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Improving the Application of Internal and External Factors of the Corporate Governance System

Komil Turayev
Tashkent Textile and Light Industry Institute, Uzbekistan
Corresponding author email:komilturayev@gmail.com

Abstract---*Corporate governance practices are used to promote goals and objectives rather than as a way to implement structures and procedures that enable a corporation to gain shareholder trust, reduce the risk of financial crises, and increase access to capital. Establishing internal structures and procedures based on the principles of fairness, transparency, accountability, and responsibility is the primary task that must be addressed by management in the process of corporate governance reform.*
Keywords---*corporate governance, external structures, financial crises, internal structures, shareholder trust.*

Introduction

The most compelling argument in favor of corporate governance improvements is that such improvements contribute to the growth of the company's profitability. All research, and just common sense, shows that improving corporate governance directly and immediately leads to an increase in the value of a company's stock. The reason is obvious: the better the corporate governance system, the higher the level of investor confidence and, therefore, the lower the risk and the higher the cost. In addition, it is natural that the growth of the company's value corresponds to the main task of the board of directors, which is to maximize its attractiveness for shareholders. Remove the risk of reprehensible actions, leave only the normal business risk - and investors will be willing to pay more for a stake in the company. An additional benefit of increasing the company's profitability is the ability to raise capital on more favorable terms. This applies to both equity and debt capital. A company that adheres to the principles of effective corporate governance in its practice enjoys the trust of the investment society (Coope R, 2003; Johnston, 2004; Sonin, 2005; Brussels, 2002). Buying shares and lending to such companies are attractive to investors and lenders and are more readily available. In such companies, the stock price is higher, and borrowed funds are cheaper or offered on better terms when investors trust them, which is exactly what happens with good corporate governance. Good corporate governance involves the conduct of business with integrity and integrity. Investors appreciate this by gaining confidence and investing in such a corporation. This directly affects the increase in the market value and attractiveness of the company and facilitates its access to investor funds (Bussiere & Fratzscher, 2006; Putri & Sujana, 2018).

The investment community consists of shareholders, potential investors, both domestic and foreign, and companies offering investment services, in particular credit agencies, investment rating companies, investment publications, etc. Corporate governance is a system that implies fair, open, and fair governance. And if a company adheres to such values, there remains only one necessary factor of sustainable growth - trust, namely, the trust of investors, shareholders, and society. The shareholders must be confident that the company is being properly managed and that they are being treated honestly and honestly. Good corporate governance automatically distinguishes a company from those that are not trusted by the investment community and puts it on a par with organizations that follow the same practices of openness and fairness (Abdelsalam et al., 2021; Wagner, 2008; Haque, 2015). There is no guarantee of success. However, a company that enjoys the trust of the investment community of its employees, shareholders, suppliers, and society has a clear competitive advantage and therefore a better chance of success.

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Method

Increasing the degree of company manageability, its accountability to owners, separation of the functions of the owner and manager allows companies that have implemented a corporate governance system to increase operational efficiency, manageability, and accountability to shareholders. A professionally working board of directors ensures strategic planning and control over the actions of management, while a professional and properly motivated management in its day-to-day activities of managing the company makes every effort to fulfill the set targets. At the same time, the management is put under control in terms of preserving assets and financial flows for the owners of the company (Winter et al., 2002; Goriaev & Sonin, 2005; Gillan, 2006). With a properly structured corporate governance system, owners can improve the efficiency of control and management of the business by reducing the time it spends on exercising this control. To assess the effectiveness of the control of the company's business by the owner, we use the formula:

$$S = D / T\,,$$

where: S is the effectiveness of the owner's control per unit of time (his actual exercise of the right to participate in the management of the company; T is the time spent by the owner to control the functioning (not development!) Of the business that brings the given profit D. To increase the value of the fraction, i.e. by increasing his productivity, expressed in the expenditure of personal time, the owner should strive to minimize this time, i.e. $T \rightarrow 0$.
By substituting these parameters into the formula of the DuPont corporation we get the formula below:

$$ROI = D / K = (S * T) / KTS = (K * ROI) / T$$

It follows that the owner while reducing the time he spends on direct participation in the control of the business, must delegate all functions of operational management or transfer most of them to hired managers and organize an appropriate system of internal control. Further, it is necessary to delegate to the corporate control system some of the functions of ownership control, leaving only those functions and powers that are associated with his vision of the prospects for business development (White, 2008; Love et al., 2007; Bordo & Meissner, 2016). The efficiency of the corporate governance system is determined by certain factors that characterize the peculiarities of the functioning of corporations. The main elements of the corporate governance system include such control elements as corporate governance strategy; organizational structure for corporate governance; systems and processes of corporate governance; corporate management style; the sum of the corporate skills of the personnel, the composition of the personnel and the jointly shared corporate values (Figure 1).

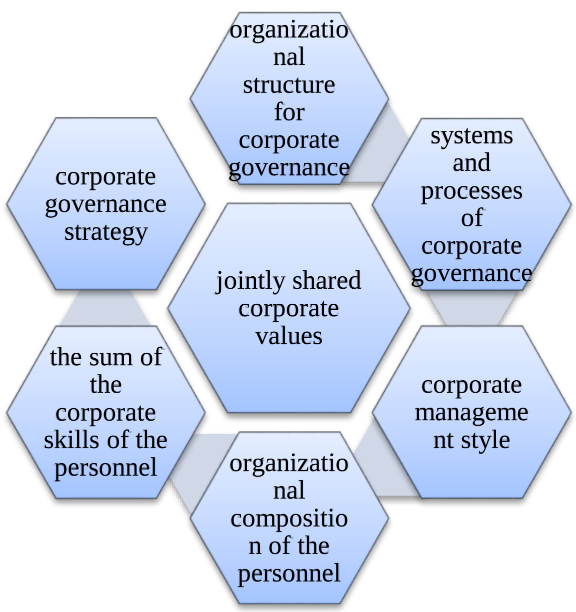

Figure 1. Elements of corporate governance

At the same time, the corporate governance strategy is characterized as:

- course for the implementation of corporate governance principles to achieve corporate goals;
- the organizational structure that ensures corporate governance is characterized as a description of the characteristics of the organizational structure of interaction between units that ensure the implementation of corporate strategy and principles of corporate governance;
- systems and procedures of corporate governance are characterized as a description of processes and established procedures of corporate governance;
- the corporate management style is characterized as the nature of the actions of the leading managers to achieve the corporate goals of the company;
- the sum of the corporate skills of the personnel is characterized as the abilities that distinguish the personnel and the company as a whole, aimed at the implementation of the principles of corporate governance, manifested in the implementation of corporate strategic goals;
- joint corporate values are characterized as the most important corporate values or fundamental concepts that are brought to the consciousness of all employees of the company.

Improving corporate governance is often superficial in practice and is used to promote goals rather than as a way to implement structures and procedures that enable a corporation to gain shareholder trust, reduce the risk of financial crises, and increase access to capital. Establishing internal structures and procedures based on the principles of fairness, transparency, accountability, and responsibility is the primary task that must be addressed by management in the process of corporate governance reform. The organizational structure of corporate governance can consist, for example, of LLC "FAZO-LUXE", of four blocks.

Table 1
The organizational structure of corporate governance LLC "FAZO-LUXE"

	First block	Second block	Third block	Fourth block
Department	corporate governance department	department of securities	department of legal support	Department of Public Relations and Interaction with Government Bodies
Main functions	creation, maintenance, and improvement of corporate governance; development, organization, and implementation of the corporate policy of the company; preparation of proposals for the development and amendments to internal documents; participation in their development; organization of work to unify business processes and procedures	establishing and developing effective relations with investors, shareholders, and news agencies, monitoring domestic and international securities markets, managing the liquidity of shares and other securities, developing the company's share market, as well as organizing work with the registrar	is primarily responsible for the legal purity of the documentation; this includes statutes and all kinds of regulations	coordination of the information policy of society about regional and national media and state authorities

Without pretending to provide full and detailed disclosure of such a complex topic as increasing the efficiency of the corporate governance system of a corporation, let us consider the internal mechanism of corporate governance in a joint-stock company as the protection of the rights of shareholders is one of the priorities. The OECD principles specify the minimum rights required for an investor. This list includes the rights to:

- reliable registration of ownership of shares;
- transfer or transfer of shares;
- timely and regular receipt of the necessary information about the corporation;
- participation in general meetings of shareholders and voting at these meetings;
- election and dismissal of members of the board of directors;
- receiving a share of the corporation's profits.

Conclusion

Improving corporate governance is the most important measurement required to increase the inflow of investments in all areas of the economy, both from domestic and foreign investors. This requires a mechanism to improve the system of management of relationships with shareholders. The main task regarding the implementation of this direction is to protect the rights of shareholders as one of the priorities of the country's socio-economic development.

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