

UDC 351/354

CORPORATE GOVERNANCE DEVELOPMENT TRENDS, MODELS AND FEATURES IN UZBEKISTAN

ТЕНДЕНЦИИ РАЗВИТИЯ КОРПОРАТИВНОГО УПРАВЛЕНИЯ, МОДЕЛИ И ОСОБЕННОСТИ В УЗБЕКИСТАНЕ

©Djumaniyazov U.

Tashkent State University of Economics
Tashkent, Uzbekistan

©Джуманиязов У. И.

Ташкентский государственный экономический университет
г. Ташкент, Узбекистан

Abstract. This paper describes the corporate governance models used in developed countries, and about opportunities of applying them in Uzbekistan. It also depicts the features and trends of Uzbek corporate governance development.

Аннотация. В данной статье описаны модели корпоративного управления, используемые в развитых странах, а также возможности их применения в Узбекистане. Описываются особенности и тенденции развития корпоративного управления Республики Узбекистан.

Keywords: management, corporate governance, management model, Uzbekistan.

Ключевые слова: управление, корпоративное управление, модель управления, Узбекистан.

From the first years of independence, the Government of Uzbekistan began step-by-step implementation of institutional reforms and corporatization of state enterprises, which resulted in foundation of open joint-stock company (JSC). These types of firms are considered as an effective form of corporate entrepreneurship in the world.

At present, JSCs play an even greater role in determining the future of the national economy, expanding the scale of production and the creating of new jobs. On the other hand, ineffective system of corporate governance hinders the implementing of effective organization of corporate entrepreneurship, attracting domestic and foreign investment, applying the corporate strategy and other priority tasks.

Thus, when choosing a strategy for the development of JSCs, improving the roles of corporate governance bodies, evaluation methods for the effectiveness of JSCs, the dividend policy, as well as internal corporate governance mechanisms are the most important challenges in economic modernization and diversification of production.

In fact, this question was addressed by the President of Uzbekistan Islam Karimov 6 years ago by mentioning: "... almost all of the production facilities in Uzbekistan have been established on the principle of joint-stock companies, however, to what extent are they operating in accordance with their status, and how are they using their rights? What market mechanisms do we need for JSCs to operate in accordance with their status? Thus, taking into account these, the law "On joint stock companies and protection of shareholder rights" should be critically reviewed, its new edited

version should be adopted. Such edition should clearly define the rights and responsibilities corporate governance and regulatory authorities. This law should further support the role and importance supervisory boards, annual general meetings, the audit commission, and rights of the minority shareholders, and should give access to information about the activities of the joint-stock companies for all shareholders and potential investors” (1).

Consequently, on May 6, 2014, according to the new edition of the law of the Republic of Uzbekistan On joint stock companies and protection of shareholder rights, and to the amendments and additions to some legislative acts of the Republic of Uzbekistan, and annulling some acts as of 14.05.2014, the former open and closed forms of JSCs were abolished; instead, public joint stock company and limited liability company types were established.

Accordingly, the affirmative features of JSCs are:

- Non-restriction on the number of investors. Hence, investor of any amount of capital can participate as the owner. Moreover, it allows attraction of free capital of the public to the real sector;

- Division of initial capital into shares, that is, diversification of shareholders;

- The responsibility of shareholders on obligations of JSCs is limited to the percentage of the shares they own. Thus, reducing risks of property loss;

- Sale of shares as an object of open trade; that is, the change in ownership does not change the rights and obligations towards the company’s assets and its shareholders;

- Attracting large amounts of investment to fund innovative ideas and R&D achievements;

- Formation of middle class and welfare improvement by means of distribution of profits among large number of shareholders;

- to achieve the changes in the attitude towards the public property as each employee becomes a shareholder, etc.

Present experience in corporate government development in Uzbekistan shows justification for foreign investors’ ownership as the optimal form of ownership, along with the national shareholders. Currently, over 4000 enterprises with foreign capital and foreign corporate governance principles are operating in Uzbekistan. Thus, in-depth study and analysis of these foreign enterprises’ experience allows to create the standards for corporate governance structures, and on the same basis, to reform the system of management bodies in the real sectors of the economy with the purpose of implementing the corporate governance principles actively.

Following this motive, in 2015 the President Islam Karimov chose following as one of the most important priorities for country’s socio-economic development and national economic program: *a thorough transformation of the principles and approaches in corporate governance system, establishment of up-to-date international standards in corporate management for production, foreign trade and investment* (2).

Indeed, the main objective of the corporate governance of any country is to ensure a balance of interests of all participants of corporate relations involved in the activities of the JSC.

According to the definitions given by OECD, corporate governance includes a set of relationships among the company’s administrative body, its board, shareholders and other stakeholders. On the other hand, the World Bank defines the corporate governance as amalgamation of the legislation, the principles and the private sector; such mixture allows companies draw financial and human resources, and efficiently operate; thus, providing its shareholders value through long-term profit-seeking economic activities.

The participants of corporate relations, government bodies, hired managers, shareholders, employees, creditors are represented in Table 1:

Table 1.

THE MAIN DUTIES AND INTERESTS OF THE PARTICIPANTS OF CORPORATE RELATIONS

<i>The participants of corporate relations</i>	<i>Duties</i>	<i>Interests</i>
Government bodies	Establishing the basis for regulatory, organizational and legal formula for corporate relations	Stable operation of Companies and JSCs; payment of taxes and non-tax payments; new jobs generation.
Hired managers	Management duties at JSCs and companies	sustainable financial status and earnings of JSCs and companies; their lasting positions.
Shareholders	Financiers for JSCs and companies	steady dividends; the sale shares at higher prices when needed.
Employees of the company	Carrying out industrial, commercial, advertising and other economic activities for JSCs and companies	stable performance of JSCs and companies; improvement of job positions; provision of permanent jobs and income.
Creditors	Functioning as a financiers of industrial, commercial, advertising and other economic activities for JSCs and companies	stable performance of JSCs and companies; having regular customer; accrual on loans.

Source: the author.

Globally, following corporate governance models are used:

- English–US model;
- German model;
- Japanese model.

However, one cannot observe any of these corporate governance models in Uzbekistan; rather national model is developing gradually. And its main features are as follows:

- a process of continuous distribution of property at JSCs;
- specific motivation of most managers and major shareholders towards the company's assets and controls on financial flows;
- weak or unusual role of traditional mechanisms of external management (securities market, bankruptcy, the market for corporate control);
- relatively high share of the state in charter capital, etc.

Comparative analysis, strengths and weaknesses of the above mentioned three models of corporate governance are given in the following Table 2:

While English–US model is characterized by extreme focus on short-term interests of investors, mutually contradictory processes can be observed in banks in German and Japan models. In such models, the banks play both as the creditor and shareholder, which might often lead to the clash of interests.

Besides, special consideration is given to the role of the state and the freedom of competition in German and Japan models. According to the researchers in corporate governance matters, “... there are serious restrictions on competition under these corporate structures, which ultimately leads to loss of efficiency” [1].

Table 2.

COMPARATIVE ANALYSIS OF THE CORPORATE GOVERNANCE MODELS

<i>Features</i>	<i>English–US model</i>	<i>German model</i>	<i>Japanese model</i>
Social norms and values system	Freedom of choice, individualism	social cooperation	Cooperation and trust
The role of trade unions	Passive	Active	Active participation
The basic method of financing	Stock market	Banks	Banks
The imbalance of information	Management	Management	Bank
The duration of the investment	Short term	Long term	Long term
The cost of capital	High	Medium	Low
Capital market	Highly liquid	Liquid	Liquid
The basic economic unit (for large business)	Company	Holding	Financial and industrial group
Management Remuneration	High	Medium	Low
The structure of the capital stock	Weak	Strong concentration	Concentrated

To prove their hypothesis, they observe the efficiency of corporations in accordance with the stages of economic development: their level of efficiency reduces as the economies reach their highest level of development. Over the past century, Germany and Japan experienced such situation when their growth rate dropped sharply.

On the other hand, a relatively open US model gives the opportunity to develop competition. It should be noted that this model requires high economic democracy, and society to be more open.

Accordingly, though corporate governance is widespread in the world, their essence, their potentials still remain mystery. Therefore, a thorough study of this issue are equally important for both economically advanced and newly developing countries.

Moreover, corporate governance is very important in the formation of effective and free market economy based on the rule of law. Not understanding the rules of corporate governance, ignoring or inefficiently applying them negatively effects on the investment climate; consequently, it leads to loss of investment that provide sustainable economic growth. In addition, it hinders the creation of competitive environment that operate obeying the laws of the market [2].

Regulation of JSCs through the system of corporate governance is based upon the recognized efficient models applied in advanced nations. It should be noted that today the Republic of Uzbekistan has full created such legal framework completely.

Nearly 25 years after independence, corporate or joint-stock form of ownership increased rapidly in Uzbekistan. More than 1.1 thousand JCSa were established as a result of denationalization and privatization, with the total capital of 11.7 trillion UZS that grew more than 5.3 times in the last ten years (2).

However, in the sectors of the national economy, and in the provinces of the Republic, one can observe unresolved issues in income distribution and other areas of the privatization due to increasing corporatization scale. In particular, in most JSCs, especially in companies with control packages belonging to the state, minority shareholders with small and dispersed shares are

disadvantaged in governance and decision-making process. As a result, production management in JSCs is still done by the directors as before.

For that reason, a thorough study of international practice in corporate governance models, their features and the most convenient aspects is very important research agenda. New technology and modern management methods increase the efficiency of enterprises in the context of globalization of the economy, and they have a strong competitive struggle to survive on the ground.

A number of constructive work has been done in this direction in 2015. In particular, the privatization of state assets, primarily to sell for foreign investors was aimed, and appropriate conditions for it was ensured. For example, 506 property complex was sold to new owners at zero value, provided that they invest. In this regard, it should be noted that these investors had commitment to invest nearly \$ 1 trillion UZS and 40 mln USD, as well as to generate 22 thousand new jobs (3).

353 state-owned facilities provided for in the privatization program, which were not being used/under constructed have been destroyed, and 120 hectares of land area was emptied as a result. Of that area, 80 hectares was given for facility construction purposes for industrial and services entrepreneurs.

Moreover, 319 such objects in the form of state property were inventoried and offered in auctions for private ownership; and last year alone 102 of them were sold to new owners. In addition, the state shares in 378 JSCs were valued and offered for sale to foreign strategic investors in public auctions.

It should be noted that partially state-owned, strong and stable functioning and operating successfully JSCs at national, regional and international markets, such as Jizzakh Battery Plant, Navoiyazot, Fargonaazot, UrganchEkskavator, Kyzylkum Cement Enterprises, as well as Banks such as “Turonbank”, “Aloqabank”, insurance companies such as “UzAgroSugurta” also offered some state shares for sale. For example, state shares at “Quqon Yogmoy zavodi” JSC was sold for 2.5 USD. Such measures are just part of large-scale works to radically change the form of ownership in Uzbekistan.

The head of the Uzbekistan, I. A. Karimov also mentioned the importance of corporate governance for national economy, saying: “the principles and approaches corporate governance system radically changed in 2015 to ensure it to have real market characteristics, and it was a great contribution to overcome the conservative view towards it” (3).

Indeed, in 2015, study of contemporary international experience in the corporate management enterprises, and the corporate governance system requirements allowed to elaborate new model structure for a JSC, and Classifier for 566 new staff positions; and all of them were approved in 2015.

On the basis of the Classifier, majority of the heads at JSCs were tested to check their knowledge in the field of modern methods and principles of corporate governance, management and marketing. Unfortunately, according to the results of the attestation, only half of 721 of the heads, or 49 percent was found to be qualified; one third was conditionally certified, and one fifth was of them were found to be *not* worthy of their positions (3).

According to these figures, a timely and important measures were conducted to make changes in the management system of JSCs in the country. In addition, senior officials resigned as a result of attestation were replaced young professionals to who can apply methods in modern economics, finance, business administration, management and marketing.

In 2015, with active participation of Germany-based European School of Management and Technology, Corporate Governance Research and Education Center was established. The main objective of founding such Center was to train and develop skills of managerial staff and specialists at Uzbek JSCs, and to educate modern corporate management methods for them. So far, more than

160 corporate executive officers have studied there and improved their corporate management skills.

Besides, the efficiency of corporate governance system in business is an important mechanism for the protection of the rights of property owners, and decisive factor attraction of investments, including foreign investments to the real sector of the economy.

Indeed, the effectiveness of corporate governance is well known in the world. In addition, strict adherence to the principles of corporate governance is one of important factors in investment decisions.

Therefore, in our opinion, in order to improve corporate governance at national companies and organizations following measures should be implemented:

–*First*, governance costs of JSCs should be reduced by reorganizing their structure through principle of horizontal corporate governance. Also, a variety of promotional tools and methods should be used to create image and brand of JSCs to increase the value of their stock;

–*Second*, management efficiency should be improved by optimization for intermediate management structure;

–*Third*, the Supervisory Board of the JSC should include independent body of researchers with foreign degrees, and independent consultants in order to strengthen the control to increase transparency of investment and audit decisions. Such independent body should have instant access to decision making process to make efficient strategic decisions;

–*Fourth*, an effective and transparent system should be established to to further improve protection of the rights for corporate relations, including those of ownership and control, corporate governance and investors; and to form transparent system of decision-making and their implementation at JSCs;

–*Fifth*, evaluation system should be introduced for bodies at JSCs to implement innovations, optimize the internal distribution of financial resources, and to increase the motivation for production, service and management personnel.

Implementation of above mentioned suggestions will lead to further improvement of the corporate governance at JSCs that eventually leads to the progress of the national economy.

Sources:

(1). Karimov I. A. The concept of further deepening of democratic reforms and the development of citizens' society Uzbekistan // Xalq suzi. №220 (5135), 13.10.2010.

(2). “The implementation of major structural changes in the economy, continuation of the modernization and diversification to create opportunities for private ownership and entrepreneurship is a priority task for 2015”; the Report of the President of Uzbekistan Islam Karimov at the meeting of the Cabinet of Ministers dedicated to the country's socio-economic development outcomes in 2014, and the economic program for 2015. Available at: www.uza.uz.

(3). Our main objective is continuation of reforms and structural changes in the economy, providing greater opportunities for private property, small businesses and entrepreneurship to move ahead, in spite of the current difficulties”; the Report of the President of the Republic of Uzbekistan Islam Karimov at the meeting of the Cabinet of Ministers dedicated to the outcomes of socio-economic development in 2015 and important priorities of economic program for 2016. Available at: www.uza.uz.

References:

1. Mansurov, O. (2006). Features of the formation and development of corporate governance in Uzbekistan. *Bozor, Pul va Kredit*, (5), 26-28

2. Sabirdjanova, D., & Tulyaganova, Sh. (2004). Improving the corporate governance. *Bozor, Pul va Kredit*, (3), 38

Список литературы:

1. Мансуров О. Особенности формирования и развития корпоративного управления в Узбекистане // *Bozor, Pul va Kredit*. 2006. №5. С. 26-28.

2. Сабирджанова Д., Туляганова Ш. Совершенствование корпоративного управления // *Bozor, Pul va Kredit*. 2004. №3. С. 38.

*Работа поступила
в редакцию 18.09.2017 г.*

*Принята к публикации
21.09.2017 г.*

Ссылка для цитирования:

Djumaniyazov U. Corporate governance development trends, models and features in Uzbekistan // *Бюллетень науки и практики. Электрон. журн.* 2017. №10 (23). С. 185-191. Режим доступа: <http://www.bulletennauki.com/djumaniyazov> (дата обращения 15.10.2017).

Cite as (APA):

Djumaniyazov, U. (2017). Corporate governance development trends, models and features in Uzbekistan. *Bulletin of Science and Practice*, (10), 185-191