

## **THE IMPLEMENTATION THE CORPORATE GOVERNANCE SYSTEM IN UZBEKISTAN ON BASIS OF THE MODELS**

**Gafurov Anvar Bazarbayevich,**  
**Senior researcher at the Academy of Public Administration under the**  
**President of Republic of Uzbekistan**

*E-mail: [g.anvar@mail.ru](mailto:g.anvar@mail.ru)*

**Аннотация:** *В статье обсуждается роль корпоративного управления, состояние и внедрение в условиях Узбекистана. Исследование включает в себя германскую и американскую модели, принципы внедрения и их краткосравнительного таблицу.*

**Аннотация:** *Ушбу мақолада Ўзбекистонда корпоратив бошқарувнинг аҳамияти, ҳолати ва амалга оширилиши ҳақида сўз юритилган. Шунингдек, ўз ичига Герман ва Америка моделлари, уларни жорий этиши тамойиллари ва қисқача солиштирма жадвали берилган.*

**Abstract:** *The article discusses the role of corporate governance, conditions and implementation in Uzbekistan. Moreover, this study covers the German and American models, their principle in implementation processes and short comparison table.*

*Key words: corporate governance, German model, American model, development, investment.*

### **Introduction**

The corporate governance covers a system of relationships between the company's management, supervisory board, shareholders and other interested parties. Corporate governance also defines the structure by which the company's goals are set, as well as how to achieve these goals and monitor performance.

The quality of corporate governance affects the costs of companies gaining access to capital for further growth. Therefore, corporate governance rules and practices together provide a structure that helps to bridge the gap between household savings and investment in the real economy. As a result, good corporate governance convinces shareholders and other stakeholders that their rights to be protected, and enable companies to reduce costs and facilitate access to the capital market.

Today, implementation of this system is of particular importance in the global capital markets. International capital flows allow companies to gain access to re-financing from a wider range of investors. If companies are willing to have foreign investments with advantages of the global capital market and if they want to attract long-term "patient" capital, then corporate governance methods should be recognized trustworthy and understandable on different sides.

The wide-ranging reforms have being implemented in Uzbekistan since independence. At the first years of independence, the reforms have become an important

foundation for strengthening national statehood and sovereignty, security and law enforcement, inviolability of our borders, rule of law in society, human rights and freedoms, interethnic harmony and religious tolerance, creating the necessary conditions for realization of creative potential of citizens.

### **Literature review**

In 2017 February 7 No.4947 the Decree of the President of Republic of Uzbekistan “the Strategy of Actions for the further development of the Republic of Uzbekistan” was implemented. This Strategy of Actions possesses the five priorities of development of the Republic of Uzbekistan for 2017-2021 years. The third priority focuses on the economic development and liberalization within five years. In this context, it emphasizes strengthening macroeconomic stability, maintaining high economic growth rates, increasing competitiveness of the national economy, accelerating the modernization of agriculture, reducing the government participation in the economy and protecting of private property and its priorities.

The successful operation of any company depends not only on the right strategy, availability of resources, sales markets and competent management, but also on access to investment capital. And here it should be noted that investors will not invest in a company that does not have an effective system of management and control over its activities. Investors are ready to invest substantial money in the shares of companies that have created a corporate governance system that is understandable to investors.

In this context, the importance of implementing modern corporate governance methods that contribute to increase the efficiency of joint-stock companies and deepening the privatization processes. The first President of Republic of Uzbekistan also have put the essential steps in improving the system of corporate governance, namely, the Decree “On measures of implementation the modern corporate governance in the stock-joint companies” as of April 24, 2015 and “the additional measures to attract foreign investors in the stock-joint companies” as of December 21, 2015. These documents are determined the milestones in optimization of governances.

Nowadays, these Presidential decrees caused significant impact in this sphere. In particularly, it caused to be established the regulatory and legal frameworks for corporate governance. Moreover, the organizations have being shifted to the stock-joint companies, and consulting companies have been established in order to accelerate the implementation process of corporate governance.

In 2005 based on the above-mentioned documents, the inventory was carried out all joint-stock companies. Along with this, the standard structure of joint-stock companies was developed. The old divisions have been replaced with new posts. The center of attention has being directed to appoint young specialists that well educated on the sphere of management and marketing areas. As one the lasts such changes have been in sphere of education 23 years old Alisher Sadullaev appointed as the vice minister of Public Education of the Republic of Uzbekistan [1]. And in the Agency for Science and Technology of the Republic of Uzbekistan has also been observed changes the vice director of agency was appointed 25 years old Tuychiev Olimjan[2].

The attention was emphasized to attract foreign investors, thus the favorable conditions have being created for their active participation in corporate governance system, modernizing, technical and technological re-equipment of productions. In this context, foreign shareholders capital in Joint-Stock companies should be at least fifteen percent [3].

Of course, the producing and retraining the specialists in the sphere of reform is the essential milestone. In this pattern, it should be noted the establishment of Scientific and educational center for corporate governance by Decree of the First President of Republic of Uzbekistan No.2414 [4]. In the short time, the center managed to retrain 60 managers from various fields by inviting leading foreign specialists [5]. Moreover, as mentioned in Xalq suzi newspaper, most of short course participants could get the international field studies in European institutions.

### **Research methodology**

In the process of adopting foreign countries' methods of corporate governance, the mostly the attention is focused on the German model. In particular, the draft of codecs of corporate governance was formed in collaboration with German company Indecon Consulting in 2015. The year later, the codecs of corporate governance was accepted and introduced. The codecs is intended to serve as a collection of recommendations for all of joint-stock companies in the process of introducing international standards for transparent activities, increasing the responsibility of the directorate, strengthening the role of minority shareholders in enterprise management.

Moreover, the subjects of corporate governance have been implemented to teach young specialists in order to disseminate fundamental theoretical knowledge and study of advanced foreign practice. For this purpose, new courses and workshops have been introduced on modern corporate governance at the Academy of Public Administration under the President of the Republic of Uzbekistan and have being run successfully. In addition, the German Federal Ministry of Finance has organized the recent trip study project to the representatives of the Academy and the State Committee on Competition. Its purpose was to study the experience of Germany's the corporate governance and regulation of state-owned enterprises [6].

### **Analysis and results**

The corporate governance system - an organizational model that is designed to regulate the relationship between the managers of the companies and owners. On the other hand, coordinating objectives of various stakeholders to ensure the effective operation of companies. There are several models of corporate governance. Based on the management style there are variety forms of corporate governances that can be divided into groups, tending to two opposite models: American (exterior) model and German (interior) model.

**The (Anglo) American model.** American (outsider) model is the management model joint-stock companies based on the high level of impact outsiders in relation to joint-stock company and in mechanism of controlling over company. In other words, the participants of model are managing directors, directors, shareholders, government structures, the exchanges, consulting firms.

The Anglo-American model is typical for the US, UK, Australia, Canada, New Zealand. The interest of shareholders are represented by a large number of separate small investors who are depending on management of corporation. The role of stock market is increasing, through it the control over the corporation managing. The model requires mandatory approval of shareholders, elections the board of directors and appointment of auditors, implementation changes in the charter of the company and in assets.

The most of the corporations are using to finance the capital market without involving the institutional or individual investors. According to the legislation, the banks are prohibited to own shares of industrial companies and are limited to have relations with financial institutions. This measure was implemented after the crisis of 1930s.

The main feature of the model is only the shareholders can influence in the strategic decision-making process. The managers and employees act as their agents by receiving the certain rights on corporate governance such as: (1) possibility to vote by proxy cards (the shareholders are authorized to vote on behalf the Chairman of the Board);(2)a clear legal regulation of corporation activities, the rights and responsibilities of managers, directors and shareholders.

The model is oriented to increase the value of the corporation and its profitability for short-term periods. Therefore, it requires a high flexibility of the managing system that allows company to adapt quickly the external environment, realizing effectively innovative and risk projects.

The process of corporate governance is run by the unitary-board of directors that consists of twelve members and the general president who takes all decisions and consider member of the council.

**The German model.** The German (insider) model is the governance joint-stock companies based mainly on use of internal methods. The model is typical for Central European and the Nordic countries. It is based on the principles of social interactions: all interested members (shareholders, managers, employees, banks, non-governmental organizations) are able to participate in decision-making process. The model is characterized weakly focus on governance in orientation for the stock markets and shareholders' value, as the result the company controls its competitiveness and performance.

The share capital is largely concentrated and stored in the mutual possession of a few large entities like banks and corporations in Germany. The financial institutions control up to 70% of shares in Japan in order to minimize a role of individual investors and external shareholders [7].

Banks perform functions of monitoring and control through the representatives in the boards of directors and organize issue of securities, manage by proxy shares. It is a German model.

Many shareholders buy shares through banks due to being depositaries they will have a right to vote at meetings by proxy. Based on materials of corporation the banks send offers and recommendations to shareholders, and if the shareholders do not respond any actions, the banks conduct the vote by their discretion.

There are two opposite sides of the models of American and German. Between them, there are variety of national characteristic options with a primary domination. The development of specific corporate governance models in the framework national economy depend on three factors: (1) mechanism of protection of shareholders; (2) function and tasks of the board of directors; (3) level of disclosing the information [8].

**The terms of implementation of American corporate governance model.** The American corporate governance model is linked directly to the peculiarities of the national joint-stock property, which are: (1) level the highest of spraying capital in American corporations, as a result, as a rule, no one of shareholders group does not claim for special representative on the board of directors; (2) level the highest of liquidity of shares, the existence of stock markets that allows shareholders sell shares easily and quickly, and the investors can buy shares.

The key forms of market control are numerous mergers, acquisitions and buyouts of companies in order to provide effectively control through markets to management activities in American markets.

**The terms of using of German corporate governance model.** The factors of German model that consist of opposite of American model factors. Such factors are: (1) concentration of capital stock at different institutional investors and comparative degree of its spread by private investors; (2) comparative weak development of the stock market.

**The main differences.** The main differences are considered the models between the American and German corporate governances are as follows: (1) There is interest of shareholders in American model, mainly the interests of private shareholders are spread from each other, and thereby they are in dependence on management of corporations. In this context, the role of market increases as counterbalance through the control over the management joint-stock companies; (2) the German model the shareholders represent a set of fairly large blocks of shares holders, and they can be united in order to conduct their common interests, on basis of it they have control over the management of the company. In this situation, the role of market is reduced as the exterior controller or the corporation controls its competitiveness and its affairs [9].

Moreover, there are various functions of the Board of Directors. In American model – the Board of Directors as the Board of Managements that manages all affairs of the company and in charge for shareholders and supervisory bodies.

**1 table. The distinctive features of models of corporate governance [10].**

| Quality                      | American model                | German model            |
|------------------------------|-------------------------------|-------------------------|
| The system social values     | Individualism, free of choice | Social cooperation      |
| The role of labor collective | Passive                       | Active                  |
| The main source of financing | Stock-market                  | Banks                   |
| Discrepancy of information   | Management                    | Management, “home” Bank |
| Investment terms             | Short term                    | Long term               |
| Capital cost                 | Higher                        | Medium                  |

| Capital Market                                | Highly liquid | Liquid               |
|---|---------------|----------------------|
| The main economic unit<br>(in large business) | Company       | Holding              |
| The payment of management                     | Higher        | Medium               |
| Structure of the share capital                | Scattered     | Relatively collected |

The German model, there is strict separation functions of management and control. There is the Board of Supervisors in the Board of Directors this body implements all affairs of the company. Its control functions are linked directly with the ability to change quickly the current corporate management if its activities fail to meet the interests of shareholders. Participation in the Boards of Supervisors provides not only interests of the shareholders, but also interests of corporation such as relevant to its affairs. As a result of the interest of the company is privileged.

Perspectives of implementation of corporate governance in Uzbekistan. Nowadays, many of the local manufacturers are re-launched based on the principles of corporate governance in order to improve the efficiency of joint-stock company operations and to create favorable conditions for investment environment. There are regulations, Decree by the first President of the Republic of Uzbekistan in 2015, April 24 is focused on the measures to improve the modern corporate governance. The following of the outline points are: (1) to learn the international practices of companies operating based on the principles of corporate governance; (2) to establish joint-stock companies based on foreign direct investment and to improve the conditions of operations in order to attract the attention of investors; (3) to implement strategic management of joint stock companies, to establish effective monitoring system for the personnel of the corporation; (4) to educate young specialists on effective measures of strategic management in close cooperation with leading international universities [11].

The creation of favorable conditions for investment and increasing focus on attraction of foreign direct investment in Uzbekistan is considered as one of the crucial issues that are continuously discussed and supported in government level. Therefore, it is important to consider a number of regulations adopted by the Uzbek government in order to have a close look at the implications of the adopted regulations.

### **Conclusion**

There are several reasons for exploring more the German model. In the framework of specific management, the German model is characterized as an effectiveness in control, stabilities in interior and exterior relations and the less of percentage of bankruptcy and conflicts. It is presumed for long-term developments. Therefore, the German model is suitable for local practice. In addition, the model is consists of several similarities for emerging joint stock companies.

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framework of models, the conclusion has come: 1. There are two models of corporate governance. The implementation of the models are based on the factors and structures of the models. The models lay on the fundamental bases of corporate governance. (2) there are no general model of corporate governance. The models in the specific countries are not meant identifiably. There are specific parts neither public governance nor corporate governance. (3) Structuring the national or local model of corporate governance, the countries try to combine with values and traditions.

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