# THE ROLE OF THE CORPORATE GOVERNANCE SYSTEM IN DEVELOPING THE INNOVATIVE ACTIVITY OF BANKS

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***Abstract.*** *This article addresses the challenges of introducing innovations into the banking system of Uzbekistan within the context of innovation-oriented market relations; it examines the implementation and specific aspects of corporate governance in the banking sector, identifies associated problems, and offers proposals and recommendations for resolving them.*

***Keywords****: innovation, innovation-oriented economy, banking sector, Central Bank, innovative banking services, corporate governance, joint-stock company, capital, financial market, privatization.*

**Introduction**.

Special attention is being paid in our country to creating entirely new economic sectors—specifically, modernizing their management methods by implementing international business principles—and to enhancing and expanding innovations within the banking system. Examining the financing of innovative projects at all stages of economic development is one of the most pressing issues of the day. Developing and further refining corporate governance systems within the context of an innovative economy is one of today's most pressing issues. By implementing and improving corporate governance, companies in Uzbekistan can advance to a new level of development. A key priority is the development and enhancement of this corporate governance system. When considering the improvement of corporate governance and its specific characteristics, global economists recognize it as a decisive force in ensuring competitiveness. Today, the Law of the Republic of Uzbekistan No-642 "On Population Employment," dated October 20, 2020, and the Labor Code of the Republic of Uzbekistan serve as the important legal framework for regulating relations within the national labor market. For "interactive communication among group members" implies establishing active connections among all participants—thereby enhancing management efficiency and socializing ownership by increasing the stake of minority shareholders—or, in other words, engaging everyone with a significant interest in the company in its operational management. As we know, the application of modern management methods enables companies to create entirely new structures and enhances the role of shareholders—including minority shareholders—in corporate governance. Furthermore, joint-stock companies gained the opportunity to recruit foreign managers; this, in turn, helps achieve higher efficiency by modernizing the company and attracting more foreign direct investment into economic sectors. More precisely, companies ultimately operate based on market-driven approaches regarding supply and demand. They strive to resolve issues quickly, implement new competitive investment projects, and generate revenue through the issuance of additional shares and securities.

A properly organized corporate governance system ensures transparency in management and effective investments across various companies and joint-stock companies, including commercial

banks. It ensures the production of high-quality goods by improving corporate governance based on market economy requirements, attracting investment into the production process, and utilizing technologies necessary to manufacture products that meet international standards. This, in turn, enhances the level of corporate governance. To achieve a high standard of corporate governance, banks have developed extensive documentation—including strategies, business plans, lending and deposit policies, and tariff structures—as well as regulations for the financial and non-financial incentivization of staff. However, the challenge of effective corporate governance lies not merely in the absence of documentation for specific areas, but in the fact that these elements often exist in isolation from a unified ideological, technological, and resource base.

**Literature review.**

In recent years, issues regarding corporate governance and the development of innovative activities in the banking sector have become a key area of economic research. In particular, it has been scientifically established that the effectiveness of corporate governance systems in both developed and developing countries directly influences the stability, investment attractiveness, and level of innovative development of banks.

International studies identify the primary objectives of corporate governance as ensuring a balance among stakeholders (shareholders, investors, and managers), enhancing transparency, and mitigating agency problems. Research conducted by Gontar (2017) highlights the development of digital banking services as a crucial factor in ensuring the economic security of banks. Furthermore, Nyoni et al. have empirically demonstrated that the implementation of digital technologies in commercial banks leads to improved financial performance.

Local scholars Khudoykulov and Sherov examine the development of corporate governance within the context of the digital economy and emphasize the importance of innovative approaches to enhancing management efficiency in joint-stock companies. Their research also addresses the improvement of mechanisms for attracting and effectively managing financial resources as a crucial component of corporate governance. Modernizing the banking system and developing corporate governance are among the priorities of state policy in Uzbekistan. In particular, privatization processes, the development of the capital market, and the attraction of foreign investment are further intensifying the need to improve the corporate governance system in the country.

At the same time, the impact of corporate governance on the innovative activities of banks has not been studied with sufficient comprehensiveness in existing academic literature. There is a particular need for an in-depth analysis of the interrelationships between internal control systems, management transparency, and digital transformation processes. This study aims to fill precisely this gap.

**Research methodology.**

In this study, a comprehensive approach was employed to examine the role of corporate governance systems in banks in fostering innovative activity. The research methodology is based on several interconnected methods.

First, scientific literature regarding corporate governance, the innovation economy, and the development of the banking system was examined using the method of theoretical analysis. Through this method, existing scientific perspectives were systematized, and the theoretical foundations of the research were established.

Secondly, corporate governance practices in the banking systems of developed and developing countries were examined using a comparative analysis method. Through this process, effective governance mechanisms suitable for Uzbekistan's banking system were identified.

Thirdly, using methods of logical analysis and synthesis, the interrelationship between corporate governance elements (oversight, transparency, accountability, and risk management) and innovative activity was analyzed. This approach made it possible to draw scientific conclusions regarding the improvement of management systems in banks.

Fourthly, the general development trends of the banking sector, the share of innovative services, and management efficiency were evaluated using statistical and systematic analysis methods. These methods helped identify the discrepancies between the practical situation and theoretical perspectives.

Fifth, specific practical recommendations were developed from general theoretical conclusions using inductive and deductive methods. This enhanced the practical significance of the research findings. The methodological basis of the study is a systems approach, in which the banking system is viewed as a complex socio-economic system. This approach enabled an analysis of all elements of corporate governance in their interrelationship.

**Analysis and results**

The need to improve corporate governance is becoming increasingly evident in many banks as well. Corporate governance systems play a distinct and significant role in bank management, primarily because they influence a bank's financial performance. Banks mobilize and invest funds; particularly in developing countries, they serve as a crucial source of external financing for companies.

Banks also influence the effectiveness of corporate governance in firms that lack direct access to financial markets.

It should be noted that the foundations of effective corporate governance include:

- a clear allocation of authority and responsibilities within the bank, as defined in internal documents;

- appropriate accountability;

- a division of authority among the bank's governing bodies and structural units, ensuring mutual oversight and preventing decisions that could lead to adverse consequences for the bank.

- Highly qualified members of the bank's supervisory and executive bodies—who fully understand their mandates, accept responsibility, and adhere to high standards of business ethics—diligently perform their duties.

The vital role of corporate governance in the bank's development is evident in the following:

- It expands financing opportunities, thereby enabling investment, economic growth, and job creation.

- leads to a decrease in the cost of capital and a rise in valuation;

this, in turn, fosters investment and economic growth.

- facilitates operational improvements, enhancing resource allocation, effective management, and wealth creation.

- entails lower risk at both the state and corporate levels, resulting in fewer bankruptcies and financial crises;

- fosters good relationships with stakeholders and helps improve the overall environment.

Recognizing the importance of corporate governance in the banking sector, the Central Bank of the Republic of Uzbekistan attaches great significance to this issue, viewing it as a strategic objective for the development of the banking system. Priority is given to improving internal control systems, enhancing the transparency of corporate governance, and safeguarding the rights of owners.

To achieve the aforementioned strategic goals, the Central Bank must create an electronic database providing the following information:

- a database that continuously reflects the financial condition of banks and enables risk assessment;

- a database of indicators for assessing corporate status—including management, business planning, and ownership structure—as well as for enhancing transparency.

Not only the Central Bank but also other stakeholders should be involved in examining corporate governance within commercial banks.

In addressing the institutional foundations of corporate governance and ways to implement and enhance corporate quality, commercial banks are required to introduce new types of customer services, develop new technologies to improve service quality, and increase the volume and scale of products (services) for every department and employee.

It should be noted that, as with any system, the corporate governance system also faces certain challenges.

These include:

- imperfections in the regulatory framework governing the relationship between the state (as the principal) and the trustee managing state-owned shares;

- difficulties in ensuring state-led trust management of joint-stock companies and in the management of shareholdings by qualified specialists;

- a lack of sufficient knowledge regarding corporate governance among government agency personnel;

- the fact that the corporate governance system within the banking sector has not been fully refined.

Based on these issues, the following proposals and conclusions can be drawn:

- the need to further improve the regulatory and legal framework for corporate governance;

- the need for a high level of state regulation of corporate governance;

- the need for corporate governance participants—namely major creditors, shareholders, and investors—to exert varying degrees of influence on bank management;

- the necessity of effectively studying and utilizing the corporate governance experience of foreign countries.

**Table 1. Comparative analysis of traditional and innovative approaches to corporate governance in banks.**

| Criteria | Traditional Approach | Innovation Approach |
|---|---|---|
| **Management style** | Centralized, strict hierarchy | Flexible, decentralization |
| **Decision-making** | Slow, multi-level | Fast, data-driven |
| **Technology** | Minimal IT integration | Digital technologies, AI and Big Data |
| **Customer orientation** | Low level | High level, personalization |

| Criteria | Traditional Approach | Innovation Approach |
|---|---|---|
| **Risk management** | Traditional models | Real-time monitoring, predictive analytics |
| **Transparency** | Limited | High, open reporting |
| **Employee role** | Strictly defined tasks | Cross-functional and creative |
| **Innovation** | Low level | Continuous innovation and fintech integration |
| **Competitiveness** | Adapts slowly | Highly adaptable and competitive |

An analysis of Table 1 indicates that accelerating the ongoing privatization process, increasing the volume of foreign direct investment across various economic sectors, and radically improving the management efficiency—as well as the transparency and strategic appeal—of joint-stock companies will open up new horizons for investors and modern corporate governance. Consequently, the country's economic strength and standard of living will rise, and the population's well-being will continue to improve.

**Conclusions and proposals**. In conclusion, it is worth noting that further reforms in the corporate governance system will serve to enhance the efficiency of state and societal activities, liberalize all spheres of life, and implement the most important priority directions for the country's modernization. All commercial banks operating in our country are organized as joint-stock companies, and corporate governance plays a vital role in their development.

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