SCIENCE AND INNOVATION
INTERNATIONAL SCIENTIFIC JOURNAL VOLUME 3 ISSUE 2 FEBUARY 2024
UIF-2022: 8.2 | ISSN: 2181-3337 | SCIENTISTS.UZ

CORPORATE MANAGEMENT IN COMMERCIAL BANKS

Yusupova Madina
Master of the Academy
Bank-Finance of the Republic of Uzbekistan
https://doi.org/10.5281/zenodo.10654823

Abstract. *This article analyzes the importance of corporate governance in the activity of commercial banks. Also, the views of scholars on corporate management and the ongoing reforms are given. The views of foreign scientists on the role of corporate management in banking activities were studied and recommendations were given to eliminate the shortcomings.*
Keywords: *commercial banks, corporate management, market economy. Joint stock company.*

Introduction. In recent years, priority has been given to the foundation of completely new sectors of the economy, especially to the modernization of their management methods. The Decree of the President of the Republic of Uzbekistan dated January 28, 2022 PF-60 "On the Development Strategy of New Uzbekistan for 2022-2026" regarding the development strategy and effective management of joint-stock companies defines the following tasks: completing the transformation processes in commercial banks according to the development strategy, and by the end of 2026, the share of the private sector in bank assets will be up to 60 percent.

Also, the fundamental change of the existing principles and approaches in the corporate management system is to ensure that they correspond to real market relations. The fact that the corporate method is an important condition for the transition to a market economy, the vital need to study the experience of developed countries in this regard, especially the issues of attracting young professionals who have thorough knowledge of the field and can apply modern management and marketing methods in practice, remain relevant.

Literature review. The banking industry is unique and different from other industries because the banking industry provides 5 main services. Banks provide services such as: facilitating the movement of goods and services through the payments system, supervising and disciplining borrowers, identifying viable investments, managing risk and uncertainty, and raising community funds for investment. (Levine, 2003; Mehran and Mollineaux, 2012).

In addition, good corporate governance of a bank is important for the soundness of the bank and the macroeconomic stability of the country (Andres and Vallelado, 2008). Thus, corporate governance becomes one of the popular research topics in banking that attracts worldwide attention because the quality of bank corporate governance affects bank performance (Binh and Giang, 2012).

Farinha (2003) states that corporate governance is an economic category that has been used in economics since Berle and Means (1932) and before Smith (1776). Berle and Mean (1932), corporate governance is the idea of separating ownership from control. At an early stage in the development of corporate governance, Berle and Mean's idea is to separate power between the state and wider institutions in order to create public trust in government institutions.

Most of the research on corporate governance refers to agency theory, specifically as a theory of agency conflict between principal and agent (Johnson et al., 2000).

It is argued that corporate governance solves the agency conflict between the principal and the agent because the purpose of corporate governance is to control the agent's activities to satisfy the interests of the principal. Recently, corporate governance in the banking industry has been influencing the bank's activities, such as setting the bank's goals, regulating the bank's daily operations, directors' accountability to shareholders, compliance with applicable laws and regulations, and protecting the interests of depositors (Ungureanu, 2007).

The original purpose of corporate governance is to prevent the overriding of the principal's interests by establishing a mechanism to monitor the agent's performance. Corporate governance is designed to ensure that the company operates in accordance with the director's interests.

According to Turnbull (2000), there are different definitions of corporate governance. Cocris and Ungureanu (2007) state that corporate governance is defined and practiced differently around the world depending on the relative power of owners, managers and capital providers.

Garvey and Swan (1994) describe corporate governance as the corporate contract that defines the relationship between a company's top management and executives.

Hart (1995) argues that corporate governance is necessary when there is an agency problem or conflict of interest. And it becomes necessary when such a problem cannot be solved through a contract.

Shleifer and Vishny (1997) define corporate governance as an arrangement aimed at ensuring that suppliers of capital to firms receive a return on their investment.

Okougbo (2011) offers various definitions of corporate governance as a set of processes, customs, policies, laws and institutions that influence the way a corporation is managed and controlled.

Also, good corporate governance is expected to resolve agency conflicts, so governance structure is very important to corporate governance. The corporate governance structure provides a framework on which corporate goals are set and performance is monitored, and it guarantees investors a return on their investment (Cocris and Ungureanu, 2007). However, good corporate governance depends on the implementation mechanism of corporate governance.

Research methodology. Dialectical approach, historicity, logic and analysis and synthesis, statistical grouping and economic analysis, comparison methods were used in the research work.

Analysis and results. All stakeholders will benefit from the creation of a suitable corporate governance system in the banking sector. In particular:

- banks increase the efficiency of their activity;
- the banking system attracts the flow of new depositors, borrowers, investors and other counterparties;
- shareholders of banks have confidence that their investments will be protected and their profitability will increase;
- the state can rely on the support of the banking sector in strengthening the competitiveness of the national economy, in the fight against fraud and corruption.

In recent years, the following main trends have been observed in the corporate management system of commercial banks of the Republic of Uzbekistan.

1. Property concentration. Most commercial banks are state-owned. This situation is observed in the case of large joint-stock commercial banks, in particular "Uzmilliybank" JSC, JSC "Agrobank", "Ipoteka-bank" ATIB, "Sanoatkurilishbank" ADB, "Asaka" ADB, JSC "Aloqabank",

"Kishloq Kurilish Bank" ADB. They not only have a high share of financial services in GDP, but also operate as a large investor.

2. Increasing the share of external shareholders (outsiders) as individuals and legal entities in commercial banks. This is a situation related to the placement of the country's stock market, in particular, IPOs.

3. The high concentration of capital and the presence of large shareholders is characterized by the practice of not paying enough attention to the rights of minority shareholders in the bank's corporate management.

4. The low level of transparency of the property structure of commercial banks. Corporate governance practices in banks are characterized by a relatively low level of transparency and transparency of banking business. Here, the relative concept is used to indicate certain trends in this field, which indicates that the level of transparency has increased in recent years.

The financial collapse of the banking system in developed countries as a result of the global financial crisis showed the weakness of corporate governance established in them and the need to reform this system. After that, in 2010, the Basel Committee on Banking Supervision revised the corporate governance system in banks, which was assessed as one of the foundations of preventing the financial crisis, and led to the further improvement of the corporate governance of banks.

The Basel Committee was established in 1974 by the heads of developed banks. The problems of regulation of international banking activities are discussed within it. In 1975, the Committee was reformed.

Effective functioning of the banking system, which is the locomotive of the country's economy, depends on the effectiveness of the corporate management established in them. Therefore, the operation of the banking system requires specific management.

Improving the efficiency of corporate management in commercial banks is one of the decisive factors of socio-economic development for our country.

In the conditions of modernization of the economy, one of the important tasks is to establish a corporate management system in commercial banks and learn ways to improve this system.

Also, the Decree of the President of the Republic of Uzbekistan "On measures to introduce modern corporate management methods in joint-stock companies" dated April 24, 2015 No. PF-4720 and "Measures to further increase the financial stability of commercial banks and develop their resource base" The adoption of the Decision No. PQ-2344 of May 6, 2015 on "On Events" indicates that the subject of corporate governance is an urgent topic in our country. Banks have the main aspects of effective corporate management, which are the following (Qudratov, 2016):

• transparency of information on banking activities and financial reports;

• interests of bank shareholders and depositors are fully protected;

• the independence of the bank's supervisory board in setting the bank's strategy, approving the business plan, making important business decisions, hiring management members, monitoring their activities and, if necessary, dismissing management members;

• compliance with and implementation of pre-emptive and imperative standards of regulatory and control bodies of the state.

According to the recommendations of the Basel Committee on Banking Supervision, effective corporate governance of banks allows supervisors to have information about the internal processes of banks. In this regard, the supervisory experience is that the level of authority, accountability, responsibility, restraint and balance of interests (checks and balances) are in place within each bank, including senior management, board of directors, risk management and audit services. is keyed.

By the decision of the Central Bank, on June 30, 2020, the regulation "On Corporate Management in Commercial Banks", registered with No. 3254, was approved. It came into force on October 1, 2020. The regulation describes in detail what forms the basis of effective corporate governance in banks. The following are the foundations of effective corporate governance:

• clear division of responsibilities of bank management bodies, important employees, as well as other bank employees;

• sufficient level of accountability;

• distribution of powers between bank management bodies and (or) structural structures of the bank, ensuring mutual control;

• the presence of highly qualified members of the bank's supervisory board and executive body, who are well aware of their powers and duties, comply with the high level of business ethics and ethics in the performance of their functional duties.

On May 12, 2020, the Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025" was adopted. The decree approved the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025, the "Roadmap" for reforming the banking system of the Republic of Uzbekistan, and the target indicators of the implementation of the strategy. This Strategy was developed by the Central Bank and the Ministry of Finance in cooperation with the World Bank, taking into account the main conclusions and recommendations of the results of the study of the current state of the country's banking system, as well as the experience of foreign countries in transforming the financial sector, as well as international trends in the field of finance.

In addition, on January 18, 2023, the Law of the Republic of Uzbekistan "On amendments and additions to certain legal documents of the Republic of Uzbekistan in connection with the further improvement of the corporate management system" was adopted.

Corporate governance is a complex, multifaceted concept that reflects aspects of the bank's governance system and the relationship between shareholders and managers. In terms of its content, it is the organization of a system of control and regulation of the activities of bank managers on behalf of corporate management owners (investors), as well as other interested parties and groups. It is worth noting that in the banking system of our country, all opportunities are being used to accelerate the practice of corporate governance, the formation of a system of relations between management and shareholders determined by the norms of corporate governance.

CONCLUSION

In conclusion, effectiveness in corporate governance is very important for banks because it directly affects their performance, profitability and stability. Modern corporate governance trends in banks have evolved over the years and now include a wide range of practices including digital transformation, customer centricity and agile methodologies.

Despite the differences in the structure of corporate governance in commercial banks, the banks of countries try to adhere to the international principles of corporate governance in the formation of the national corporate governance system, and in particular, take these international principles into account when developing national corporate governance codes. It follows that, regardless of the structure, the effective implementation of generally accepted principles, methods and mechanisms of corporate management in commercial banks is of priority.

We believe that the following should be implemented in order to improve the functioning of existing commercial banks in our country and the formation of the national corporate governance mechanism:

Ensuring the level of openness of information in the management process of joint-stock commercial banks;

Ensuring that the management bodies of the joint-stock company or companies regularly report to the shareholders or shareholders;

Ensuring compliance of corporate activities with current legislation, reliable banking activities;

In addition to the independent evaluation of the corporate governance system, to develop criteria for evaluating the effectiveness of the supervisory board's activity and, based on them, to strengthen the requirements for the implementation of the practice of evaluating the activity of the general board, its committees and the activities of each member, with the Code of Corporate Governance;

Complying with the level of transparency of information about the activity of banks, which allows market participants to form their opinions about the management system of the banking institution;

Further improvement of corporate governance, including methods of improving risk management and internal control, based on in-depth study of the management organization system of leading foreign banks and financial institutions;

Improving the quality of banks' assets and loan portfolio, further developing the system of assessing risks related to banking activities (credit, currency, operational, interest, etc.);
Increasing the stability against risks, increasing the quality and efficiency of control in the banks' activities.

It should be noted that the stable development and high income of the joint-stock company is reflected in its financial indicators. As a result, it expands the possibilities of paying dividends to shareholders and allocating own funds for the modernization of the enterprise. This further increases the responsibilities of corporate management bodies, including the supervisory board and the executive body.

REFERENCES

1. Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. PF-60 "On the development strategy of New Uzbekistan for 2022-2026".
2. Decree of the President of the Republic of Uzbekistan No. PF-5992 "On the strategy of reforming the banking system of the Republic of Uzbekistan for 2020-2025".
3. Decree of the President of the Republic of Uzbekistan No. PF-4720 "On measures to introduce modern corporate management methods in joint-stock companies".
4. Decision of the Central Bank of the Republic of Uzbekistan No. 3254 "On Corporate Management in Commercial Banks".
5. Andres, P. d., & Vallelado, E. (2008). Corporate governance in banking: The role of the board of directors. Journal of Banking and Finance, 32, 2570-2580.
6. Berle, A., & Means, G. (1932). The modern corporation and private property . New York: MacMillan.

7. Binh, D. T., & Giang, H. (2012). Corporate governance and performance in Vietnamese commercial banks. Journal of economics and development, 14(2), 72-95.
8. Cocris, V., & Ungureanu, M. C. (2007). Why is Banks Special? An approach from the corporate governance perspective. Scientific Annals - ALL Cuza University of Iasi, Economics Series, 55-66.
9. Farinha, J. (2003). Corporate governance: A Survey of the literature.
10. Garvey, G., & Swan, P. (1994). The economics of corporate governance: Beyond the marshallian firm. Journal of corporate finance, 1, 139-174.
11. Hart, O. (1995). Corporate governance, some theory and applications. The economic journal, 105, 687-689.
12. Johnson, S., Boone, P., Breach, A., & Friedman, E. (2000). Corporate governance in the Asian financial crisis. Journal of financial economics, 58(1-2), 141-186.
13. Levine, R. (2003). The corporate governance of banks: A concise discussion of concepts and evidence. Global Governance Forum, World Bank.
14. Mehran, H., & Mollineaux, L. (2012). Corporate governance if financial institutions. Federal Reserve Bank of New York, New York.
15. Okougbo, P. O. (2011). Auditors' role and practice of corporate governance: An imperative for Nigerian banks.
16. Shleifer, A., & Vishny , R. (1997). A survey of corporate governance. Journal of finance, 152, 737-75.
17. Smith, A. (1776). The wealth of nations.
18. Turnbull, S. (2000). Corporate governance: Theories, challenges and paragidma. SSRN electromic journal, 10(4), 1-97.