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IMPROVING CORPORATE GOVERNANCE IN JOINT-STOCK COMPANIES OF UZBEKISTAN ON THE BASIS OF INTERNATIONAL ESG STANDARDS

Abstract. The growing importance of environmental, social and governance (ESG) criteria in global capital markets is changing the way investors evaluate companies and the way companies are governed. This article examines how corporate governance in joint-stock companies of Uzbekistan can be improved on the basis of international ESG standards. The study uses a comparative analysis of the main international frameworks (the G20/OECD Principles of Corporate Governance, GRI Standards, IFRS S1 and S2 of the International Sustainability Standards Board, and the UN Global Compact), a document-based gap analysis of the national corporate governance framework, and an index-based methodology. The results show that the national framework covers the classical governance pillar reasonably well, while the environmental and social pillars, sustainability oversight by the supervisory board, and non-financial reporting remain weakly regulated. The article proposes an ESG-based Corporate Governance Index (ESG-CGI) for joint-stock companies, consisting of four sub-indices and twenty indicators, as well as an organizational mechanism and a phased roadmap for introducing ESG practices. The proposals can be used by supervisory boards, the State Assets Management Agency, capital market regulators and investors.

Keywords: corporate governance, ESG, joint-stock company, sustainability reporting, supervisory board, IFRS S1, GRI, stakeholder theory, Uzbekistan.

Аннотация. Растущее значение экологических, социальных и управленческих (ESG) критериев на мировых рынках капитала меняет то, как инвесторы оценивают компании, и то, как компании управляются. В статье рассматривается, каким образом корпоративное управление в акционерных обществах Узбекистана может быть усовершенствовано на основе международных стандартов ESG. В исследовании используются сравнительный анализ основных международных рамочных документов (Принципы корпоративного управления G20/ОЭСР, Стандарты GRI, IFRS S1 и S2 Совета по международным стандартам отчетности в области устойчивого развития и Глобальный договор ООН), документальный анализ разрывов национальной системы корпоративного управления и индексная методология. Результаты показывают, что национальная система достаточно хорошо охватывает классическую управленческую составляющую, тогда как экологическая и социальная составляющие, надзор наблюдательного совета за устойчивым развитием и нефинансовая отчетность остаются слабо урегулированными. В статье предлагается индекс корпоративного управления на основе ESG (ESG-CGI) для акционерных обществ, состоящий из четырех субиндексов и двадцати показателей, а также организационный механизм и поэтапная дорожная карта внедрения ESG-практик. Предложения могут быть использованы наблюдательными советами, Агентством по управлению государственными активами, регуляторами рынка капитала и инвесторами.

Ключевые слова: корпоративное управление, ESG, акционерное общество, отчетность в области устойчивого развития, наблюдательный совет, IFRS S1, GRI, теория заинтересованных сторон, Узбекистан.

Annotatsiya. Jahon kapital bozorlarida ekologik, ijtimoiy va boshqaruv (ESG) mezonlari ahamiyatining ortib borishi investorlarning kompaniyalarni baholash usulini va kompaniyalarning boshqarilish usulini o'zgartirmoqda. Maqolada O'zbekiston aksiyadorlik jamiyatlarida korporativ boshqaruvni xalqaro ESG standartlari asosida qanday takomillashtirish mumkinligi ko'rib chiqiladi. Tadqiqotda asosiy xalqaro hujjatlarning (G20/IHTT Korporativ

boshqaruv tamoyillari, GRI standartlari, Barqarorlik bo'yicha xalqaro standartlar kengashining IFRS S1 va S2 standartlari hamda BMTning Global shartnomasi) qiyosiy tahlili, milliy korporativ boshqaruv tizimining hujjatlarga asoslangan tafovutlar tahlili va indeks metodologiyasidan foydalanilgan. Natijalar shuni ko'rsatadiki, milliy tizim klassik boshqaruv yo'nalishini yetarlicha yaxshi qamrab oladi, ekologik va ijtimoiy yo'nalishlar, kuzatuv kengashining barqaror rivojlanish ustidan nazorati hamda nomoliyaviy hisobot esa sust tartibga solinganicha qolmoqda. Maqolada aksiyadorlik jamiyatlari uchun to'rtta kichik indeks va yigirmata ko'rsatkichdan iborat ESGga asoslangan korporativ boshqaruv indeksi (ESG-CGI), shuningdek, ESG amaliyotlarini joriy etishning tashkiliy mexanizmi va bosqichma-bosqich yo'l xaritasi taklif etiladi. Takliflardan kuzatuv kengashlari, Davlat aktivlarini boshqarish agentligi, kapital bozori regulyatorlari va investorlar foydalanishi mumkin.

Kalit so'zlar: korporativ boshqaruv, ESG, aksiyadorlik jamiyati, barqaror rivojlanish bo'yicha hisobot, kuzatuv kengashi, IFRS S1, GRI, manfaatdor tomonlar nazariyasi, O'zbekiston.

INTRODUCTION

Over the last two decades, the concept of corporate governance has moved beyond the narrow task of protecting shareholders from opportunistic managers. Today, investors, creditors, regulators and society expect companies to manage not only financial risks, but also environmental and social risks that can affect long-term value. This shift is reflected in the rapid spread of ESG (Environmental, Social and Governance) criteria, which are now used by asset managers, banks, stock exchanges and rating agencies to evaluate companies and make investment decisions.

International standard setters have responded to this demand. In 2023 the G20/OECD Principles of Corporate Governance were revised, and for the first time they included a separate chapter on sustainability and resilience [9]. In the same year, the International Sustainability Standards Board (ISSB) of the IFRS Foundation issued IFRS S1 and IFRS S2, the first global baseline standards for sustainability-related financial disclosure [10]. The Global Reporting Initiative (GRI) Standards remain the most widely used framework for reporting the impacts of companies on the economy, environment and people [11]. As a result, ESG has become a part of the corporate governance agenda rather than a separate voluntary activity.

For Uzbekistan, this global trend is especially relevant. The country is implementing large-scale reforms aimed at attracting foreign direct investment, transforming enterprises with state participation, developing the stock market and carrying out public offerings of shares of large companies. Modern methods of corporate governance in joint-stock companies were introduced by the Decree of the President No. PF-4720 of 24 April 2015 [14], and a national Corporate Governance Code was adopted in the same year [16]. The "Uzbekistan – 2030" Strategy approved by Decree No. PF-158 of 11 September 2023 sets targets for increasing investment, privatization and the green economy [15]. However, international investors increasingly require ESG information and governance structures that many domestic joint-stock companies do not yet have.

The scientific problem addressed in this article is the absence of a systematic approach that integrates international ESG standards into the corporate governance system of joint-stock companies in Uzbekistan. The aim of the study is to develop scientific proposals and practical recommendations for improving corporate governance in joint-stock companies on the basis of international ESG standards. To achieve this aim, the following tasks were set: (1) to clarify the theoretical relationship between corporate governance and ESG; (2) to compare the requirements of the main international ESG frameworks; (3) to identify gaps between these requirements and the national corporate governance framework; (4) to develop an index for assessing ESG-based corporate governance; and (5) to propose an organizational mechanism and an implementation roadmap.

MATERIALS

The theoretical basis of the study consists of three main approaches. Agency theory, developed by M. Jensen and W. Meckling, explains corporate governance as a set of mechanisms

that reduce conflicts of interest between owners and managers [1]. A. Shleifer and R. Vishny described corporate governance as the ways in which suppliers of finance assure themselves of getting a return on their investment [8]. Stakeholder theory, proposed by R.E. Freeman, argues that a company must take into account the interests of all groups that affect or are affected by its activities, including employees, customers, local communities and the state [2]. The triple bottom line concept of J. Elkington states that a company should be evaluated by its economic, social and environmental results at the same time [3]. ESG can be seen as a practical tool that brings stakeholder theory and the triple bottom line into the governance and reporting system of the company. R. Aguilera and co-authors show that pressure from employees, investors, governments and international organizations works at several levels at the same time and pushes companies to take social responsibility seriously [20].

Empirical literature on the relationship between ESG and company performance is extensive. G. Friede, T. Busch and A. Bassen aggregated the results of more than 2,000 empirical studies and found that the large majority of them report a non-negative relationship between ESG and corporate financial performance [4]. R. Eccles, I. Ioannou and G. Serafeim showed that companies with strong sustainability policies have distinct governance processes, including board responsibility for sustainability and stakeholder engagement, and that they outperformed comparable firms in the long run [5]. M. Khan, G. Serafeim and A. Yoon demonstrated that performance on financially material sustainability issues is associated with better future stock returns, while performance on immaterial issues is not [6]. At the same time, F. Berg, J. Kölbel and R. Rigobon found a large divergence between ESG ratings of different agencies, which shows that measurement methodology matters [7]. S. Gillan, A. Koch and L. Starks reviewed ESG and CSR research in corporate finance and concluded that governance structures, ownership and board characteristics strongly influence ESG outcomes [12]. Studies in emerging and transition economies, such as the work of P. Velte, also confirm that the governance pillar has a significant effect on financial indicators [13].

The empirical and documentary materials of the study include: the G20/OECD Principles of Corporate Governance (2023) [9]; IFRS S1 and IFRS S2 [10]; GRI Universal Standards 2021 [11]; the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) [18]; the ten principles of the UN Global Compact [19]; the Law of the Republic of Uzbekistan "On joint-stock companies and protection of shareholders' rights" [17]; the Corporate Governance Code of Uzbekistan [16]; presidential decrees on corporate governance and development strategy [14, 15]; and annual reports and information disclosed by joint-stock companies on the Unified Portal of Corporate Information (openinfo.uz) and the website of the Republican Stock Exchange "Tashkent".

METHODS

The study uses a combination of qualitative and quantitative methods. First, a **comparative analysis** was used to compare the scope, focus and governance requirements of the four main international ESG frameworks. Second, a **document-based gap analysis** was used to assess the extent to which the national legal and regulatory framework reflects these requirements. Each requirement was assessed on a three-level scale: "addressed", "partially addressed" and "not addressed". Third, an **index method** was used to develop the ESG-based Corporate Governance Index (ESG-CGI). Fourth, the methods of **systemic analysis, abstract-logical reasoning and synthesis** were used to design the organizational mechanism and the implementation roadmap.

The ESG-CGI is calculated on the basis of company disclosures. Each indicator is scored on a three-point scale: 0 – no information disclosed or practice absent; 1 – partial disclosure or practice introduced formally; 2 – full disclosure or practice fully introduced. The score of each sub-index is calculated as follows:

$$S_k = \frac{1}{2m_k} \sum_{j=1}^{m_k} s_{kj} \times 100 \quad (1)$$

where S_k is the score of sub-index k (from 0 to 100); s_{kj} is the score of indicator j in sub-index k (0, 1 or 2); m_k is the number of indicators in sub-index k .

The integral index is calculated as the weighted sum of the sub-indices:

$$ESG - CGI = \sum_{k=1}^4 w_k \cdot S_k \quad (2)$$

where w_k is the weight of sub-index k , and the sum of the weights equals 1. In the basic version, the governance sub-index receives a weight of 0.4, and the environmental, social and disclosure sub-indices receive 0.2 each, because governance mechanisms determine how the other two pillars are managed. The weights can also be determined by expert assessment (the Delphi method) or by principal component analysis when sufficient data is available.

Based on the value of the index, companies are classified into four levels of ESG maturity: initial (0–25), developing (26–50), advanced (51–75) and leading (76–100). This scale allows supervisory boards and regulators to track progress over time and to compare companies within an industry.

RESULTS

The first result of the study is a comparison of the main international frameworks that shape ESG-based corporate governance (Table 1). The analysis shows that the frameworks complement each other. The G20/OECD Principles define the role of the board and shareholders in managing sustainability risks; IFRS S1 and S2 define what sustainability information must be disclosed to investors; GRI defines how a company reports its impacts on society and the environment; and the UN Global Compact sets basic principles of responsible business conduct.

Table 1.

Comparison of the main international frameworks for ESG-based corporate governance

Framework	Main focus	Key requirements for governance	Main users
G20/OECD Principles of Corporate Governance (2023)	Rights of shareholders, role of the board, disclosure, sustainability and resilience	Board oversight of sustainability risks; disclosure of material sustainability information; dialogue with stakeholders	Governments, regulators, listed companies
IFRS S1 and IFRS S2 (ISSB, 2023)	Sustainability-related financial information, including climate	Disclosure of governance bodies responsible for sustainability, strategy, risk management, metrics and targets	Investors, lenders, stock exchanges
GRI Standards (2021)	Impacts of the company on the economy, environment and people	Disclosure of governance structure, board composition, remuneration, stakeholder engagement and material topics	All stakeholders
UN Global Compact	Ten principles on human rights, labour, environment and anti-corruption	Commitment of top management; annual Communication on Progress	Companies of all sizes

Source: compiled by the author based on [9; 10; 11; 19].

The second result is the gap analysis of the national corporate governance framework of Uzbekistan in relation to international ESG requirements (Table 2). According to the author's assessment of legal and regulatory documents, the classical governance pillar is relatively well regulated. The Law on joint-stock companies and the Corporate Governance Code define the rights of shareholders, the competence of the general meeting, the supervisory board and the

executive body, and the rules for disclosure of material facts. The Code also recommends including independent members in the supervisory board and establishing committees of the board.

At the same time, several important ESG elements are absent or only partially addressed. There is no mandatory requirement for joint-stock companies to prepare sustainability or ESG reports. The responsibility of the supervisory board for environmental and social risks is not clearly defined. Climate-related risks, greenhouse gas emissions, water use and waste are not included in the list of mandatory disclosures. The link between executive remuneration and ESG targets is not regulated. The mechanisms of systematic dialogue with employees, local communities and other stakeholders are mostly declarative.

Table 2.

Gap analysis of the national framework against international ESG requirements

ESG requirement	Status in Uzbekistan	Comment
Protection of shareholder rights, general meeting procedures	Addressed	Regulated by the Law on joint-stock companies
Independent members of the supervisory board	Partially addressed	Recommended by the Code; in practice their number and real independence are limited
Board committees (audit, remuneration, nominations)	Partially addressed	Recommended; sustainability or ESG committees are not envisaged
Board oversight of environmental and social risks	Not addressed	No clear assignment of responsibility
Sustainability / ESG reporting	Not addressed	Voluntary; prepared mainly by a few large companies
Climate-related disclosure (emissions, climate risks)	Not addressed	Not included in mandatory disclosure
Link between executive remuneration and ESG targets	Not addressed	Remuneration is linked mainly to financial KPIs
Stakeholder engagement and grievance mechanisms	Partially addressed	Declared in general terms, procedures are not specified
Anti-corruption and business ethics	Partially addressed	Compliance systems are being introduced, mainly in state-owned enterprises

Source: author's assessment based on [9; 10; 11; 16; 17].

The third result is the structure of the ESG-based Corporate Governance Index (Table 3). The index consists of four sub-indices: governance (G), environmental (E), social (S) and disclosure and transparency (D). Unlike commercial ESG ratings, which focus mainly on outcomes, the proposed index places the main emphasis on governance mechanisms, that is, on whether the company has the structures, policies and procedures needed to manage ESG issues. This makes the index suitable for companies at an early stage of ESG adoption, which is typical for Uzbekistan.

Table 3.

Structure of the ESG-based Corporate Governance Index (ESG-CGI)

Sub-index	Weight	Indicators
G – Governance	0.4	1) share of independent members in the supervisory board; 2) presence of an ESG / sustainability committee; 3) ESG competence of board members; 4) approved ESG policy or strategy; 5) ESG targets in executive KPIs; 6) anti-corruption and compliance system

Sub-index	Weight	Indicators
E – Environmental	0.2	7) environmental management system (e.g., ISO 14001); 8) accounting of greenhouse gas emissions; 9) energy and water efficiency targets; 10) waste management and circular practices; 11) assessment of climate risks
S – Social	0.2	12) occupational health and safety system; 13) staff training and development; 14) gender diversity in management; 15) stakeholder engagement procedure; 16) social investment in local communities
D – Disclosure	0.2	17) annual sustainability or ESG report; 18) use of GRI or IFRS S1/S2; 19) external assurance of the report; 20) ESG information on the corporate website in English

Source: developed by the author.

The fourth result is an organizational mechanism for ESG-based corporate governance in joint-stock companies. The mechanism includes three levels. At the **strategic level**, the supervisory board approves the ESG policy, sets ESG targets and creates a committee on sustainability (or extends the functions of the existing audit or strategy committee). At the **management level**, the executive body appoints a responsible manager or unit for sustainability, includes ESG targets in the KPI system of managers and integrates ESG risks into the corporate risk management system. At the **reporting and control level**, the company collects ESG data, prepares an annual sustainability report in accordance with GRI and IFRS S1/S2, and the internal audit service verifies the reliability of ESG information.

The fifth result is a phased roadmap for introducing ESG standards into the governance of joint-stock companies (Table 4). The phased approach takes into account the limited experience and resources of domestic companies and starts with the largest companies, which already have foreign investors or plan public offerings.

Table 4.

Roadmap for introducing ESG-based corporate governance in joint-stock companies

Stage	Main measures	Expected result
Stage 1. Preparation (1st year)	Amendments to the Corporate Governance Code on board responsibility for ESG; methodological guidelines on ESG reporting; training for board members	Regulatory and methodological basis created
Stage 2. Pilot (2nd–3rd years)	Mandatory ESG reports on a "comply or explain" basis for companies with large state shares and listed companies; first calculation of the ESG-CGI	Pilot companies publish ESG reports; baseline values of the index
Stage 3. Expansion (4th–5th years)	Extension of requirements to all large joint-stock companies; ESG targets in managers' KPIs; external assurance of reports	ESG becomes part of regular corporate governance
Stage 4. Integration	Inclusion of ESG-CGI results in listing requirements and in the evaluation of state asset management	Higher investment attractiveness of companies

Source: developed by the author.

DISCUSSION

The results confirm the conclusion of international studies that ESG is primarily a governance issue. As shown by R. Eccles and co-authors, the difference between high- and low-sustainability companies lies mainly in governance processes: board responsibility, stakeholder engagement and long-term orientation of incentives [5]. The gap analysis carried out in this study shows that these processes are exactly the elements that are weakest in the national framework. Therefore, introducing ESG in Uzbekistan should start not with reporting alone, but with changes in the role and composition of the supervisory board.

The focus on governance mechanisms in the proposed index is also supported by the findings of F. Berg and co-authors on the divergence of ESG ratings [7]. When commercial ratings disagree, it is difficult for emerging market companies to understand what is expected from them. An index based on clear and verifiable governance practices, aligned with the G20/OECD Principles and IFRS S1, gives companies a simple and transparent benchmark. At the same time, the principle of materiality, emphasized by M. Khan and co-authors [6], should be respected: environmental indicators are more important for mining, energy and chemical companies, while social indicators may be more important for banks and service companies. For this reason, the weights of the sub-indices can be adjusted by industry.

From the point of view of agency theory, ESG-based governance can reduce agency costs by improving transparency and by linking managers' incentives to long-term value [1]. From the point of view of stakeholder theory, it creates formal channels through which employees, local communities and the state can influence corporate decisions [2]. In the context of Uzbekistan, where the state remains a major shareholder in many large joint-stock companies, ESG-based governance can also help to separate the functions of the state as owner and as regulator, which is one of the key recommendations of the OECD [9].

The study has certain limitations. The gap analysis is based on legal and regulatory documents and reflects the author's expert assessment; the actual practice of companies may differ. The ESG-CGI has not yet been calculated for a large sample of companies, and its relationship with financial performance should be tested empirically. These issues form the direction of further research, which will include the calculation of the index for listed joint-stock companies and econometric analysis of its relationship with return on assets, return on equity and market capitalization.

CONCLUSION

The study allows the following conclusions to be drawn. First, ESG has become an integral part of corporate governance at the international level, as reflected in the 2023 revision of the G20/OECD Principles and the adoption of IFRS S1 and S2. ESG-based corporate governance can be defined as a system of relations between shareholders, the supervisory board, management and stakeholders that ensures the integration of environmental, social and governance factors into the strategy, risk management, incentives and reporting of the company.

Second, the national corporate governance framework of Uzbekistan covers the classical governance pillar reasonably well, but it does not yet define the responsibility of the board for ESG risks, does not require sustainability reporting and does not link managers' remuneration with ESG targets.

Third, the proposed ESG-based Corporate Governance Index, consisting of four sub-indices and twenty indicators, makes it possible to assess the maturity of ESG governance in joint-stock companies and to monitor progress over time.

Fourth, it is recommended: to supplement the Corporate Governance Code with provisions on the responsibility of the supervisory board for sustainability; to introduce ESG reporting on a "comply or explain" basis, starting with listed companies and companies with large state shares; to establish sustainability committees under supervisory boards; to include ESG targets in the KPIs of executives; and to use the ESG-CGI in listing requirements and in the evaluation of the efficiency of state asset management. The implementation of these proposals will increase the transparency and investment attractiveness of domestic joint-stock companies and support the

goals of the "Uzbekistan – 2030" Strategy.

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