

## Evaluation of Corporate Governance in Business Structures

*Eshboyeva Shakhnoza Rustam qizi*

*2<sup>nd</sup> year student of Tashkent State Technical University*

[eshboyeva.98sh@gmail.com](mailto:eshboyeva.98sh@gmail.com)

**Abstract:** The article discusses the process of assessing corporate governance in business structures. The purpose of the article is to analyze advantages and disadvantages of the National Rating of Corporate management. On the example of several Uzbek companies, the author shows a relatively low level of corporate governance.

**Key words:** corporate governance, corporate rating management, principles of corporate governance, entrepreneurship.

Increased attention to corporate governance issues is caused by the need to ensure high growth rates of the Uzbekistan's economy, attraction of domestic and foreign strategic investors, increasing the investment attractiveness of corporations. Degree attractiveness of Uzbek companies as investment objects largely depends on the level of corporate governance efficiency.

Creation of an effective corporate governance system contributes to growth in the capitalization of the Uzbek market, provides access to external sources of financing, promotes the development of entrepreneurial activities. According to expert estimates, by increasing the efficiency corporate governance market value of shares of Uzbekistan's corporations can grow by 20-30%. At the same time, the lack of management has a pronounced negative impact on the company's activities.

Therefore, an effective corporate governance system is not only increases the market value of the company, but also makes it more attractive to investors, which in turn increases its competitiveness in financial markets. It should be noted that in Uzbekistan compliance with the standards of corporate management of companies is not mandatory, but recommendatory. In general, relatively low efficiency of corporate governance due to the following reasons:

- lack of awareness of enterprises about the need to introduce corporate governance standards;
- imperfection of the regulatory and legal framework in terms of joint-stock legislation;
- difficulty in applying performance evaluation criteria corporate governance[4].

Currently, two groups of assessment methods are used corporate governance

- methods using managerial criteria (ratings, monitoring systems);
- methods using economic criteria (assessed economic potential and performance results).

Let us dwell in more detail on the study of methods using management criteria.

The Corporate Governance Rating is an integrated assessment the quality of the functioning of the company's corporate governance system, which serves as an indicator of the level of relevant risks for investors, lenders and partners. The Corporate Governance Rating is applied to objective assessment by the board of directors and management of the company effectiveness of corporate governance. High corporate rating management or its positive dynamics always have a positive effect on financial result, capitalization of the organization and its cost[2].

The underdevelopment of the Uzbek rating market may lead to a loss financial sovereignty and

additional costs for market participants, arising from their recourse to foreign rating agencies.

Assigning a corporate governance rating involves an analysis functioning of the corporate governance system. Primarily rating reports include a description of the advantages and disadvantages corporate governance practices. Based on the information provided the general meeting of shareholders and the Board of Directors determine the directions improvement of the corporate governance system. As the benefits of a company's interaction with a rating agency should be take into account the possibility for employees to acquire new knowledge in the field corporate governance. Rating is used as an indicator of quality corporate governance to benchmark against corporate governance practices in other companies.

Obtaining a corporate governance rating allows a company to:

- increase investment attractiveness for Uzbek and foreign financial market participants, improve relations with investors;
- use the rating as a feedback tool between shareholders and managers;
- improve the image in order to expand the client base, as well as to increasing attractiveness when participating in various tenders.

Most ratings are based on the principles of corporate management (Table 1) developed by the Organization for Economic cooperation and development (OECD, English Organization for Economic Co-operation and Development, OECD).

Tab. 1. Principles of corporate governance of the OECD [7]

Principle	Description of the principle
Shareholder rights	The corporate governance framework should protect the rights of shareholders.
Equal treatment for shareholders	The corporate governance framework should ensure equal treatment of shareholders, including small and foreign shareholders. At all shareholders should be able to receive effective protection in case of violations of their rights.
The role of stakeholders persons in management corporation	The corporate governance framework should recognize statutory rights stakeholders and encourage active cooperation between corporations and stakeholders in wealth creation and jobs and sustainability financially sound enterprises.
Information disclosure and transparency	The corporate governance framework should ensure timely and accurate disclosure information on all significant issues, relating to a corporation, including financial position, performance results, ownership and management of the company.
Responsibilities of the board	The corporate governance structure should provide strategic management

	company, effective control over management by the board, and accountability of the board to the company and shareholders.
--	---

In Uzbekistan, the most famous corporate governance ratings are the National Rating of Corporate Governance "RID - ExpertRA" and the rating of the international rating agency "Standard & Poor's". Consider the methodology for compiling a corporate governance rating for example of the National Rating of Corporate Governance "RID-ExpertRA". National rating of corporate governance "RID - Expert RA" (NRCU) reflects the opinion of the consortium of the Uzbek Institute of Directors and rating agency "Expert RA" (Consortium "RID - Expert RA") about the level of development of corporate governance in companies. This monitoring has been carried out since 2003 and evaluates the corporate governance system in more than 150 Uzbek joint-stock companies. Four groups are used to assess corporate governance indicators:

- the rights of shareholders (the rights that shareholders have are analyzed companies, possible risks of violation of the rights of shareholders, as well as initiatives companies for the protection of shareholder rights);

- activities of management and control bodies (the composition and activity of the board of directors and executive bodies, functioning systems of control over the financial and economic activities of the company, interaction between governing bodies);

- disclosure of information (the level of disclosure of financial and non-financial information, assessment of the overall discipline of disclosure information, availability of information for all shareholders and other interested parties);

- activities of a joint-stock company in the interests of others stakeholders and corporate social responsibility (analyzing corporate social responsibility and taking into account the interests other interested parties). The practice of corporate governance in the company is assessed as in accordance with the methodology adopted by the RID-Expert RA consortium. This technique is built on the basis of a comparison of the existing in the company corporate governance practices with the requirements of the Uzbek legislation, recommendations of the Corporate Governance Code, and also other standards of Uzbek and international practice corporate governance. The NRKU is an indicator of the level of corporate governance risks in companies. The higher the rating value, the lower the risks of corporate management in the company being valued. The National Corporate Governance Rating is assigned according to scale from "NRCU 1" (lowest score) to "NRCU 10" (highest score) (Table 2), if the indicators of the quality of company management are above the average level for corresponding class, then a "+" sign is added to its rating class[6]:

Tab. 2. Scale of the National Corporate Governance Rating

NRCU 10	<b>Best practice in corporate governance.</b> According to the Consortium "RID - Expert RA", a company with NRCU 8+ to 10 has negligible corporate risks management. The company complies with the requirements of the Uzbek legislation in the field of corporate governance and fully follows the recommendations of the Uzbek Code corporate
NRCU 9+	
NRCU 9	
NRCU 8+	

	conduct, and complies with significant number of additional provisions of international practice corporate governance.
NRCU 8 NRCU 7+ NRCU 7 NRCU 6+ NRCU 6	<b>Developed corporate governance practice.</b> According to the RID-Expert RA consortium, the company with NRCU 6 to 8 has low corporate governance risks. The company complies with the requirements of Uzbek legislation in areas of corporate governance, follows most recommendations of the Uzbek Code of Corporate Conduct and individual recommendations of international practice corporate governance.
NRCU 5+ NRCU 5 NRCU 4+ NRKU 4	<b>Average Corporate Governance Practice.</b> According to the RID-Expert RA consortium, the company with NRCU 4 to 5+ has moderate corporate governance risks. The company complies with the requirements of Uzbek legislation in areas of corporate governance, but initiatives to implementation of the basic recommendations of the Uzbek Code corporate behavior are insignificant.
NRCU 3+ NRKU 3 NRCU 2+ NRKU 2 NRCU 1+ NRCU 1	<b>Poor corporate governance practices.</b> According to the RID-Expert RA consortium, the company with NRCU from 1 to 3+ has high corporate governance risks. The company admits non-compliance with certain norms of the Uzbek legislation in the field of corporate governance, current the corporate governance practice of the company does not comply most of the recommendations of the Uzbek Code of Corporate behavior.

The process of assigning the National Corporate Rating management takes one to two months. Initially between the company and a member of the consortium conclude an agreement on rating score. The consortium sends the company a standard contract for conducting a rating assessment, as well as a rating questionnaire, which must be completed and officially certified by the company. Next, the company pays for the services of a rating agency and provides the experts of the consortium with a completed and officially certified a questionnaire with data for conducting a rating assessment of quality corporate governance of the company. During the rating assessment the company's corporate governance practices use data, provided by the company and public information: rating questionnaire, internal documents of the company, the official website of the company, quarterly reporting of the

company, lists of affiliates of the company, the company's annual report, as well as other public sources of information. Experts assign a rating assessment of the quality of corporate management according to the scale of the National Corporate Governance Rating on based on the analysis of data on the state of corporate governance in joint-stock company obtained from public sources of information, and as well as data from the rating questionnaire submitted by the company. Then the agency sends the company a report and a certificate of assignment rating[3].

Schematically the process of assigning the National rating corporate governance is presented in fig. one.

Rice. 1. The process of assigning the National Corporate Rating management "RID-Expert RA"[5]

Step 1. The company enters into an agreement with the agency on the provision of rating services

Step 2. The company provides the agency with the information necessary for rating assessment

Step 3. Interview with top management

Step 4. The agency analyzes the information provided, and on the rating Committee (on a collegiate basis) makes a preliminary decision on assigning a rating. Additional information and additional interview with top management

Step 5a. Agency considers company comments, makes the necessary adjustments in rating report and rating committee makes a final award decision rating

Step 5b. Agency and company sign agreement on privacy, in according to which analysis results are not subject to disclosure

Step 5c. Agency coordinates with company rating report and press release about rating and carries out disclosure information (publishes press release).The company disagrees by the decision,applies for appeal. The company agrees with decision.

Corporate Governance Practice was not assigned to any Uzbek company, reflecting the generally poor level of corporate governance most companies. Rating "developed practice of corporate management" correspond to 20 Uzbek companies, which are characterized by low corporate governance risk, and two companies with moderate risk rating was assigned to the "average corporate governance practice" rating. Among the most common factors leading companies to lowering the rating level, the following are distinguished:

- insufficiently high level of information disclosure and weak degree of its transparency;
- low level of organization of the risk management system;
- lack of a collegial executive body of management;
- low level of organization of interaction between bodies company management;
- low level of organization of corporate and social responsibility.

Methodology for determining the National rating of corporate management "RID - Expert RA" has both some advantages, as well as and shortcomings. As an advantage of the method, it should be noted that rating evaluation analyzes a significant amount of information received both from the questionnaire of the participant in the corporate governance rating, and from published sources. The advantages of this technique include taking into account the specifics of doing business in Uzbekistan.

The disadvantages include a certain closeness of the methodology ranking, because specific gravity information is not provided each assessment parameter. In addition, when ranking information is analyzed only for those companies that have submitted applications and paid for the services of the consortium[1]. Although corporate governance ratings are applied in countries with an outsider

corporate governance model, everyone starts them more actively used in Uzbekistan, where the insider model prevails. This is due to the fact that ratings are considered as an effective tool assessing the level of entrepreneurial activity of the company and the degree confidence in it of partners, creditors and investors.

Thus, active participation in operations on global financial markets, introduction of modern information technologies, expansion transnational capital and investment flows, changing competitive environment contributes to the further improvement of the system of corporate management in Uzbekistan.

### **Bibliography:**

1. Dementieva A.G. Corporate Governance Ratings - Benchmark for making investment decisions. Scientific public educational magazine "Initiatives of the XXI century". - 2009. - No. 3.
2. Konyagina M. N. Problems and prospects for the development of competition in Russian market of banking services. Banking services. - 2010. - No. 4.
3. Methodology of the National Corporate Governance Rating consortium of the Uzbek Institute of Directors and a rating agency "Expert RA". - 2005.
4. Petrova N.A. Methodological support for performance evaluation corporate governance. Electronic scientific journal "Management economic systems." - 2012. - No. 4.
5. [www.raexpert.uz](http://www.raexpert.uz)
6. [www.rid.ru](http://www.rid.ru)
7. OECD Corporate Governance Principles <http://www.corpgov.ru/projects/principles-ru.pdf>