

THEORETICAL FOUNDATIONS OF CORPORATE GOVERNANCE

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Abstract

The article examines the theoretical and practical aspects of corporate governance as one of the key concepts in the modern global economy. The economic essence, objectives, and functions of corporate governance in the context of globalization and the development of corporate structures are analyzed. Special attention is given to major corporate governance theories, including agency theory, stakeholder theory, transaction cost theory, resource dependence theory, and political theory. The paper also discusses conflicts of interest between shareholders and managers and highlights the role of corporate governance in increasing investment attractiveness and improving corporate performance.

Keywords: Corporate governance, agency theory, stakeholders, transaction cost theory, resource dependence, political theory, corporate structure.

Introduction

Аннотация:

В статье рассматриваются теоретические и практические аспекты корпоративного управления как одного из ключевых понятий современной мировой экономики. Раскрывается экономическая сущность корпоративного управления, его цели и задачи в условиях глобализации и развития корпоративных структур. Особое внимание уделено основным теориям корпоративного управления, включая агентскую теорию, теорию заинтересованных сторон, теорию транзакционных издержек, ресурсно-зависимую и политическую теории. Проанализированы проблемы конфликта интересов между акционерами и менеджментом, а также роль корпоративного управления в повышении инвестиционной привлекательности и эффективности деятельности компаний.

Ключевые слова: корпоративное управление, агентская теория, заинтересованные стороны, транзакционные издержки, ресурсная зависимость, политическая теория, корпоративная структура.



One of the most widely used concepts in the world today is undoubtedly the concept of corporate governance. “Corporate governance is a pre-existing concept, and the term is also new” [1]. This is due to the emergence of large joint-stock companies, transnational corporations, etc., whose activities are effectively organized by corporate governance bodies in the national and world economy. Based on this, serious attention is being paid to the issue of effective organization of the corporate governance system in almost all countries of the world, including our country. Due to the above-mentioned aspects, it is advisable to correctly understand the economic essence of corporate governance, its goals and objectives. The economic essence of corporate governance has been studied for many years, and one can witness the diversity of researchers' opinions in this regard.

The purpose and objectives of corporate governance.

In our republic, in order to ensure economic development, a number of reforms are being carried out to effectively organize the activities of corporate structures, in particular joint-stock companies. The Strategy of Actions for the Further Development of the Republic of Uzbekistan for 2017-2021 specifically identifies the issue of “introducing modern standards and methods of corporate governance, strengthening the role of shareholders in the strategic management of enterprises”[2]. In this regard, priority attention is paid to such aspects as increasing the efficiency of the corporate governance system, ensuring information disclosure and transparency of activities in joint-stock companies, and protecting the rights of shareholders, including minority shareholders.

The main goal of corporate governance is to attract investments at low cost, maximize dividends paid to shareholders, increase the company's market share and capitalization. Also, from a general point of view, the goal of corporate governance can be expressed as the control of the owners over the effective use of the property of the corporate structure and determining the future. The main tasks of corporate governance are: - control over the current financial and economic activities of the corporate structure; - protection of the rights of shareholders (including minority shareholders) and ensuring their legitimate interests; - maximizing the value of the business by increasing the investment attractiveness of joint-stock companies; - establishing control over the development strategies and their implementation, etc.[3]

Discussion of the theories of corporate governance

The main theories of corporate governance based on agency theory were developed in the American literature in the early 1970s. This theory describes the relationship established between the owners of a company and its directors, embodied in an agency contract, in which the first party entrusts the other party with the performance of certain services on its behalf. According to agency theory, shareholders expect directors to make decisions in their own interests and in the interests of those they manage. On the other hand, agents cannot make decisions that are solely in the interests of the principal. Agency theory emphasizes the need to align the interests of managers with the interests of shareholders in order to achieve the goal of maximizing the value of the company, so that the competing interests of managers in different decision-making environments do not affect this goal. The conflict of interest arising from the separation of power and control can lead to opportunistic behavior by managers that is not in the interests of shareholders, i.e., wealth maximization.[4] Thus, managers are exposed to moral hazard and opportunistic behavior driven by self-interest.



Moral hazard theory is central to agency theory and also considers the hidden actions or opportunistic behavior of managers. Hidden actions arise as a result of asymmetric information possessed by counterparties, while opportunistic actions are the result of human inclinations. Moral hazard theory is closely related to management compensation policy. The issue of determining the remuneration policy of managers, taking into account the need to develop common interests between managers and shareholders (to mitigate moral hazard), is relevant and is the subject of various economic, financial and management studies. Moral hazard can be expressed in management remuneration policies (bonus systems) and various actions, for example, manipulating financial information or making risky decisions to increase the prestige and reputation of management. Management theory describes the role of management leadership in maintaining and developing organizational value, although its effect is temporary. Management theory has its roots in psychology and sociology, and from this perspective, it assumes that managers are loyal, compassionate, and effective individuals, and therefore good stewards of the resources entrusted to them.

The development of agency theory led to the theory of stakeholders. The term "stakeholders" refers to all individuals, groups or organizations that influence or are influenced by the activities of a company. These include: owners, shareholders, investors, employees, customers, suppliers, business partners, competitors, government, local authorities, NGOs, pressure groups, communities, the media, etc. Each of these parties interacts with and is influenced by the activities of the company in one way or another. The theory of stakeholders arises from the growing need for corporate social responsibility in the modern conditions of the transition from an industrial society to a new society called "postmodern", "postindustrial", "postcapitalist", "poststructuralist" and "posttraditional". The new economy is characterized by complex and profound changes in all areas, which have serious social and environmental consequences for corporate social responsibility.

Unlike agency theory, transaction cost theory explicitly uses the concept of corporate governance [5]. This theory argues that the firm is a relatively efficient hierarchical structure that serves as a basis for managing contractual relationships. The main goal of transaction cost theory is to "explain transactions in terms of the efficiency of management structures". The concept of "transaction costs" is attributed to Ronald Coase, who in his famous 1937 article "The Nature of the Firm" justified the existence of the firm without explicitly using the concept of "transaction costs" but rather by considering them as "the costs of operating the price mechanism" [6].

Resource dependence is an explanatory model of organizational behavior that emphasizes that organizations are open systems and that the environment and social relationships in which they operate are the basis for resource allocation decisions. According to Hillman, Canella, and Paetzold, managers contribute to the decision-making process by providing information resources, skills, and access to the organization's key business partners, such as suppliers, creditors, government, social groups, and others. According to Abdullah and Valentine, managers responsible for business management fall into four categories:

a) "insiders", i.e. current and former company executives with expertise in specific areas of corporate and financial law;



- b) "business professionals", i.e. managers of large companies who gain experience in business strategy, decision-making and solving economic problems faced by the company;
- c) "support professionals", represented by lawyers, bankers, insurance companies, public relations specialists and all professionals who provide specialized support in their areas of expertise;
- d) "influential people in society", i.e. political leaders, academic leaders, religious leaders or leaders of social and community organizations.

Political theory studies the political influence on the governance structure of companies, which is manifested through government participation in the capital of the company or through laws passed by political structures that significantly influence corporate governance. The political model emphasizes government support in corporate decisions regarding the distribution of power, profits, or various benefits. For example, in the case of dividend policy, there may be legal norms that emphasize dividends as a potential means of resolving potential agency problems associated with share ownership. The political model of corporate governance can significantly influence its development. An example is communist or former communist countries that are still struggling to free themselves from political influence.

In conclusion, corporate governance is an important institutional mechanism for improving the efficiency of enterprises in a modern market economy, ensuring investor confidence and protecting the interests of owners. Through the effective organization of the corporate governance system, the strategic development, investment attractiveness and market value of companies increase.

Agency theory, stakeholder theory, transaction cost theory, resource dependence theory and political theory explain corporate governance from different perspectives and reveal its multifaceted nature. These theories serve to reduce conflicts of interest between owners and managers, increase the efficiency of corporate decision-making and ensure corporate social responsibility.

Therefore, the reforms being implemented in Uzbekistan to introduce modern standards of corporate governance, ensure information transparency and protect the rights of minority shareholders are of great importance for the sustainable development of the national economy and increase the competitiveness of the corporate sector.

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