independent assessment of the quality of corporate governance in state-owned companies, which consists of 6 sections:

1. Rights of shareholders;
2. Board of Directors;
3. Executive body;
4. Transparency and openness of information;
5. Risk management, internal control and internal audit;
6. Corporate social responsibility, business ethics and compliance.

The evaluation results are expressed in percentages, 100% represents excellent quality, 0% represents poor quality. The Federal Agency for State Property Management recommends that the board of directors of joint-stock companies have a minimum quality level of corporate governance of not less than 65 percent.

In 2004, the Corporate Governance Rating Index (CGRI) for state-owned enterprises in the People's Republic of China was developed by the BearingPoint consulting company as part of the Asian Development Bank project. This index makes it possible to assess the extent to which Chinese enterprises adhere to international and national standards of corporate governance. In this case, two separate CGRI-scoring mechanisms apply for enterprises with 100 percent state ownership and less than 100 percent state ownership.

Five main categories were selected for the index and their respective weights were assigned (see Table 1). These categories include: 1) the role of the board of directors, 2) transparency and disclosure, 3) auditing, 4) stakeholders and corporate citizenship, 5) equal treatment of shareholders.

Also, based on the generalization of foreign experiences on the structure of the corporate management indicators system, it can be noted that the corporate management indicators system covers the following areas:

- compliance with the principles of corporate governance;
- rights of shareholders;
- equal (equal) treatment to shareholders;
- the role of stakeholders in the management of a joint-stock company;
- publication of information and transparency;
- role and responsibilities of councils;
- audit and internal control system.

Evaluation of the effectiveness of the corporate management system of joint-stock companies in Uzbekistan is carried out in 2016 on the basis of a special questionnaire developed and approved by the State Committee for Assistance to Privatized Enterprises and Development of Competition of the Republic of Uzbekistan and the Scientific and Educational Center of Corporate Management. In accordance with the recommendations of the Corporate Governance Code, the management bodies of the joint-stock company link the amount of remuneration of the members of the supervisory board with the financial results of the joint-stock company and the results of an independent evaluation of the corporate management system.

Table 1 The structure of the corporate governance rating index

Category	The state share was 100 percent enterprises (%)		The state share is 100 percent enterprises without (%)	
	Weight (%)	Number of questions	Weight (%)	Number of questions
1. Directors the role of the board	30	22	25	22
2. Transparency and information openness	30	18	25	19
3. Audit	30	24	20	20
4. Stakeholders and corporate citizenship	10	8	10	8
5. To shareholders equal treatment To shareholders equal treatment	0	0	20	15
Total	100	72	100	84

Source: Compiled by the authors based on data from the Asian Development Bank.

According to our analysis, the following problems remain in evaluating the effectiveness of the corporate management system of the joint-stock companies of our republic based on the questionnaire mentioned above:

1. Failure to provide an explanation of cases of non-compliance with the recommendations of the Corporate Governance Code and to publish them on the company's web page or on the single portal of corporate information (www.openinfo.uz). Accepting code recommendations as a "condition" in most societies, not disclosing cases of non-compliance, indicates a lack of understanding of the principle of "comply or explain" or a lack of qualifications and skills of employees responsible for the openness of corporate information.
2. Problems in ensuring publication of information related to mandatory disclosure in the state language, Russian and English languages on the website of the joint-stock company or other sources provided for by law. In most joint-stock companies, the ability to provide high-quality translation of published information in three languages remains limited. It is noteworthy that in strategically important companies with 100% state-owned ordinary shares, the preparation and publication of information in three languages is considered important for achieving high scores in the independent assessment of the corporate governance system. However, companies whose shares are not intended to be sold to foreign investors have to pay certain costs for publishing information in English.

Foreign experience shows that recruiting agencies, consulting companies and coaches are usually involved in the process of finding independent directors. Also, the association of independent directors, institute of independent directors, agency, etc. are engaged in finding, training, developing candidates for independent members and creating a database. Due to the fact that the criterion of an independent member of the supervisory board and the requirements for it have not been established in Uzbekistan for a long time, the activities of the above-mentioned

infrastructural organizations have not developed, and some of them have not even started their activities.

Also, although not of a systematic nature, it is possible to witness that in some joint-stock companies, issues related to the development of a new product and financing its marketing, obtaining a quality management system certificate, and conducting an external audit of the quality management system have not been effectively implemented.

Conclusions and suggestions

Based on the research, it is appropriate to note that in the development of the corporate management system of joint-stock companies in our country, attention and demand for the openness of corporate information is increasing.

The fact that the code covers the issues of openness and completeness of information in terms of its content and content, as well as the high weight of questions about information openness in the special questionnaire on evaluating the corporate management system in joint-stock companies serves to confirm our above opinion.

According to our analysis, there is a need to improve the methodology of assessing the effectiveness of the corporate management system of joint-stock companies in Uzbekistan.

In our opinion, we consider it appropriate to introduce the following scientific proposals and practical recommendations to improve the efficiency of the corporate management system and improve its assessment methodology:

First of all, it is necessary to completely exclude the questions on the evaluation of the preparatory processes for the introduction of the Corporate Governance Code from the questionnaire on the evaluation of the corporate governance system in joint-stock companies. According to our analysis, since 2016, the scores of joint-stock companies on these questions have remained unchanged. Of course, at the initial stage, understanding the nature of the code's recommendations and preparing for its implementation are of high importance. However, it is now more important to fully cover the implementation of the Code's recommendations than to prepare for its implementation.

Secondly, to be able to fully assess the level of compliance with the recommendations of the corporate governance code, it is necessary to ensure that the recommendations of the code are included in the questionnaire. For example, joint-stock companies are limited to reflect the recommendations of the code in the documents, in practice, the governing bodies do not care enough about the exact mechanisms of implementation of these recommendations. Therefore, in accordance with the recommendations of the Corporate Governance Code, in the regulations on the general meeting of shareholders, before the general meeting is held, to provide shareholders with the necessary information on the agenda, including the position of the supervisory board on the issue on the agenda of the general meeting; despite the fact that a separate internal document of the joint-stock company provides for the possibility of concluding a joint stock agreement for shareholders, including minority shareholders, in order to form their joint position in voting, in practice, clear and effective mechanisms for the implementation of the above-mentioned recommendations have not been developed. Employees of joint-stock companies responsible for corporate management are trying to maximize the score determined only on the effectiveness of corporate management with excuses such as "execution is not indicated in the questionnaire", "recommendations are included in the documents". This requires systematic revision and improvement of this questionnaire.

Thirdly, the number of independent members should be set at no less than 15% of the number of members of the supervisory board determined by the charter of the company, and only those candidates who meet the criteria for determining the independent member should be voted in their election. That is, even if the election for independent members seems to be organized separately, it

is carried out according to the established procedure for the election of the members of the supervisory board.

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