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PRINCIPLES AND MECHANISMS FOR CREATING AN EFFECTIVE CORPORATE GOVERNANCE SYSTEM

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Abstract: The corporate governance system is an organizational model by which a joint-stock company must represent and protect the interests of its shareholders, i.e., on the one hand, regulate the relationship between the managers of the joint-stock company and its shareholders-owners, on the other hand, coordinate the goals of various stakeholders, ensuring the efficient functioning of the JSC. This article is the result of a dissertation research in the field of improving corporate governance.

Key words. Shareholders, corporate governance, founders, joint-stock company, suppliers, management system.

INTRODUCTION

Public joint-stock companies are a powerful factor in the development of the economy of any country. This organizational and legal form provides a unique way of doing business, which allows you to raise funds for your development with virtually no restrictions. The key to the successful development of such companies is the development by the owners and management of effective management tools and mechanisms, the coordination of interests between shareholders and other interested parties. All these issues relate to the field of corporate governance, the relevance of which has increased significantly in recent years, both in professional circles and in the media.

As you know, the main reason for the emergence of corporate governance is the need to separate the function of owning property from its direct management, in connection with which the company creates a corporate governance system - a set of management bodies that manage the company's activities, taking into account the interests of all stakeholders. In relation to public companies, the right of ownership is exercised through the functioning of the general meeting of shareholders. Other management bodies - the board of directors and executive bodies - carry out direct management of the company's activities.

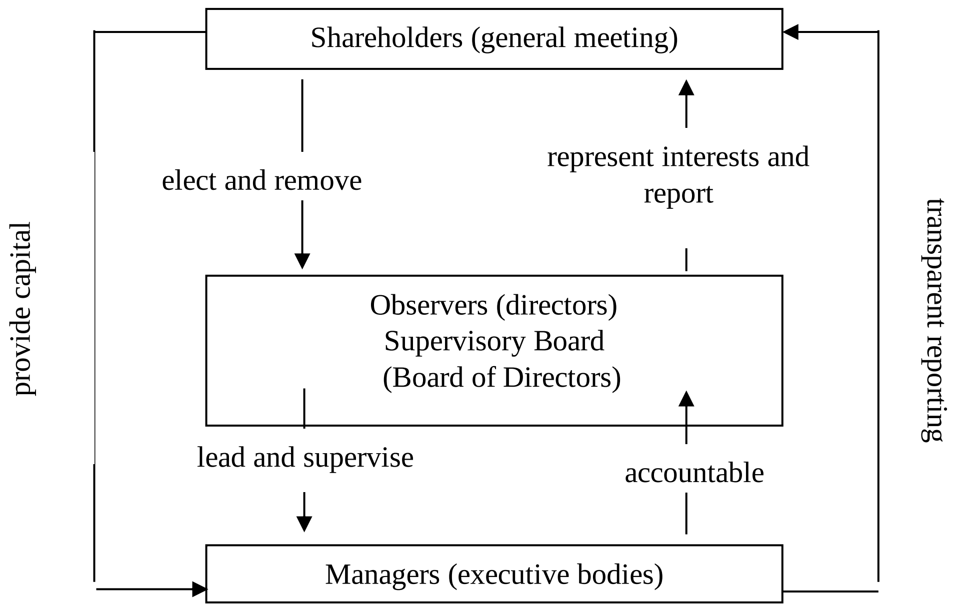
Despite the fact that the term "corporate governance" has recently been widely used in practice, which is largely due to the increase in the scale of management tasks in large companies, and a significant number of publications are devoted to it, the concept of corporate governance itself does not have an unambiguous definition.

In order to better understand the relations that develop within the company's management bodies in the process of corporate governance, it becomes necessary to conduct a detailed analysis of the practice of corporate relations in terms of exercising the rights and protecting the interests of shareholders and the activities of the board of directors. In addition, it is necessary to distinguish and define the content of such concepts as corporate governance and corporate management.

Methods. In the process of preparing the article were used formal-logical, specific research methods econometric modeling, empirical research, and forecasting

Analyses. The presence of an effective corporate governance system within individual joint-stock companies, as well as on the scale of the country's economy as a whole, helps to ensure the proper level of trust necessary for the normal functioning of a market economy [1]. This lowers the cost of capital and encourages joint stock companies to use resources more efficiently, thereby providing a basis for growth.

The basic system of corporate governance and the relationship between management bodies are shown in fig. 1.



Rice. 1. Corporate governance system

The corporate governance system implies the holistic nature of its application in a joint-stock company. To implement or use such a system, certain conditions are necessary, the main of which is the status of the organization - a joint-stock company.

The main objective of the corporate governance system in joint-stock companies is to ensure the efficiency of activities and respect for the interests of all its participants, as well as, to one degree or another, taking into account the interests of other groups that influence the company (investors, consumers).

A corporate governance mechanism is a link between corporate governance elements that are designed to interact with each other in order to achieve the required functioning of the corporate governance system as a whole. The mechanism is part of the technology and contributes to its implementation. Moreover, the mechanism is implemented using various methods, which are essentially a set of techniques and operations.

Corporate governance methods are influenced by the principles and content of corporate governance - that is, these are the means by which the main goal of corporate governance is achieved. The sequence of implementation of these methods creates a procedure, that is, a sequence of operations to achieve a goal or result.

The main mechanisms of corporate governance include: supervisory board (board of directors); a system for assessing the motivation of top managers; well-established system of information exchange between top managers and owners of the organization; technical part; hostile takeover; bankruptcy; obtaining powers by proxy of shareholders.

For a correct understanding of the essence of corporate governance, it is necessary to determine the principles of its structural organization and main functions. In other words, the organizational structure of a joint-stock company must be drawn up in compliance with a set of certain principles and rules.

Under the principles are understood the guiding norms and rules underlying the solution of problems related to management. They show the most stable features of objective management indicators.

In recent years, many Codes of Best Practice have been developed to implement the principles of corporate governance. However, only the OECD principles are addressed to both public authorities responsible for policymaking and enterprises, and only they cover all corporate governance issues (shareholder rights, the role of stakeholders, disclosure and board practices). According to this document, the "concept of corporate governance" is based on the following four key principles: fairness, responsibility, transparency and accountability.

However, the management system is recognized to ensure the implementation of the entire set of functions, forms, methods, levers and incentives for corporate governance in order to achieve management efficiency in competitive social, economic, political and other conditions. Well-managed JSCs tend to have easier and cheaper access to capital and tend to do better in the long run than poorly managed JSCs. Societies with high governance standards reduce many of the risks inherent in investing and typically require key employees who are able to put into practice the company's corporate governance policies. These JSCs tend to value and pay better for such employees than companies that do not understand the importance of good corporate governance practices.

In Table 1.1, based on our analysis, we have identified the main aspects of the impact of increasing the efficiency of the corporate system on the interests of participants in corporate relations of a joint-stock company.

Results. It should be noted that well-managed companies contribute more to the national economy and help the whole society more. These are healthier businesses that are more efficient at delivering value to shareholders, employees, the public, and the country as a whole.

Good corporate governance, in which the whole system is effective, consists of four levels and the following structural elements (Fig. 2).

At the first and second levels, legal requirements are observed and initial steps are taken to improve corporate governance. At the third and fourth levels, there is a developed system of corporate governance, as well as leadership in this area.

Table 1

The impact of improving the efficiency of the corporate system on the interests of participants in corporate relations joint-stock company

Members	**Interests**
Shareholders - owners of large (controlling) blocks of shares	Reinvestment of profits, increase in capitalization, attraction of additional investments without increasing the number of owners, protection against hostile takeover, access to the instruments of the financial mechanism of corporate governance
Shareholders - owners of ordinary shares who do not work in this company (outsiders)	Increasing the liquidity of shares, increasing the publicity and transparency of the company, reducing the amount of dividends on preferred shares, increasing the final profit for distribution, including for dividends, reducing production costs in order to increase the final profit
Shareholders - minority shareholders and owners of preferred shares	Distribution of profits mainly as dividends, ensuring the regularity of payment of established dividends, but not lower than payments on ordinary shares, the objectivity of valuation of the package of preferred shares in the event of a demand for their redemption by the company
Owners of ordinary shares working in this company (insiders)	Growth in wages, increase in the number and size of bonus payments, unwillingness to increase the number of outsider shareholders and allow them to manage JSC
The state as the owner of a block of shares in a joint-stock company	Selling shares at a higher price, taking into account the interests of the state in the general economic and industry context, making a profit on a block of shares in the form of dividends
The state as a body performing general economic functions	Increasing tax and non-tax revenues from the joint-stock company, preventing bankruptcy, cross-industry balance and cooperation, increasing the efficiency of participation of the joint-stock company in the investment process
The state as an organ performing a social function	Ensuring employment of the population, environmental safety, development of public and household infrastructure, increase in deductions of joint-stock companies for charity
Suppliers	Possibility of obtaining prepayment, timeliness of payment, increase in the volume of purchases
JSC products consumers	The possibility of obtaining products on credit, the regularity of deliveries, updating the range and model range of products
Lenders	Timeliness of payment of interest, correctness of valuation of pledged property, timeliness of payment of debts, possibility of converting debt securities into shares of a joint-stock company
Hired managers	Increase in the basic remuneration and bonus payments, the possibility of obtaining shares of the company at a preferential price, the desire to improve the financial performance of the company by the end of the reporting period

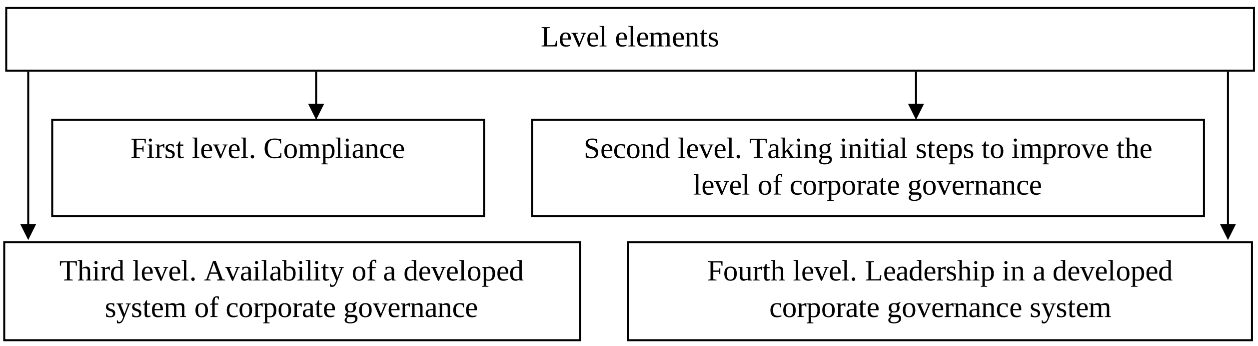
Labor collective	Increase in wages, expansion of the social package, improvement of working conditions, participation in trade unions

Good corporate governance can improve the performance of a joint stock company in a variety of ways. Better corporate governance practices improve accountability and minimize the risk of fraud or self-dealing by company officials. Accountability, combined with effective risk management and internal controls, helps identify potential problems before a full blown crisis occurs. Strict adherence to good corporate governance standards also contributes to improved decision-making. In addition, an effective corporate governance system ensures compliance with laws, standards, rules and obligations of all stakeholders. It also helps corporations avoid costly litigation, including the costs associated with shareholder lawsuits and other disputes arising from misconduct, conflicts, interests, corruption and bribery, and insiders.

Proper corporate governance is based on the principles of transparency, accessibility, efficiency, timeliness, completeness and reliability of information at all levels. It is especially important to emphasize that recently it has been customary among investors to consider the practice of corporate governance as a key criterion in making investment decisions.

Joint-stock companies that consistently adhere to high standards of corporate governance are usually able to borrow money and raise financing for their operations at a lower cost. Thus, they have the opportunity to reduce the cost of raising capital in general.

The cost of capital depends on the risk of investing in a JSC as assessed by investors, and the higher the risk, the higher the cost of raising capital. There is a clear relationship between corporate governance practices and investors' perceptions of the value of a JSC's assets (fixed assets, receivables, product portfolio, human capital, research and development, intangible assets, etc.).



Rice. 2. Levels of effective corporate governance

The cost of capital depends on the risk of investing in a JSC as assessed by investors, and the higher the risk, the higher the cost of raising capital. There is a clear relationship between corporate governance practices and investors' perceptions of the value of a JSC's assets (fixed assets, receivables, product portfolio, human capital, research and development, intangible assets, etc.).

The following main aspects that are the key to the effectiveness of corporate governance and the attractiveness of a JSC for investors and creditors should be noted: 1) general, legal and political culture (including legal and fiduciary obligations of management, directors and majority shareholders; reliable and well-established justice system ; proper bankruptcy laws); 2) the existence of proper market mechanisms (including an effective system of information disclosure and the existence of mandatory reporting requirements, as well as effective mechanisms for regulating the securities market); 3) the presence of the correct corporate governance structures in the company, in particular, a capable supervisory board.

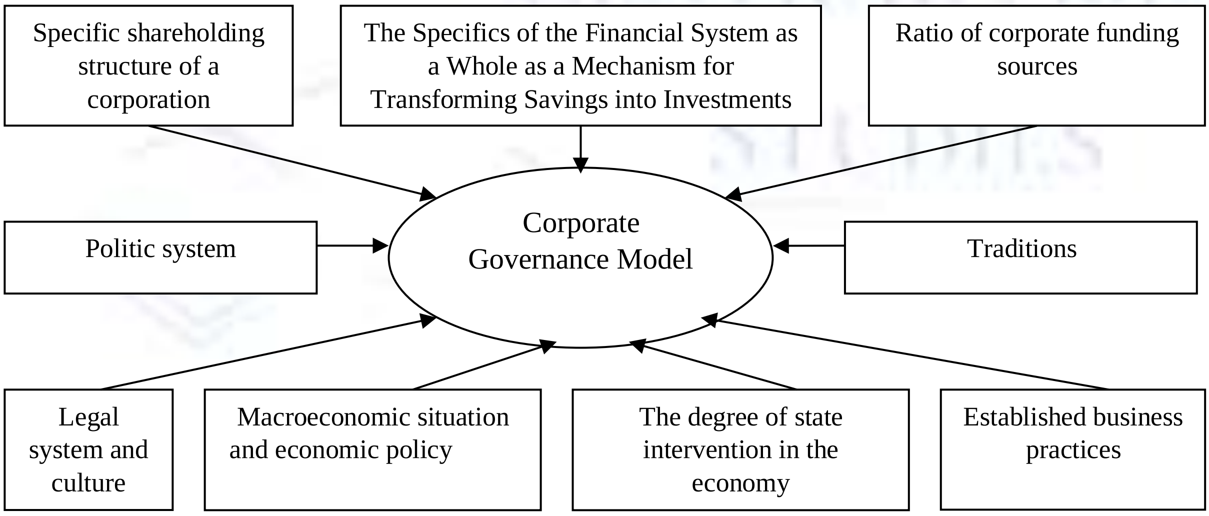
Thus, there is no single and simple recipe for success in building proper corporate governance, which cannot be based solely on mechanistic algorithms, since different JSCs have their own unique problems. Therefore, it is often difficult to understand how effectively corporate governance is carried out in a particular joint-stock company.

An effective management system for a joint-stock company (corporation) of a particular country is distinguished by specific characteristics and properties. At the same time, a number of its provisions turn out to be similar and can serve as the basis for the development of a national management system. Therefore, it should be stated that many factors of corporate governance have an impact on the entire system as a whole. This circumstance allows us to be guided by the concept of a corporate governance model.

A brief analysis of the influence of these factors on the formation of corporate governance structures is presented below.

1. Protecting the rights of investors. Legislative protection of investor rights determines the climate of corporate relations in the country: if the protection of rights is weak, then corporate governance mechanisms (external and internal) should act as compensators, i.e. the higher the level of legislative support for the rights of shareholders, primarily minority shareholders, and the level the effectiveness of enforcement systems, the more potential investors will want to invest in company shares.

The Supervisory Board (Board of Directors) is the main internal corporate governance mechanism in a JSC, which is designed to ensure that the interests of all shareholders are observed.



Rice. 3. Influence of factors on the formation of the national model of corporate governance

2. Concentration of ownership and shareholder structure. The concentration of ownership reflects the specifics of the management of individual companies. Here it is customary to talk about two basic models of a corporation: model W (widely held corporation) - a company with scattered ownership (Anglo-Saxon model) and model B (blockholder model) - a company with concentrated ownership (German model). Examples of countries belonging to the first CG model are the USA, Great Britain, Ireland, South Africa, India, and Germany and Japan to the second one.

There is another division of all current models of corporate governance - market-oriented and bank-oriented. In the market model, the capitalization of companies is completely determined by the stock market, which in this case becomes the market for corporate control. In the banking model, most corporations are managed by banks, and bank credit becomes the main form of financing.

In a number of countries, intermediate models of corporate governance have developed. Thus, for example, in Australia, Canada and New Zealand, which generally belong to the Anglo-Saxon model, ownership is more concentrated than in the US and the UK, and the dominant owners are family firms.

The main principles and features of the models of corporations in the leading countries of the world and their corporate governance systems are discussed in detail in scientific papers published by the author. Based on this, we further highlight the main features of foreign models of corporate governance in companies.

The main features of the Anglo-American model of corporate governance have been formed in countries such as the USA, Great Britain, Canada, Austria, and New Zealand. Thus, the model used in the United States is built on the market mechanism of self-regulation of the economy. It has a low share of state ownership, little direct state intervention in the process of organizing production and management.

The modern Japanese model of corporate governance was formed on the basis of a peculiar national culture and traditions, as well as under the influence of historical events. This model is characterized by social cohesion, interdependence and is an "insider" model. Despite some formal signs of similarity, the Japanese system, unlike either the Anglo-American or the German one, is a unique production organization system inherent only in Japan. Traditional for this country of corporate governance is the presence of a well-developed system of supervision and control over the activities of the management of the companies included in the group to support specific production and sales. The quality management system based on statistical methods occupies a central place in the operational corporate management of Japan. Quality control covers all stages of production, and all employees of the company are responsible for quality.

Based on the foreign models of corporate governance conducted by the author, the following can be noted:

firstly, in the Anglo-American model, market activity is strictly regulated by the laws and activities of securities companies;

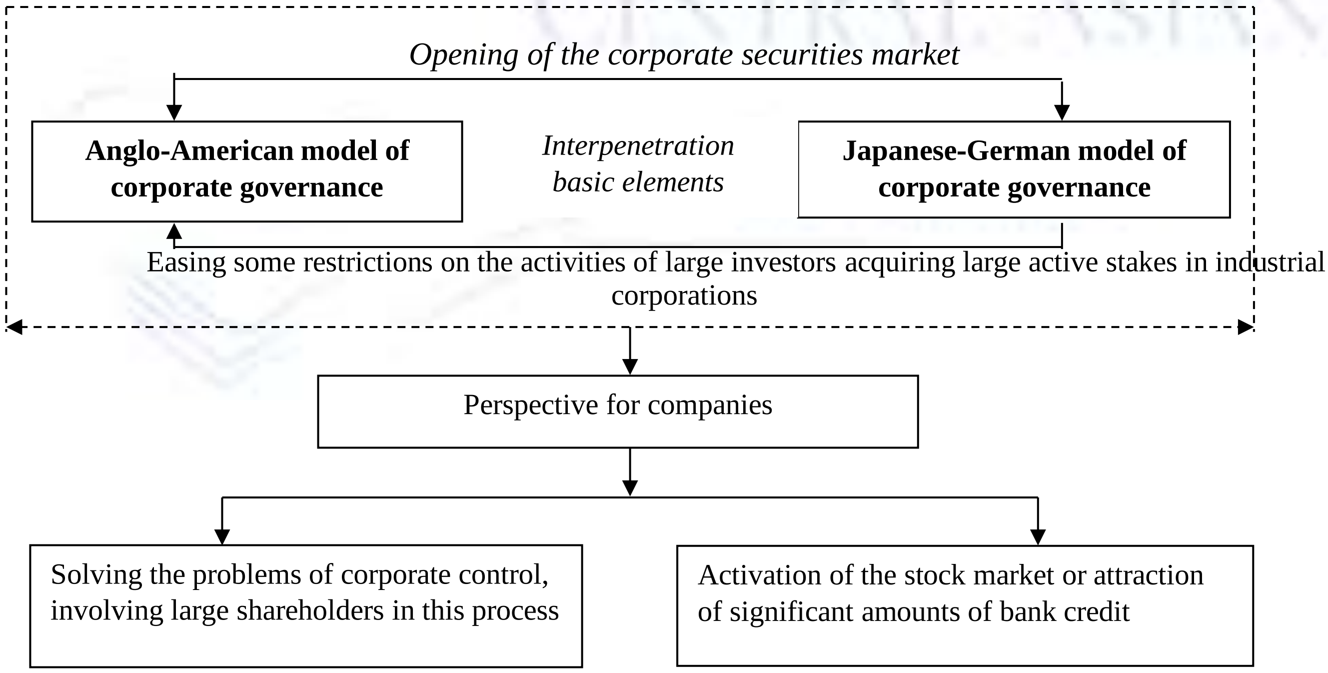
secondly, the legislative base of the Japanese model practically does not differ from the American one, and the government of Japan has a significant influence on the corporate style of management through its representatives;

thirdly, the German model is based on the legislative framework, which is based on federal and state laws, as well as the activities of the securities agency.

It should be emphasized that at the beginning of the 21st century, two models of corporate governance, Anglo-American and Japanese-German, were mainly developed in the world economy, which are based on flexible connections and economic dynamics, as well as the market activity of an employee, subdivision, business entity and the entire system of corporate governance. In addition, corporatization in these models of national enterprises becomes a very significant factor in their market activity.

Based on the analysis of the differences between foreign models, we have drawn up a diagram of the interpenetration of the main elements of corporate governance in order to actively search for solutions for their optimal combination.

So, for Japan and Germany, this may be due, for example, to the opening of the corporate securities market. For the US and UK, there may be an easing of some restrictions on the activities of large investors acquiring large active stakes in industrial corporations. Thus, in our opinion, in the future, the interpenetration of the main elements of the Anglo-American into the Japanese-German model of corporate governance, and vice versa, can give a disproportionate effect for the entire corporate governance system of a particular country, including the Republic of Uzbekistan



Rice. 4. The prospect of interpenetration of the main elements foreign models

In general, as the research results show, no model has obvious advantages over others, and cannot be called universal. On the contrary, the last decade is characterized by the convergence of various corporate governance systems for almost all the leading countries of the world, i.e., the coexistence of various models is imbued with an atmosphere of their significant convergence and a certain "interpenetration".

Leading foreign and domestic scientists and specialists in the field of corporate governance point to the possibility of building their own national model based on a combination of individual components in order to achieve economic efficiency, both for joint-stock companies and for the development of the corporate sector of the economy as a whole. Based on this, it is possible to characterize the features of the corporate governance model in our country.

Discussion

Uzbekistan has its own national model of corporate governance, which began to take shape at the stage of privatization of large and medium-sized state-owned enterprises and is a mixed form of the German and Anglo-American models. It should be noted that in recent years the development of domestic corporate governance entails more and more expression of the continental model, manifested in a gradual decrease in the number of small shareholders, a layer of which was formed as a result of the first wave of privatization.

The national model of corporate governance reflects the specifics of the organization and management of corporations and is characterized by a whole set of standards, including: the legal framework for regulating corporate relations; key participants in corporate relations; shareholding structure; the composition and features of the functioning of the supervisory board; disclosure requirements; the role and importance of business associations.

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