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Methodological Approaches to Assessing the Economic Efficiency of Corporate Governance In Enterprises

Ashurov Alisher Anvarzhonovich
Fergana Polytechnic Institute

Abstract: Increasing the efficiency of a joint-stock company, as the main component of high-quality corporate governance, and finding ways to improve it have always been among the urgent problems of management. At present, the significance of this problem is increasing, as in the conditions of global instability of the financial and economic system, competition between consumers is intensifying, requirements for quality and price of products are increasing, which increases the requirements for the investment attractiveness of joint-stock companies.

Key words. corporate strategy, corporate structure, shares, shareholders, suppliers, shareholders.

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INTRODUCTION

In the previous sections of this study, we have considered some aspects of the need to create and develop an effective (proper) corporate governance system. A study of this issue showed that joint-stock companies that comply with the principles and high standards of corporate governance, as a rule, get wider access to capital compared to companies that are improperly managed. In addition, they are superior to the latter in the long run.

Securities markets, which are subject to strict requirements for the corporate governance system, help to reduce investment risks. Typically, such markets attract more investors who are willing to provide capital at a reasonable price and are much more effective as intermediaries bringing together wealth owners and entrepreneurs who are in need of capital.

Various aspects of corporate governance have been the subject of numerous empirical studies over the past decades. This reflects the fact that the investment community has begun to attach increasing importance to the relationship of companies with various groups of stakeholders (stakeholders), as well as the role that corporate governance plays in the dynamics of corporate market capitalization and in the financial management system.

In the academic field, this is reflected in the form of a wide and rather heterogeneous area of empirical research and applied theories that study the relationship between corporate governance and the economic performance of JSCs in both developed and emerging markets. Despite the fact that this field of research is sufficiently developed, only a few actively cited works are devoted to the study of the interaction of aggregated indicators of the quality of corporate governance and financial performance of the company. Until relatively recently, the range of such works was limited to studies of this problem only in developed countries. Articles by P. Gompers, J. Ishi and A. Metric [132], as well as R. Bauer, N. Günster and R. Otten [123] provide examples of such studies based on data from a random sample of companies from one country or the largest companies from several countries. The current proliferation of corporate governance advisory services and the growing role of institutional investors has led to a significant increase in the number of corporate governance publications in emerging markets. This was partly due to the emergence of competent reviews of corporate governance practices in developing countries, conducted by institutional investors and rating agencies.

Methods. In preparing the article, such research methods as the method of horizontal and vertical analysis, the formal-logical method, the method of scientific abstraction, and econometric analysis were used.

Results. The results of qualitative studies were only to some extent supplemented by quantitative analysis. This is due, in particular, to the fact that an instrumental approach to corporate governance prevails with an emphasis on its disciplinary aspects, which obviously narrows the range of potential conclusions that can be drawn on the basis of the accumulated statistical material.

The accumulated research experience in these areas has been repeatedly subjected to qualitative discussion, and the most relevant review papers provide a quantitative synthesis based on meta-analysis methods in relation to studies of the relationship between individual elements of corporate governance and economic efficiency: composition, size and structure of the supervisory board (board of directors), structure ownership, relations with auditors, transparency policy, corporate social responsibility.

In macroeconomic research, scientists largely follow the traditions of financial and legal theory and borrow its methodology. The last decade was marked by the emergence of an extensive empirical literature within the framework of comparative corporate governance, which found out the influence of the characteristics of the national governance system on various aspects of the functioning of the corporate economy, namely: the availability of external financing, dividend policy, sectoral distribution of capital, the level of bankruptcy risk, etc [1].

Subsequently, the researchers focused on studying the impact of certain corporate governance institutions (or their combinations) on economic efficiency (for a sample of individual companies, the market or the economy as a whole). At the moment, the number of studies that study the relationship between aggregate indicators of corporate governance quality and financial (economic) efficiency at the macro level is relatively small. Of these studies, only one does not reveal the relationship between the quality of corporate governance and economic efficiency. At the same time, another paper notes that the absence of a significant effect in a number of empirical studies at the micro level is due to a systematic error in sampling (sample selection bias), as well as the problem of endogeneity caused by the fact that there is a difference between the quality of corporate governance and economic efficiency. direct and reverse causation.

Before proceeding to the description of the methods and tools used to solve the problem of economic efficiency of management, it is necessary to clarify the question of what is the subject of analysis, i.e. what kind of efficiency are you talking about.

In the English-language literature, the concept of management efficiency is expressed in two key terms: system efficiency and operational efficiency [40,62]. System efficiency depends on how rationally organized management is, that is, on the composition and number of links, their subordination, and distribution of functions. In other words, the effectiveness of the management system is determined by the quality of the organizational structure, management processes, and does not depend on the qualities of specific managers. Operational efficiency, i.e. the ratio between the results of managerial activity and the efforts expended, on the contrary, is determined by the business qualities of managers, as well as how rationally their potential is used.

As practice shows, in the methodology that exists today, there are two models and two approaches to diagnosing the management system itself. For example, differences in the definition of the subject of analysis are closely linked to different approaches to modeling and evaluating the effectiveness of enterprise management [1].

The mechanistic model considers the enterprise as a mechanism, which is a combination of the main production factors: means of production, labor, raw materials and materials, as a machine for the realization of the goals of its creators. The theoretical basis of this approach is the provisions of the school of scientific management. At the same time, great importance is attached to the analysis of technical and economic relations and the dependence of various factors of production, and the task of management in this approach is, first of all, to group all parts of the system in the best way and, thereby, achieve maximum efficiency in achieving goals.

The humanistic model represents a joint-stock company as a team of people performing common work on the principles of division and cooperation of labor, while the most important productivity factor is a person as a social figure. The elements of the model are such components as attention to employees, their motivation, communication, participation in decision-making. The tasks of managers are to regulate relations between employees, to coordinate the processes for the implementation of specific tasks and plans through personal and direct impact on employees. As a criterion for the effectiveness of management, an increase in labor productivity by improving human resources is taken, i.e. it is believed that if all internal processes related to personnel are properly managed, then the JSC does not have problems achieving the intended goals for the production of products, profits , income, etc.

Both of these approaches, despite their fundamental differences, have one thing in common, and in both cases it is assumed that the goals of the organization are unambiguously defined and accepted by all participants in management activities. At the same time, the improvement of the control system is reduced to solving the following problem: there is a desired state of the system S1, which is known, → there is a present state of the system S0 → there are alternative ways of transition from S0 to S1 → it is necessary to determine the best means of transition from S0 to S1.

In contrast to this hard system approach, the soft system approach proceeds from the need to take into account the diverse and diverse interests of shareholders and managers, as well as employees and their families, suppliers and buyers of the company's products, authorities and non-profit partners, i.e. all those who are somehow interested in the existence of a joint-stock company. This approach practically means the adoption of a limited optimization strategy as a basis, in which the achievement of any one goal is limited by the requirement to fulfill other goals at an acceptable level. At the same time, the criterion of management efficiency is the ability to maintain a certain balance between such different goals as sales volume, profit, income, the interests of staff and customers, environmental protection, etc.

It turns out that corporate governance is really not so important for the successful development of JSCs, or it is necessary to change the system of indicators / criteria by which it is customary to assess the quality of corporate governance today. In our opinion, the second statement is more subject to a reasoned substantiation of the problem. Therefore, we will propose other criteria and methods for assessing the effectiveness of corporate governance of joint-stock companies of the Republic of Uzbekistan.

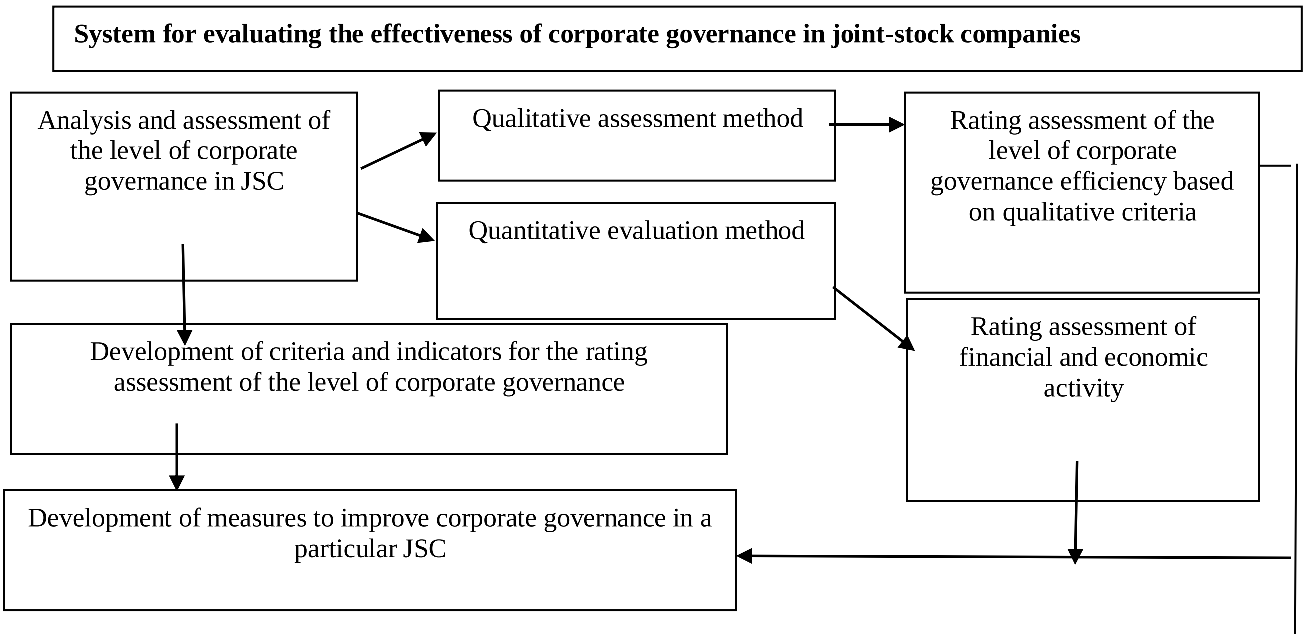
Analyses. Let's consider whether investors take into account the quality of corporate governance, how good corporate governance is beneficial for a joint-stock company, and whether it brings visible results. There are two most frequently encountered positive arguments for this: (1) JSCs with good corporate governance are more efficient in using investor funds, which in turn leads to improved financial performance and (2) are more attractive to investors, who in this case are willing to pay premium to the market value of securities, which facilitates the task of attracting financial resources and leads to an increase in the market value of JSC.

As we have already said, despite numerous studies, no direct dependence of the financial performance of joint-stock companies on the quality of corporate governance has been revealed. At least for every study that finds such a relationship, there is another (at least one) that did not find any definite relationship. It is likely that researchers in most cases use those corporate governance quality criteria that are not such at all or are to a minimal extent, and more significant factors simply “drop out” of the analysis.

In practice, to assess the effectiveness of corporate governance in terms of protecting the financial interests of owners, the method of comparing the dynamics of the company's market value and the method of predicting the bankruptcy of a company, which combines a set of indicators of its financial and economic activities, is most often used. However, the listed methods, in our opinion, have significant limitations, which significantly reduces the scope of their application in modern conditions.

As practice shows, these methods were developed on the basis of the activities of joint-stock companies in the conditions of developed market relations with well-established and effectively functioning corporate governance mechanisms. In the conditions of a transitional economy, in the presence of a weak infrastructure of corporate relations, such as the stock market, the institution of bankruptcy, the institution of hired managers, with an effective system of their monetary incentives, the only mechanism for controlling the activities of JSC managers, as a rule, is exclusively the Supervisory Board. Although the results of its activities, in turn, are not consistent with the laws of corporate governance in foreign countries. This is due to the high share of state representation in the supervisory boards of JSCs. Therefore, when developing our approach to evaluating the effectiveness of corporate governance and maintaining new indicators, we tried to correct the shortcomings in the known methods. On fig. 1.6 presents a system for assessing the effectiveness of corporate governance in joint-stock companies based on quantitative and qualitative assessment methods, which is a two-stage mechanism.

The quantitative method for assessing the level of corporate governance, which is carried out at the first stage, is based on an analysis of the economic activity of the joint-stock company.



Rice. 1. Performance evaluation system corporate governance in joint-stock companies

Moreover, this group is subdivided into an assessment of the financial condition, in which the main role is given to the calculation of the probability of bankruptcy and the assessment of the market value of the company. It should be noted why exactly this type of economic risk deserves attention, as the risk of insolvency of a joint-stock company - bankruptcy. Even if not the bankruptcy of an enterprise itself, but its possibility, it can already cause significant damage to its business partners, investors, resource providers, shareholders and the state, as the owner of a certain block of shares.

A review of the literature has shown that the models developed with the help of regression analysis tools are the most widely used. These are the well-known models of Altman, Taffler, Lis, Tishaw and other Western economists [2, 3], which many researchers are trying to apply in the current conditions. Although this is not entirely legal for objective reasons.

Discussion

First, the models developed with the help of regression analysis tools (Altman, Taffler, Lis, Tishaw, etc.) were carried out in the 1960s and 70s, i.e. a whole era has passed since their creation. During this time, the micro- and macroeconomic situation in foreign countries has changed. Many standards have also changed, for example, the ratio of borrowed and own funds. Models calculated according to the statistical data of those years cannot correctly describe and predict the situation of today.

Secondly, there can be no universal models that would be ideally suited for all sectors of the economy, even a single country, and due to the characteristics of various industries, the significance of individual indicators varies significantly. There are significant differences in the rate of capital turnover, the level of return on invested capital, etc.

Therefore, the very approach to the development of such models deserves attention, but, in our opinion, they should be developed for each industry and, at the same time, be periodically updated according to new statistical data, taking into account new trends and patterns in the economy. Each of these models takes into account different parameters of enterprises.

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