

Improving the Practice of Evaluating Corporate Actions in Joint-Stock Companies

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Abstracts. The article presents an analysis of the practice of evaluating corporate activities in joint-stock companies, based on the identified shortcomings and problems, criteria and indicators for evaluating the functional quality of corporate management and a methodological approach for evaluating the impact of the effectiveness of corporate management activities of joint-stock companies on the economic, financial and market activities are recommended.

Keywords: Corporate performance assessment, corporate governance index, composition of the board of directors, board size, financial transparency and external control, accountability, shareholder rights, corporate governance code, market share.

1. INTRODUCTION

The issue of improving corporate governance in joint-stock companies is of great importance. For the successful development of the corporate sector in each industry, it is necessary to introduce effective modern management mechanisms. Inefficiency of corporate management is one of the main reasons why strategic tasks of business development are not fulfilled. Accordingly, in Uzbekistan, in recent years, special importance has been attached to the assessment of corporate activities in joint-stock companies.

In international practice, there are many methods and approaches for evaluating the effectiveness of corporate governance. In industrial enterprises with corporate structures, ineffective functioning of boards can cause a number of problems. Key factors contributing to the crisis include: lack of governance input from councils; incorrect data flow; insufficient understanding of the situation and risks; insufficient board oversight of senior management; complex organizational structures. As a result of these vulnerabilities, joint stock companies have been allowed, even encouraged, by their boards to take excessive risks, including unprecedented levels of high-risk business strategies.

Many reforms are being carried out in Uzbekistan regarding the privatization of state property, regulation of property relations, guaranteeing the inviolability of private property. The decree of the President of the Republic of Uzbekistan No. PF-60 dated January 28, 2022 "On the development strategy of New Uzbekistan for 2022 - 2026" sets the priority goals for "reliable protection of the integrity of property rights and limiting the illegal interference of state bodies in property relations" [1].

It is known that the main elements of corporate governance are the management structure of companies, that is, the activities of the board of directors or supervisory boards. The effectiveness of corporate governance depends on the relationship between the board of directors (supervisory board) and the leaders of executive bodies in society, their composition, mechanisms for soft resolution of relations and conflict situations, and schemes for discussing and solving problematic issues related to activity.

In 2006, the Financial Services Authority (FSA), which is the regulatory body for the financial services industry in Great Britain, and the Basel Committee introduced a set of criteria for assessing the performance of Boards.

There is a high degree of interdependence between the board of directors and the management to run a joint stock company, so there must be a balance between them. The implementation of organizational goals and the effectiveness of the corporation's activities depend on the effectiveness of corporate management[2].

One of the main approaches to corporate governance assessment is rating assessment. Financial markets are evaluated by Standard & Poor's based on the GAMMA ((Corporate Governance, Accountability, Management, Metrics & Analysis)) rating. The components of the GAMMA methodology are: "shareholder influence"; "shareholder rights"; "transparency, audit and corporate risk management system"; "the effectiveness of the board of directors' work, the strategic process and the labor compensation system". In this practice, since 2011, the assessment of corporate governance has moved from the assessment of corporate governance to assessment as a part of credit analysis in determining credit ratings[3].

The main elements of GMI (Governance Metrics International) evaluation of corporate governance 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 Supervisory Board of joint-stock companies supervises the processes of strategic decision-making of the company's activities and effective use of its property. The board of directors is considered the main entity in corporate governance, it ensures the creation of additional value for shareholders and the sustainable development of the company. According to the recommendations of the Corporate Governance Code, the Board of Directors should regularly evaluate the effectiveness of its activities with the involvement of an external consultant.

2. LITERATURE REVIEW

In the Republic of Uzbekistan, many studies are being carried out on the formation of modern principles of corporate management and the creation of scientific and methodological bases. It was carried out by the first scientific studies carried out in the field of corporate governance. Economists and experts on the assessment of corporate actions in joint-stock companies have expressed their views and opinions in their research and international conferences. They showed improvement of the practice of evaluation of corporate actions in joint stock companies, the role of evaluation of corporate actions in joint stock companies and their negative and positive aspects according to the existing conditions of their time.

D.S. In Tagaverdieva's researches, the method of comparing the quality of corporate management with the benchmark, the evaluation based on the benchmarking system, the method of determining the capital value, the method of determining the final value of the property, and the evaluation methodologies based on attractive investment indicators for the quality of corporate management are proposed [4].

I.S. Rummyantsev proposed a methodology for quantitative evaluation of corporate management efficiency. In the methodological approach, he proposed a mathematical apparatus for determining the activities of joint-stock companies based on financial results and on the basis of increasing market values [5].

N.A. In her research, Volkova recognized that the model for evaluating the effectiveness of the corporation's corporate management should be evaluated as a system of components formed from economic indicators, each of which takes into account the economic characteristics of the enterprise and the quality composition of its employees[6].

N.W. In Gorodnova's research, he proposes a methodology and algorithm for comparative pairwise evaluation of management system options for corporate structures with state participation[7].

In the Republic of Uzbekistan, many studies are being carried out on the formation of modern principles of corporate management and the creation of scientific and methodological bases. The first scientific studies carried out in the field of corporate management were carried out by A. Karimov, B. Berkinov. A. Karimov's research is aimed at improving accounting and auditing in the corporate management system [8].

B. Berkinov's research aims to ensure the economic efficiency of enterprises based on the improvement of the economic mechanisms of corporate management [9].

D. Suyunov conducted scientific research on modern methods of corporate management, studying the theories and concepts that make up their basis, identifying existing trends, and introducing them into the corporate management system of Uzbekistan. According to D. Suyunov, it is necessary to completely remove 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[10].

It is presented by N. Rasulov in his studies aimed at studying corporate management systems formed in industrial sectors and their impact on innovative development. In his opinion, the innovative potential of corporate structures, management efficiency, active investment policy effectively and consistently implemented by the state, reforms in the field of private ownership, implementation of advanced foreign experience and further activation of innovative processes are necessary urgent scientific and practical problems[11].

Z. Ashurov carried out research on the organizational-economic mechanism of corporate management and its improvement. The following can be cited as its main scientific results:

- ensuring the right of minority shareholders to participate in the management of the joint-stock company;
- introduction of "comply or explain" international principles of corporate management in joint-stock companies;
- organizational and economic mechanism of corporate management in enterprises, development of organizational mechanisms for selling state share packages to potential foreign investors;

- to determine the tasks that the corporate management bodies in the joint-stock company should perform within its functions in order to improve the organizational-economic mechanism of corporate management[12].

3. RESEARCH METHODOLOGY

The study of available scientific research, comparative comparison, study of statistical data and economic comparison and analysis, logical thinking, scientific abstraction, grouping of information, analysis and synthesis, induction and deduction methods were widely used to improve the practice of evaluating corporate actions in joint-stock companies.

4. ANALYSIS AND RESULTS

Boards of directors are responsible for overseeing the organization's strategy, management decisions, regulatory compliance, and the systems and processes that govern, control, and manage overall performance. Board effectiveness is often measured in terms of financial metrics such as return to shareholders, return on investment, or return on assets of effective boards. Responsibility for corporate failures, corporate conflicts, and ineffective business transformations in joint-stock companies is associated with ineffective management board[13].

Although holding a meeting of the board of joint-stock companies is stipulated as a condition, the minimum number of times it should be held is determined only in the charters of the companies. Thus, a dummy variable was used to capture the effect of the number of board meetings. If the company held more than four board meetings in a year, the dummy variable takes the value "1". takes, otherwise "0". Like board size, board meetings are used as one of the proxy variables for board composition.

When creating the Corporate Governance Index (CGI), the quantitative value assigned to each mechanism is taken as a simple average of the key variables for such mechanism. Additionally, all mechanisms are scaled to a common scale so that the final compiled CGI value is between 0 and .

For each company, the CGI is calculated as the weighted average of its five structural mechanisms. It is recommended to use static and dynamic versions of panel data regression for econometric analysis from a panel database containing cross-sectional and time-series dimensions of the data set[14]. As part of the static panel data estimation, we use the fixed effects (SE) model discussed by Gujarati and Wooldridge. This model is better compared to the Pooled OLS model because it tries to include unobserved errors between different individual entities (companies). This is taken in the form of a differential cross term, which is different for each company. To estimate the SE model, we use a well-known transformation that removes fixed effects (unobserved heterogeneity) using time-dependent and explanatory variables:

$$Y_{i,t} - \bar{Y} = \beta X_{i,t} - \bar{X} + (v_{i,t} - \bar{v})$$

Table 1: Criteria and indicators for evaluating the functional quality of corporate management

№	Variables	The full name of the variables	Content
Block A. Indicators reflecting the efficiency of financial and economic activities of joint-stock companies - hidden variables			
1.	UKR	Profitability ratio of authorized capital	
2.	TQK	Total solvency coverage ratio	
3.	MLK	Absolute liquidity ratio	
4.	MR	Ratio of own funds to borrowed funds	
5.	QMR	The ratio of issuer funds to debt funds	
Block B: Indicators representing the effectiveness of corporate management activities (latent variable)			
6.	KH	Board size	Number of Supervisory Board members
7.	KM	Council meetings	Number of annual board meetings
8.	KQ	Council decisions	The number of issues or decisions submitted to the board
9.	KK	Average quorum at board meetings	The average number of quorums of annual board meetings is taken into account

10.	KA	Council members	The share of independent members among the members of the Council
11.	KAU	Total shareholding of elected board members	The total share of all members of the Supervisory Board in the total package of shares;
12.	IKA	Property distribution	Share of institutional owners in equity capital
13.	KRF	Activity coefficient of the chairman of the board	The percentage of councils in which the personally elected chairman participated in the total councils held;
C-block: Indicators representing the effectiveness of the joint-stock company's market activity - hidden variable			
14.	MS	Market share	AJ's share in the volume of products created in this industry in the republic
15.	R&D	Innovative activity	Share of innovative products in the total product
16.	MR	Management effectiveness	The share of management costs in the total costs of the enterprise

The proposed system of indicators is implemented on the basis of statistical analysis of the interaction and dependence on the efficiency of joint-stock companies. The evaluation practice of the 1st and 3rd blocks of the cited 3-block indicator system is widespread in the corporate management system of Uzbekistan. It is the direction of evaluation of the important performance indicators that is proposed, which almost corresponds to the indicators of the 1st and 3rd blocks.

The selected indicators are divided into 3 blocks and evaluated according to a total of 16 characteristics. Accordingly, it is required to determine the weight coefficients (W) of the corresponding blocks, which are:

- Block A. Evaluation of indicators reflecting the efficiency of financial and economic activity of joint-stock companies (Y_{ij}).
- Block B. Indicators representing the effectiveness of councils in corporate governance (D_{ir}).
- Block C. Indicators representing the efficiency of the joint-stock company's market activity (r_{ie}).

A formula for evaluating the functional quality of corporate management is proposed:

$$R_t = Y_{ij} + D_{ir} + r_{ie} \quad (2.1)$$

It is considered that each of the selected criteria has a different effect on enterprises, and taking into account the weighting coefficients, the formula (2.1) is written in the following order:

$$R_t = [W_1 * Y]_{ij} + [W_2 * D]_{ir} + [W_3 * r]_{ie} \quad (2.2)$$

In this, $0 \leq W_n \leq 1$ and their sum is equal to one, $W_1 + W_2 + W_3 = 1$

The correlation coefficients determine the extent to which the selected factors influence the quality of corporate governance.

Weighting coefficients are determined according to the number of quality criteria under study (number of K-factors), where:

$$K = W_1 j + W_2 r + W_3 e = 5 + 8 + 3 = 16;$$

$$W_1 = 1/16 * 5 = 0,32; W_2 = 1/16 * 8 = 0,5; W_3 = 1/16 * 3 = 0,18;$$

Putting the weighting coefficients in the second formula, we write as follows:

$$R_t = [0,32 * Y]_{ij} + [0,05 * D]_{ir} + [0,18 * r]_{ie} \quad (2.3)$$

Based on the above, in the assessment of the functional quality of corporate management, the financial and economic activity of joint-stock companies should be evaluated based on the criteria of weighting coefficients ($W=0.32$), board activity ($W=0.5$), and market activity efficiency ($W=0.18$). is offered. Based on the experience of developed countries, from the point of view of the best corporate management practice recognized worldwide, the Board of Directors is the main element of the company's corporate management system, and its activity has a decisive influence on its overall efficiency.

The purpose of our research was to develop a procedure for assessing Boards in corporate governance in Uzbekistan

and conduct an assessment in this regard. In international practice, corporate governance experts distinguish four approaches to assessing the Board's performance: informal approach, formal approach, trust-based approach, and systematic approaches.

On the basis of the above variables, the influence and dependence of the quality of corporate management on the efficiency of joint-stock companies is carried out on the basis of statistical analysis. It is determined in the review of foreign literature that A-block. activity of the supervisory board directly depends on the activity of members of the executive body and managers in improving the efficiency of financial and economic activities of joint-stock companies (Fig. 1). Based on this, he introduces the following hypothesis:

- H1-Supervisory board activity has a positive effect on the financial and economic performance of JSCs;
- H2-The efficiency of the joint-stock company's market activity depends on the results of its financial and economic activity. It is known that the financial and economic results should be considered as the results of the effective activity of the executive body;
- H3-the effectiveness of the market activity of the joint-stock company has an effect on the indicators representing the effectiveness of the corporate management activity, that is, the effectiveness of the board's activity;

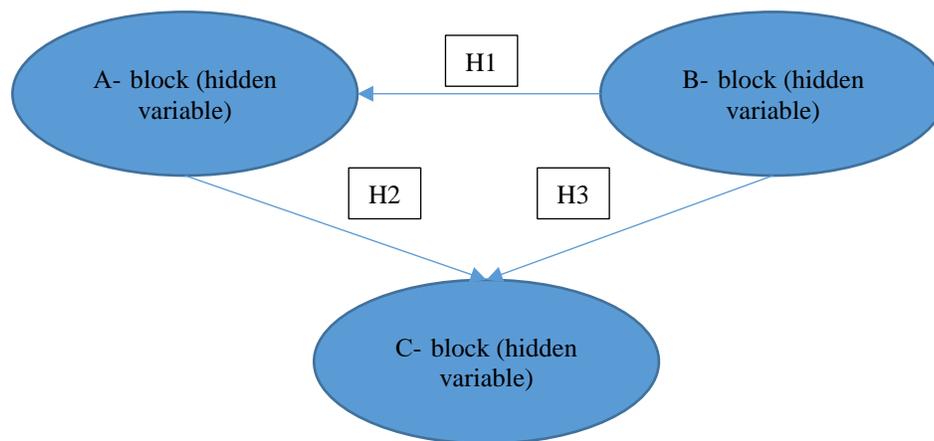


Figure 1. A methodological approach to assessing the impact of the effectiveness of JSC corporate management on economic, financial and market activity

Reports on the activities of joint-stock companies are collected on <https://openinfo.uz/uz/>, which is the only corporate information portal of the Ministry of Finance. Also, quarterly and annual reports of joint-stock companies are compiled. Quarterly reports are used in order to determine the quality of corporate management of joint-stock companies and its influence on the efficiency of market activity. The reason is that, according to the selected methodological approach, the observed statistics should be compiled from as many panel data as possible. Based on this, we suggested using quarterly reports of joint-stock companies. It will be possible to collect all information on criteria and indicators for evaluating the quality of corporate management.

5. CONCLUSIONS AND SUGGESTIONS

On the basis of improving the practice of evaluating corporate activities in joint-stock companies, it allows to determine the main directions of increasing the effectiveness of strategic management of corporate management bodies.

- The supervisory board of joint-stock companies effectively performs its tasks in the general management of the company's activities and setting its strategy
- Improving the efficiency of the board's activity in the corporate management system for evaluating the activity of the supervisory board of joint-stock companies increases their responsibility for making strategic decisions.

- Serves to create motivational mechanisms of influence on the activities of executive bodies of shareholders at meetings of the Supervisory Board.
- Provides an opportunity to develop clear guidelines for the Supervisory Board to make important strategic decisions.
- Shareholding serves to increase the positive effect on the efficiency of financial and economic activity of societies.
- Joint-stock companies have a decisive influence on the effective operation of the executive body and its overall effectiveness.
- Support to increase the efficiency of the activities of joint-stock companies, provide introduction and improvement of modern corporate management methods in them.
- When evaluating the functional quality of corporate management in corporate structures, the use of a system of criteria and indicators divided into indicators reflecting the financial and economic activity of joint-stock companies, the activity of councils and the efficiency of market activity provides an opportunity to identify the main problems in the institutional and functional mechanisms of management.
- It is important to ensure the balance of the most important performance indicators (PICs) selected in the evaluation of the performance of the executive body (management and general director) and to regulate the processes of determining their place in the formation of their general indicators.
- It is appropriate to cover aspects of business processes, customer relations, and personnel development in addition to financial indicators when forming criteria and indicators for evaluating the functional quality of corporate management.

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