



# Expanding Modern Methods Of Corporate Management In The Compliance Control System

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## ABSTRACT

One of the modern types of control over economic entities is compliance control, during which the compliance of corporations' activities with the current norms of Uzbek and international legislation is monitored. The article reveals the essence of compliance control, its main distinctive features and place in the general system of internal control of corporations. Compliance control is the foundation of control for any organization, a mandatory component of the management system, the most important part of which is the internal control system. The article discusses the measures to create and implement a compliance system in the business sector and in the industrial sectors of Uzbekistan. As well as the introduction of anti-corruption compliance in the activities of the Ministry of Justice of the Republic of Uzbekistan, Uzbekneftegaz JSC and Uzkomyoimpeks LLC.

## Keywords:

corporation, compliance control, compliance risks, management control, internal control, corporate governance, fight against corruption

## Introduction

Today, there is a clear understanding in the world economy that compliance control is an integral element of the corporate governance system and the benefits of its implementation are disproportionately greater than the risks associated with its absence.

Decree of the President of the Republic of Uzbekistan dated June 29, 2020 No. 6013 "On additional measures to improve the anti-corruption system in the Republic of Uzbekistan" provides for the phased introduction of internal anti-corruption control systems at state-owned enterprises and enterprises with a state stake in the authorized capital together with the Anti-Corruption Agency corruption.

At the moment, the compliance control system in Uzbekistan is popular. Since October

2019, the Ministry of Justice has introduced a compliance control system to further fight corruption, the anti-corruption compliance control system (control over compliance with the requirements of anti-corruption legislation) is being implemented in Uzkomyoosanoat and Uzbekneftegaz joint-stock companies, but the implementation of this system must be built on all levels of the national economy.

According to KPMG experts, the introduction of compliance control will make it possible to effectively apply international anti-corruption standards and practices at enterprises, as well as increase the transparency of their work, the level of corporate governance and investment attractiveness.<sup>1</sup>

Any company strives to ensure that its activities are efficient and constantly evolving.

<sup>1</sup> <https://uzkomyoosanoat.uz/ru/press/news/anticorruption-roadmap>

But without compliance with the law, the rules of market relations, obligations under the contract, effective risk management of financial and temporary losses, maintaining business reputation, it is impossible to enter the world market and maintain competitiveness. Compliance control is the foundation of control for any organization, a mandatory component of the management system, the most important part of which is the internal control system.

The compliance control system can rightly be called the most important principle of doing business. But for the development and effective operation of the system, it is necessary to have certain knowledge in this area and to have in the arsenal of institutions or companies employees who are competent in this area.

### Methodology

It is important to note the fact that the study of this area of scientific knowledge is at the stage of development and there are many issues that require reflection, development of common approaches and methods.

American scientists H. Sarpa, A. Subramanian and K. Subramanian [Sarpa et al. 2014] developed a theory that showed how internal and external mechanisms of corporate decoupling affect innovation. They proved that external corporate governance mechanisms (for example, the corporate control market) interact with internal corporate governance mechanisms (for example, management contracts), to influence the level of innovative development of managers in the company. H. Shadab [Shadab 2008], in his research on innovation and corporate governance, explored issues such as governance structure, cost of equity, internal controls, and how US corporate law has affected corporate innovation.

The Italian scientist F. Belloc [Belloc 2012] describes three main factors in which the company's innovative activity is formulated in the corporate governance system: corporate ownership, corporate finance and labor. He studied the relationship between the institutional environment in the country, national systems of corporate governance and innovative activities of corporations and came

to the conclusion that, that further research should be more focused on the interaction of different levels of corporate governance and their combined impact on a company's innovation activities.

Swiss scholar M. Hilb [Hilb 2018] introduces a new, integrated corporate governance transformation based on the KISS model. In his opinion, such a transformation will make it possible to identify existing problems in corporate governance and develop recommendations for their solution. Based on this innovative internationalization, the researcher K. Kurpayanidi proposes the concept of corporate governance of enterprises with state participation in Uzbekistan, analyzes the obstacles and problems for the practical application of this concept, and also develops recommendations for the development of corporate governance in enterprises with state participation [Kurpayanidi 2019].

The origin of the term "compliance control", the prerequisites for the emergence of the "compliance control" system, its methods, functions and principles, as well as the means of implementation, the concept of "compliance risks", the types of compliance risks, their meaning are presented in the works: I.A. Astrakhantseva, L.L. Kalinichenko, L.A. Klyusko, D.V. Malykhina, A.V. Timoshkina, A.L. Tsyutsiak.

In modern legislation, the term "compliance" has not yet been uniformly defined, although some issues traditionally attributed to the field of compliance control in Western European countries are regulated by special laws in Uzbekistan.

The Decree of the President of the Republic of Uzbekistan "On the next reforms to create conditions for stable economic growth by improving the business environment and developing the private sector"<sup>2</sup> was adopted in order to implement the Development Strategy of New Uzbekistan for 2022-2026, halving poverty by achieving inclusive and stable economic growth, ensuring competition in the economy, creating a level playing field for businesses, accelerating the full transition to a market economy, increasing the

<sup>2</sup> Decree of the President of the Republic of Uzbekistan "On the next reforms to create conditions for stable economic

competitiveness of the national economy, as well as a sharp increase in private investment and further strengthening the confidence of the business community.

Determine the main directions for enhancing the role of the private sector in ensuring economic growth, creating favorable conditions for the development of the private sector in all sectors and areas:

- accelerating the transformation and privatization of enterprises and commercial banks with the participation of the state, stimulating an increase in qualitatively new, in particular, based on the principles of environmental, social and corporate governance (ESG), investments and highly efficient production technologies by reducing the share of inefficiently functioning enterprises in the economy;

- prevention of corruption through the widespread introduction at enterprises and commercial banks with the participation of the state of modern methods of corporate governance, including the system of "compliance control", ensuring the transparency of the procurement system.

from January 1, 2023 Clause 10 of the Decree of the President of the Republic of Uzbekistan dated April 24, 2015 No. UP-4720 "On measures to introduce modern methods of corporate governance in joint-stock companies" joint-stock companies (from the wage fund of foreign specialists involved as management personnel) and foreign specialists operating in joint-stock companies as management personnel, the social tax and personal income tax, income tax levied at the source of payment was changed.

Modern methods of corporate governance are being widely introduced at enterprises with state participation and commercial banks, and corruption is being prevented by ensuring the transparency of the procurement system. Training and professional development of personnel in the field of public administration and corporate governance is being carried out. Modern methods of corporate governance are being widely introduced at enterprises with state participation.

## Results Of The Research

The Ministry of Justice of Uzbekistan approached this issue in a comprehensive manner, having developed its own formula for combating corruption. Two key programs have been developed and approved - for work with human resources and combating corruption. They are based on the best practices and experience of law enforcement agencies of foreign countries, which are rightfully considered leaders in the world of fighting corruption.

Thus, a practical system for managing conflicts of interest in the activities of employees has been introduced. A database of declarations of conflict of interest of employees has been created. The well-established transparent system of selection, hiring and certification of personnel in the bodies and institutions of justice has ensured fairness, honesty and impartiality, preventing compatriotism and nepotism. Anti-corruption norms have been introduced into employment contracts. The principles and methods of work have been radically changed, which contributed to the transformation of the worldview of personnel.

The Ministry of Justice is focusing on the creation of an internal regulatory framework. In particular, the Regulations on the procedure for preventing corruption offenses by employees of the justice authorities, the Regulations on the rules of ethical behavior of employees of the Ministry of Justice of the Republic of Uzbekistan, the Regulations on rewarding employees of the justice authorities for reporting facts of corruption were adopted.

The Ministry of Justice has introduced a compliance control system since October 2019 to further fight corruption. Its goal is to exclude any possibility of manifestation of factors and centers of corruption on the ground. Along with this, a video and audio recording system has been introduced when receiving representatives of legal entities and individuals in the justice authorities. In order to obtain up-to-date information about the facts of corruption, a special bot @antikorbot has been created in the Telegram mobile messenger (popular in Uzbekistan), where any user can

send information about the facts of corruption in the justice authorities.

An important factor in combating corruption is the openness and transparency of activities. This is the reason for the launch of another program - "Open Justice" ("Open Justice"). It includes new approaches and mechanisms for informing the public about the activities of the ministry (from recruitment to information related to financial activities). The Department of Justice relies on the public to identify problems in the system that remain out of sight, employees who do not perform their duties up to the mark. All financial reports of the justice authorities are published in open access - on the official website of the ministry. A mechanism for reporting by the justice authorities on the results of the year has been developed. At the end of 2018, this initiative was implemented and presented to the public in the form of a brochure called "Justice Reports".

In particular, the anti-corruption system of Uzbekneftegaz JSC received the International Certificate of Conformity. To date, in total, the company's management has developed and adopted more than 30 internal regulatory documents aimed at preventing corruption and establishing compliance control. Of these, 18 internal regulatory documents were put into practice jointly with experts from the International Audit and Consulting Company KPMG under the UN Development Program project.

These documents include: "Code of Corporate Ethics", "Anti-Corruption Policy", "On the Ethics Commission", "On the Management of Conflicts of Interest", "On Business Events and Hospitality Expenses", "Methodology for identifying and assessing corruption risks", "Methods for monitoring and controlling the effectiveness of anti-corruption measures" and other internal regulations.

During this period, the company's procurement system was radically reorganized to ensure openness and transparency in procurement activities.

To quickly resolve various issues that arise between employees of the society and citizens, various communication channels were

created (compliance@ung.uz, @ung\_anticorbot).

Obtaining this certificate of compliance with ISO 37001: 2016 requires a more complete justification of the trust placed in the employees of Uzbekneftegaz JSC, and more responsible work to reduce future corruption risks, as well as the financial recovery of the system.

#### **Analysis.**

The result of the transformations within the framework of the fight against corruption was the receipt by the Ministry of Justice of the Republic of Uzbekistan of an international certificate of compliance for combating corruption (ISO 37001). The international organization "CERT INTERNATIONAL" (Slovakia) studied the activities of the ministry in all areas.

The Ministry of Justice was the first of the state bodies of Uzbekistan to receive an assessment of compliance with the international standard ISO 37001:2016 "Anti-Corruption Management System" in all areas of activity and received a certificate confirming this.

The Ministry of Justice of Uzbekistan has developed an effective departmental anti-corruption system. The spread of this practice in other state bodies of the republic will undoubtedly open up new opportunities for the development of the country, and will positively affect the positions of Uzbekistan in the Rule of Law Index, Corruption Perceptions Index and other international ratings.

As a result, the experts confirmed that the goals set by the Company to combat corruption, important areas in the requirements of international standards are being implemented and Uzbekneftegaz JSC received a certificate of compliance with ISO 37001: 2016 from the South Korean international organization for audit and certification "G-CERTI Co., Ltd"., which is considered the main indicator of the effectiveness of the anti-corruption mechanism in practice.

The participation of not only responsible officials, but also each employee of the company is important in the wide implementation of the company's policy "Fight against corruption" and the elimination of various corruption risks.

Obtaining this ISO 37001:2016 certification of conformity requires a more complete justification of the trust placed in employees.

The compliance control system has already been implemented in large enterprises of the industry: Navoiyazot JSC, Ferganaazot JSC, Dekhkanabad Potash Plant JSC, Maksam-Chirchik JSC, Birinchi Rezinotekhnika Zavodi LLC, Uzkimyoimpeks LLC and JV LLC Kungrad soda plant.

This system allows to identify, prevent and suppress corruption risks.

In 2021, a total of 22 conflict-of-interest cases were eliminated in the chemical industry. In particular, a shortage of mineral fertilizers worth 80.4 billion soums was revealed, of which 29.9 billion soums have already been recovered.

#### CONCLUSIONS AND OFFERS.

By Decree of the President of the Republic of Uzbekistan Shavkat Mirziyoyev No. PP-4664 dated April 4, 2020, it was instructed to radically reform the oil and gas sector, ensure transparency in their activities, modernize the material and technical base, attract highly qualified personnel, including attracting foreign specialists and compatriots abroad, as well as to introduce the anti-corruption system "Compliance Control" at all enterprises.

Implementation of compliance control in the organization. Control in the field of compliance can be individual for an organization, but in general this process is expressed by a sequence of general actions that suit almost everyone.

Adoption of a supreme directive on the implementation of control over compliance with legal requirements in the company.

Implementation of best compliance practices. You can find out how your competitors are coping with compliance. Perhaps they have already come up with an excellent compliance control system.

Involvement of experts - for example, lawyers or consulting. They quickly gain experience in implementing various management practices in the industry.

Ensuring full awareness of employees who are relevant to the proper execution of

orders. Appointment of responsible persons who will take care of compliance control.

Prompt resolution of all non-compliance incidents.

Develop an instant notification system for non-compliance and keep records.

Carrying out regular inspections.

In addition, the experience of introducing anti-corruption compliance can be used in other organizations with a state share in the authorized capital, as well as in business entities.

The Ministry of Justice of Uzbekistan has developed an effective departmental anti-corruption system. The spread of this practice in other state bodies of the republic will undoubtedly open up new opportunities for the development of the country, and will positively affect the positions of Uzbekistan in the Rule of Law Index, Corruption Perceptions Index and other international ratings.

Comprehensive work in this direction continues. Among the priority tasks is the transformation of bodies and institutions into a sphere without corruption through the full implementation of the measures provided for by the anti-corruption policy.

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