CORPORATE GOVERNANCE AND FIRM FINANCIAL PERFORMANCE IN EMERGING MARKETS: IMPLICATIONS FOR UZBEKISTAN

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Annotation

Corporate governance is an important factor influencing firm financial performance in emerging markets. In countries with concentrated ownership, weak investor protection and limited transparency, good governance can improve accountability, reduce risks, increase investor confidence and support firm value. This article examines how corporate governance affects financial performance in emerging markets, with specific implications for Uzbekistan. The study focuses on board independence, transparency, audit quality and protection of minority shareholders. The article argues that stronger corporate governance can help Uzbek companies improve financial performance, attract investment and become more competitive during privatization and capital market development.

Keywords: *corporate governance, financial performance, emerging markets, Uzbekistan, transparency, investor protection, board independence.*

Introduction

Corporate governance refers to the system by which companies are directed and controlled. It defines the relationship between shareholders, managers, boards of directors and other stakeholders. In emerging markets, corporate governance is especially important because firms often operate in environments with weak legal enforcement, limited disclosure and dominant shareholders.

The research problem addressed in this article is that many firms in emerging markets, including Uzbekistan, may have formal corporate governance structures, but these mechanisms do not always work effectively in practice. As a result, weak governance can reduce firm performance, discourage investors and lower company value.

This issue is relevant for Uzbekistan because the country is developing its capital market, reforming state-owned enterprises and preparing major companies for privatization. Therefore, improving corporate governance is not only a company-level issue but also an important factor for economic development.

Objectives of the Study

The main objective of this study is to examine the relationship between corporate governance and firm financial performance in emerging markets.

The specific objectives are:

1. To explain the main corporate governance mechanisms that affect financial performance;

2. To analyze how board independence, transparency, audit quality and minority shareholder protection influence firm value;

3. To identify key corporate governance challenges in emerging markets;

4. To discuss the implications of corporate governance reform for Uzbekistan.

Methodology

This study uses a qualitative literature review and conceptual analysis. The article reviews existing academic studies on corporate governance, agency theory, stakeholder theory and firm financial performance. The methodology is based on comparing theoretical arguments and previous empirical findings to explain how corporate governance mechanisms influence financial outcomes in emerging markets. Special attention is given to the relevance of these findings for Uzbekistan's privatization, capital market development and state-owned enterprise reform.

Literature Review

The relationship between corporate governance and financial performance is mainly explained by agency theory. Jensen and Meckling (1976) argue that conflicts may arise when managers control company resources but shareholders bear the financial consequences. Corporate governance mechanisms reduce these conflicts by improving monitoring, transparency and accountability.

Stakeholder theory also provides an important perspective. Freeman (1984) argues that companies should consider the interests of shareholders, employees, creditors, customers and society. This is particularly important in emerging markets, where large firms often have a wider social and economic role.

Previous studies show that stronger corporate governance is usually associated with better firm value and performance. Gompers, Ishii and Metrick (2003) found that firms with stronger shareholder rights tend to have higher market value. Bhagat and Bolton (2008) also showed that board structure and governance quality can influence operating performance.

Main Analysis

Corporate governance affects financial performance through several channels. First, it reduces agency costs. Independent boards, audit committees and internal control systems help monitor managers and reduce the risk of inefficient or self-interested decisions (Jensen & Meckling, 1976).

Second, good governance lowers the cost of capital. Investors and banks are more willing to finance companies that provide reliable information and protect shareholder rights. As a result, well-governed firms can receive financing on better terms.

Third, corporate governance increases firm valuation. Investors usually value transparent and accountable companies higher than firms with weak disclosure and unclear ownership structures. Gompers et al. (2003) show that stronger shareholder rights are linked to higher corporate value.

Fourth, corporate governance improves strategic decision-making. Professional boards can support management in risk management, investment planning and long-term strategy. According to Bhagat and Bolton (2008), the governance structure can influence operating performance by shaping how companies are monitored and managed.

Implications for Uzbekistan

Uzbekistan has made progress in corporate governance reforms, but practical challenges remain. In many companies, governance mechanisms still exist mainly as formal requirements. Boards and committees may be established, but their real role in decision-making can be limited.

State-owned enterprises remain important in the Uzbek economy. Their financial performance may be affected by non-commercial objectives, political influence and unclear accountability. Therefore, improving SOE governance is necessary before privatization or public offering.

Capital market development also depends on corporate governance. Investors will be more willing to buy shares of Uzbek companies if they trust financial reports, board decisions and protection of minority shareholders. For Uzbekistan, stronger corporate governance can improve company efficiency, increase investor confidence and support long-term economic growth.

Recommendations

Uzbek companies should strengthen board independence and appoint qualified directors with real decision-making power. Financial reporting should be improved, especially in large companies and state-owned enterprises. Internal audit and audit committees should become more professional and active.

Regulators should focus not only on adopting corporate governance rules, but also on their practical enforcement. Related-party transactions must be transparently disclosed. State-owned enterprises should follow clear financial and operational performance indicators.

Most importantly, corporate governance should be understood as a tool for increasing firm value, rather than merely a legal requirement.

Conclusion

Corporate governance has a significant impact on firm financial performance in emerging markets. It improves transparency, reduces agency costs, lowers the cost of capital and increases investor confidence. Strong governance also supports better strategic decision-making and long-term company stability.

For Uzbekistan, corporate governance reform is especially important because the country is developing its capital market, privatizing state assets and attracting foreign investment. If Uzbek companies improve board independence, transparency, audit quality and shareholder protection, they can become more efficient, attractive to investors and competitive in international markets.

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