THE IMPORTANCE TRANSPARENCY AND DISCLOSURE TO CORPORATE GOVERNANCE SYSTEM

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Abstract: *the transparency and disclosure elements provide essential development to corporate governance framework. Because these elements manage the interaction of shareholders, stakeholders and investors in connection with capital allocation, financial performances and transactions.*
Keywords: *transparency, disclosure, corporate governance, shareholders, board of directors, managers, interaction, information.*

ВАЖНОСТЬ ПРОЗРАЧНОСТИ И РАСКРЫТОСТИ ИНФОРМАЦИЙ В СИСТЕМЕ КОРПОРАТИВНОГО УПРАВЛЕНИЯ

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Аннотация: *элементы прозрачности и раскрытия информации обеспечивают существенное развитие структуры корпоративного управления. Поскольку эти элементы управляют взаимодействием акционеров, заинтересованных сторон и инвесторов в связи с распределением капитала, финансовыми показателями и транзакциями.*
Ключевые слова: *прозрачность, раскрытие информации, корпоративное управление, акционеры, совет директоров, менеджеры, взаимодействие, информация.*

The corporate governance is seen as the most noticeable standard for establishing a fair environment. Moreover, the corporate governance is important part of risk management, thereby the poor corporate governance is viewed risky, whereas investors and creditors look for strength in governance of corporations. The strength of corporation governance system and quality of its transparency are essential factors that are paid more attention by stakeholders. Therefore, the stakeholders demand qualified financial report and transparent in corporations. The investors believe that good corporate governance system captivates a good management, careful resource distribution and enhance performance.

According to McKinsey & Company survey on investors shows that corporate governance is at the heart of investment decisions. On Global Investor Opinion survey majority of investors are prepared to pay a premium for companies exhibiting high governance standards. Premiums averaged 12-14% in North America and Western Europe; 20-25% in Asia and Latin America; and over 30% in Eastern Europe and Africa [1].

The corporate governance system is about covering obligations of corporate entities. The board of directors is the major controlling force in the company and run how the company steps. The object of corporate governance is to establish improved system of governance. The corporate governance starts with owners and reaches to the board and different management level of employees. The transparency and accountability are needed to establish relationship with stakeholders, shareholders and other interested parties. In this context, all management and governance responsibilities direct to board and management.

The increase of regulatory requirements has caused the corporate governance system more complex and enthusiastic. It posed to increase the responsibilities for board of directors to shift rigorous management standards. Moreover, the investors require information on individual board members and key executives in order to evaluate their experience and qualifications and assess any potential conflicts of interest that might affect their judgement [2]. Beeks and Brown cited that companies with better governance also provide more information. The weakness of governance causes lack of financial transparency and disclosure [3].

The corporate governance covers the control of corporation thru the board of directors who run to manage balance interests of various stakeholders in order to provide sustainability. In general, the corporate governance focuses on control over executives' management's behavior, their performances and their accountability to the shareholders. In return, the corporate governance stipulates adherence to the trust and accountability. Therefore, the corporate governance implies accountability, transparency, fairness and integrity in the board and managers.

The transparency expresses what actions of the company should be revealed to the outsiders. The transparency is one of the essential elements of the corporate governance that ensures the management board will not misuse their position while their affairs can be seen. It is said that to achieve transparency, companies should establish accurate accounting model, based on model the company reveals information and disclosure conflict of interest. The transparency is essential for the governance in order to keep balance among the board of directors, management and stakeholders

In 2000s there were public scandals Enron Corporation, Tyco International plc and WorldCom. This scandal impact to investors' confidence in financial statements. In result, the U.S. Congress passed the Sarbanes-Oxley act of 2002 in order to protect investors from illegal accounting activities by corporations [4]. Since it, the Sarbanes-Oxley Act demands to clarify publicly the role and responsibilities of board and management in order to provide necessary information for stakeholders with accountability. The accountability reveals that the managers act properly and utilize the company's resources in efficient and purposeful. Moreover, the accountability poses responsibility for the board and management. It is assumed and believed that management is accountable to the board, in return it is accountable to shareholders as well. Therefore, all these three players on the company affairs are relevant to each other indirectly.

There several definitions are given to the corporate governance. The International Finance corporation (IFC) says that the structures and processes by which companies are directed and controlled. The Organisation for Economic Co-operation and Development (OECD) defines it as the system that corporations are directed and controlled. The system specifies the distribution of the rights and responsibilities between the board of directors, managers, shareholders and stakeholders. The OECD cites that corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies [5].

The corporate governance system that established to direct and manage the business operations of company. The system expresses the different type of groups interest. For example, the stakeholders are interested in different aspects of memberships from their viewpoints. While shareholders are mostly the one who are interested to maximize the market value of corporation. Regulators are interested in policy, compliance and supervision. The employees' interest run by continuously employment processes and other group people have various interests.

There are enough definitions have been given to the corporate governance. All them is directed to the main concept which sparks that transparency, accountability, openness, fairness and responsibility [6]. The Association of Chartered Certified Accountants (ACCA) defined that there are three main purposes of corporate governance; (1) ensure the board to protect resources and allocate them to make planned progress; (2) ensure well organization account suitably for its stakeholders; and (3) ensure shareholders and stakeholders' account. These three inherent requirements to disclose transparently of corporate governance structure. According to Bushman, Piotroski and Smith, transparency is dissemination thru media, communication with stakeholders and repeatedly disclosure information about the company [7]. Uren says that disclosure has a positive efficiency on obtaining capital [8].

Nowadays, the corporate governance is demanded requirement to ensure equity and transparency. The companies that pose high level of corporate governance standards get lower cost of capital, improved competitiveness and financial indicators and long term growth. Scandals and crises caused mostly due to poor corporate governance and it turned to have cultivated and practiced system that can ensure long term sustainability of corporations.

Disclosure. Research findings show that corporate governance is an important assessment for investors. Therefore, the investors assume that corporate governance as one of the main elements in order to direct their investments. If investors find a poor corporate governance system, obviously it is risky and company are required to improve its corporate governance standards.

Regulations and laws have been upgrading by many countries. This upgrading targets to the good corporate governance and transparency. According to Benjamin Fung, there are five pillars of transparency and disclosure: (1) truthfulness; (2) completeness; (3) materiality of information; (4) timeliness; and (5) accessibility [9].

The decision that includes reliability, timeliness and accessibility provides efficiently for investors to make investment. As a result, more pillars come to closer to the transparency which is demanded by investors. Therefore, the corporate governance system focuses on promoting fairness and accurate financial reports. Transparency and disclosure are essential elements of a strong corporate governance system as they provide the basis decisions for investors, shareholders and stakeholders. Thereby, corporate governance system not only serves to investors but also regulates stability in commercial activities of the company. The level of transparency and disclosure have higher impact to the company. For example, it may reduce mismatch information on company's management and financial stakeholders.

According to theory of economy, reduction of information asymmetry by more voluntary disclosure of financial information in the stock market increases liquidity of shares and reduces the cost of the capital of the capital. According to managers, they are expected to act maximize the shareholder and stakeholders' interest. As it can expect, principal and managers have various interests and goals, the manager's problem can arise when managers goal may cause to the conflict of the principal. This conflict based on the management can be avoided in the regards of accountability and transparency.

Often companies follow to disclosure that go beyond minimum market demand. A strong disclosure of information promotes exactly transparency on market based monitoring, thereby company's shareholders are able to exercise their rights based on information. Historical evidences show that the disclosure can be an essential element for influencing companies' affairs and safe investors. The regime that full of strong disclosure is oriented to attract capital and maintain. Oppositely, if disclosure is weak and non-transparent, it causes a loss of market integrity and its shareholders. The shareholders and investors are keen on access on regular, reliable and accountable information in detail.

Transparency. In all level of transactions (local and international) and all level of investment, transparency and corporate governance are important. Based on Oxley Act of 2002, international companies have to follow instructions for transparency. Growth transparent data has become an interactive relation with interested group of people. Therefore, demand on good governance has been increasing since the investors are given more information about companies' activities. In other words, it means investors' decisions depend on management style and how companies upgrade their activities on their reports. It causes to come to international standards and adopt the best practices of corporate governance.

Companies should be able to share reports on corporate governance system, because it is accepted as effective path in order to attract investment capital. Moreover, the system also impacts to capital market as well to work efficiently. Based on the interest, transparency is divided into two, public's right to know and privacy of corporation. The public right is to know corporation information about management and strategy. The corporation privacy right is to control collection, use and disclosure information and management strategies. When information is not clear, it is not trusted, when it is hidden, it implies that something is hidden there.

Case of Uzbekistan. The importance of implementing modern corporate governance methods that contribute to increase the efficiency of joint-stock companies and deepening the privatization processes. Therefore, there are a few decrees have been signed in order to develop the corporate governance system in Uzbekistan. Particularly, the first President of Republic of Uzbekistan also has put the essential steps in improving the system of corporate governance, namely, Decree No.4947 [10], No. 4720 [11], No. 2454[12] and No. 176 [13].

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. Particularly, Decrees No. 2454 and No. 4609 [14] emphasize to attract foreign investors in the stock-joint companies. These decrees focus on wide involvement of foreign investors and managers in joint-stock companies, creation of favorable conditions for active participation in corporate governance, modernization, technical and technological re-equipment of production, organization of production of high-quality, competitive products and their promotion to external markets.

As the investment flow increased in Uzbekistan, there are noticeable changes have seen on the tendency. The following figure 1 shows the investment to main capital through Uzbekistan territory. It can have noted that in 2010, the investment to main capital was 15338.7 thousand soums and following years it increased slightly until 2012 and reached to 22797 thousand soums, in other words, it is increased for seven thousands sums. However, since 2013 the amount of investment raised rapidly and reached to 50000 thousand soums.

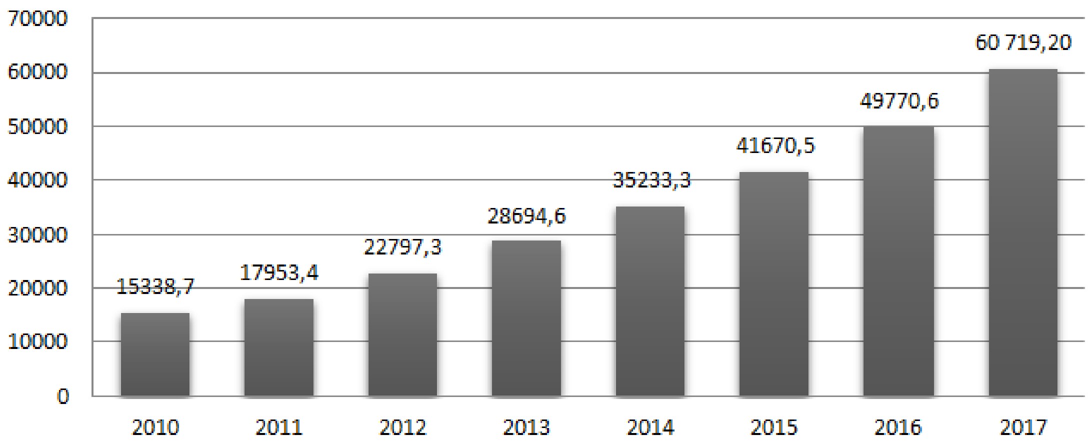

Figure 1. The investment to fixed capital (thousand soums)

Source: The State committee of Republic of Uzbekistan on statistics

The following Figure 1 indicates interactive relations of GDP with investment's percent in it. In 2007, GDP of Uzbekistan is 17 billion dollars, the percent of investment in GDP is over 27 percent. It can be noted that tendency of GDP rose steadily from 2007 until 2016. However, the tendency of investment's percent fluctuated. It can be seen from 2007 until 2010, it rose gradually, but the rest of following years, the trend is fluctuated. The most common indicator for both GDP and investment's percent in GDP fell sharply in 2017.

Conclusion

Countries that want to have many investors and want to have visible changes in their economy. These countries need what the investors look for. As investor, they need just package of information that is accessible and reliably. These parameters call to the new management style that is corporate governance. Because, the system provides to work properly the company staff and share timely reports. Moreover, the system enhances the shareholders' value. The corporate governance shares each of interested group of people their responsibilities, in turn each of them may pressure to move forward a corporation.

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