

REPUBLIC OF AZERBAIJAN

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ABSTRACT

of the dissertation for the degree of Doctor of Philosophy

**IMPROVING CORPORATE GOVERNANCE SYSTEM AND
ITS IMPACT ON THE DEVELOPMENT OF OIL AND GAS
INDUSTRY OF UZBEKISTAN**

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STUDY OVERVIEW

Relevance of the topic. The period of developing market relations in the Republic of Uzbekistan has determined a number of problems for enterprises and the key problem is development of legal and corporate forms of management, reforming the management system of enterprises and introduction of such organizational models that to the best possible way meet the goals of maximizing profits and raising capital, as well as solving social problems. New forms of integration of business economic entities and formation of corporate structures have enabled to take a fresh look at the role of the financial and economic management mechanism, to identify new priorities for its functioning. The efficiency of the national economy largely depends on solutions to the problems of sustainable development of corporations, which constitute the organizational basis of business life by foreign economic and investment processes.

Currently, the problem of improving corporate governance arouses a great interest to both public legislative and executive authorities, public institutions and business entities. This is due to the fact, that the further development of the corporate sector in Uzbekistan with the account of still delaying reorganization of the primary industries requires attracting both external and internal investments. As recent researches show, the large majority of investors consider the practice of the company's management bodies as a factor that is even more significant than the financial indicators of their activities.

On December 11, 2019 the President of the Republic of Uzbekistan Sh. Mirziyoyev held a meeting dedicated to the efficiency of reforming enterprises with the participation of the state and priority objectives existing in this focus area.

The Action Strategy for five priority areas of development of the Republic of Uzbekistan in 2017-2021 determines the objectives to gradually reduce participation of the government in the economy. In compliance with this Strategy, on January 14, 2019 the President issued the Decree PD-5630 "On measures to radically improve the system for managing state assets, antimonopoly regulation and the capital market".

Perceiving the development of market relations as the economic policy basis, it is necessary to realize a particular role of joint-stock

companies in improving the welfare of citizens and society as a whole, creating jobs, accelerating economic development and implementing other socio-economic tasks. Improving corporate governance contributes to the efficient use of equity and debt capital by companies. The result should be the restoration of investor's confidence in corporate securities, attraction of long-term capital into the economy of Uzbekistan, as well as an increase in the capitalization of separate companies.

In this regard, currently the issue of improving the domestic system of corporate governance in Uzbekistan and assessing its impact on the development of the national oil and gas industry is acquiring particular urgency and becomes a top-priority objective, which determined the choice of the topic of the dissertation research.

A quite wide range of economic literary sources is devoted to the research of the problems of corporate governance. Various aspects of theoretical and practical issues of corporate governance at the current stage of development are comprehensively reflected in the works of foreign scholars, such as Ansoff I., Aushev M., Bataeva B.S., Braslavskaya M., Brailey R., Gololobov D.V., Gracheva M., Gubin E., Dolinskaya V.V., Kozhevina O.V., Myers S., Sonin A., Staryuk P.Yu., Tepman L.N., Holt K., Shpotov B., Bebchuk L., Becht M., Monks R., Tricker R. et al.

Such domestic researchers as Ashurov Z.A., Begmatova D.B., Berkinov B.B., Butikov I.L., Zainutdinov Sh.N., Zokhidov A.A., Ivonina I.E., Karlibaeva R.Kh., Kilicheva F.B., Rasulov N.M., Khamidulin M.B. and others have made a big contribution to domestic economic science in the field of corporate governance.

The issues of corporate governance in the oil industry, its theoretical and practical aspects are reflected in the the research papers of scientists-economists of Azerbaijan: academician Abbasov G.A., Aliyev T.N., Atakishiev M.J., Gasimova S.M., Hajizade E.M., Safarova G.A. and others.

It should be noted, that each of the conducted researches undoubtedly reveals extremely important aspects of this problem, however some aspects of its development in the new conditions seem inadequate. Therefore, this fact necessitates study of the problem of improving corporate governance with the account of contemporary

realities, needs and trends in the development of economics and management in terms of regional specifics.

These circumstances, as well as the range of problems unsettled, confirm the urgency of the selected research topic and enable to formulate its main aim and tasks.

The object and subject of the research. The object of the research is the corporate governance system of “Uzbekneftegaz” JSC. The subject of research is management relations arising between the participants of the corporation, in particular the key actors (shareholders, management and the Board of Directors), concerning the ownership of property and management, arising in the process of formation and implementation of the principles of corporate governance.

The purpose and objectives of the research. The aim of the dissertation is to research scientific and theoretical foundations of corporate governance and development of scientific proposals and practical recommendations for improving corporate governance system in the oil and gas industry of Uzbekistan. To achieve this aim, the following tasks have been set and solved in this research paper:

- learning, generalization and systematization of the concepts of prominent domestic and foreign scholars on the problem of the essence of the “corporate governance” category;
- clarification of the “corporate governance” concept, a set of its mechanisms, highlighting the basic principles of corporate governance and determining its place in the enterprise management system;
- highlighting the general characteristics and features of corporate governance models used in international practice and in practice of Uzbekistan;
- establishing relationship between corporate governance and investment attractiveness, justifying the need for a center for investor relations in the company;
- formulation of relatively objective criteria and construction of an integral index for assessing the quality of corporate governance;
- analysis of corporate governance models used in the oil and gas industry and assessment of the quality of the management system;
- development of a program for improving the corporate governance system for a qualitative improvement in the operation of

enterprises based on the shortcomings identified as analysis outcome.

Research methods and methodology compiled fundamental and applied research in the field of corporate governance conducted by domestic and foreign scholars. General research methods of analysis and synthesis, theoretical generalization, comparative analysis, economic and statistical method, as well as a systemic integrated approach have been widely used in the research.

The main provisions of the defence:

1. Corporate governance is considered as a process of interaction of internal and external mechanisms that enable to optimize agency conflicts arising between the key subjects of corporate relations in order to ensure an efficient investment process in the company and raise its value. The complex of corporate governance mechanisms includes corporate strategy, corporate culture, corporate identity, financial and informational transparency, presence of a system for protecting the rights of shareholders, owners of other corporate securities and lenders.

2. Research papers of many domestic and foreign scientists-economists on the use of modern methods of corporate governance and current legislation of the Republic of Uzbekistan in this focus area have been studied and the following primary factors, that impact formation of corporate governance, have been highlighted:

- weak financial markets, which do not allow the use of indirect methods of control by shareholders;
- weak participation of investment funds and other institutional investors in the equity capital of enterprises;
- weakness of the legal infrastructure, which does not ensure the observance of the rights of shareholders;
- instability of the macroeconomic situation and the presence of great risks for potential shareholders and investors.

3. The organizational chart of the oil and gas industry in Uzbekistan has been analyzed and compared with the management system of joint ventures operating in the republic and leading major foreign oil and gas companies. The corporate governance system in Uzbekistan is characterized by a high degree of capital concentration, which, on the one hand, represents a consequence of the underdevelopment of financial markets, and on the other hand,

concentration of capital appears to be the main way of countering shareholders to insider control. The development of a certain model of corporate governance within the framework of the national economy depends on three components: the mechanism for protecting the shareholders' rights; functions and tasks of the Board of Directors; information disclosure level.

4. The main goal of the corporate governance reform is to improve investment climate, create conditions for attracting foreign investment, which, in turn, should be ensured by full consideration and satisfaction of the interests of subjects of economic relations. The main criteria, that determine the interest of foreign investors in becoming involved in the country's business in one form or another one, are political stability, the scale of the economy, the characteristics of the workforce, the infrastructure development level, culture and attitude towards investors.

5. The performance indicators of the oil and gas industry in relation to management costs have been studied and the major prospects for the development of industries and enterprises of "Uzbekneftegaz" JSC have been determined. In reliance upon the research outcomes, the proposals to improve corporate governance, based on the analysis of the management system and efficiency of the oil and gas industry enterprises, have been developed.

6. The efficiency of creating an investor relations center is justified by the need to have information about the company, which constitutes the basis for making investment decisions. In particular, this is the information about intangible business factors. In the absence of an adequate information about the company, investors tend to rely on more pessimistic forecasts. This situation results in their treatment of the company's securities as more risky, and as a result, the company's shares or bonds may remain undervalued.

Scientific novelty of the dissertation is comprised of the following:

- an integral index for assessing efficiency of corporate governance consisting of a set of indicators assessing efficiency of the organizational chart, internal control and accounting, payment of dividends and market share yield, has been proposed;

- methodological approaches towards the formation of an efficient corporate governance system based on the use of the model of the presence of a corporate consultant and observance of fiduciary duties by the members of the Supervisory Board, have been developed;
- proposals for including in the draft Resolution of the Cabinet of Ministers of the Republic of Uzbekistan, which are aimed at improving the system for assessing key performance indicators of joint-stock companies and their executive body, have been developed;
- scientific proposals for improving the corporate governance system of enterprises in the oil and gas industry of Uzbekistan, providing for the improvement of the management structure, identification of priority areas for the development of the industry, improvement of internal corporate regulations, cost optimization through the use of outsourcing, improvement of the financial sustainability of enterprises, have been developed and substantiated.

Theoretical and practical significance of the research.

Theoretical significance of the research is justified by the fact that the theoretical and methodological approaches to creating a corporate governance system set out in the dissertation, serve to develop the theoretical basis of the science on corporate governance.

Practical significance of the research is explained by the fact that developed proposals and recommendations can be used to develop the regulatory and legal framework for corporate governance in the Republic of Uzbekistan, as well as to improve the corporate governance system of oil and gas enterprises in the country.

In addition, the materials of the dissertation research can be used when delivering the academic subjects “Corporate governance”, “Management”, “Organization theory”, “Management Consulting” at the higher educational establishments.

Approbation and application. The results of the research have been introduced: at the Banking and Finance Academy of the Republic of Uzbekistan (Implementation Certificate dated February 26, 2020); in “IGIRNIGM” JSC (Implementation Certificate dated February 25, 2020); in “O’ZLITINEFTGAZ” JSC (Implementation Certificate dated February 24, 2020).

The core results of the dissertation research have been included in

the research and technical papers: “Assessment of the state of use of the labor potential of the oil and gas industry of Uzbekistan: evidence from industrial, service and transport enterprises of “Uzneftegazdobycha” JSC”, 2015; “The state of corporate governance and measures to improve it”, 2015; “Proposals to improve efficiency of management of the use of labor potential”, 2015; “Development of measures to improve energy efficiency by perfecting the use of financial instruments in oil and gas companies”, 2016; “Analysis of the use of financial instruments in the activities of the oil and gas industry and development of proposals to reduce accounts receivable and payable, as well as the tax burden”, 2017; Summing up the results of the activities of “Uzneftegazdobycha” JSC and enterprises incorporated thereto for 2016 and proposals for improving their financial condition”, 2017; “Economic analysis and assessment of the economic efficiency of research and technological achievements”, 2018.

The main content of the dissertation is reflected in 18 published works with a total volume of 9.6 printed sheets.

The name of the organization where the dissertation work has been carried out. The dissertation has been carried out at the Oil and Gas Research and Design Institute (NIPI “Neftegaz”) of the State Oil Company of the Republic of Azerbaijan.

The total volume of the dissertation with a sign, indicating the volume of the structural units of the dissertation separately. The dissertation consists of an introduction, three chapters, a conclusion, a list of references, 8 appendices and a list of abbreviations and graphical symbols. The total volume of the dissertation constitutes 142 pages of computer text and accounts for 154935 characters, including the introduction - 13965 characters, 3 chapters (chapters 1 – 21800 characters, chapters 2 – 52538 characters, chapters 3 – 59634 characters) conclusion - 7852 characters.

GENRERAL CONTENT OF THE DISSERTATION

The introduction substantiates the urgency and degree of the development of the researched problem, determines the aim and tasks of the research, key provisions set for the defense, presents formulated scientific novelty, theoretical and practical significance of the research, as well as provides the information on approbation and implementation

of the research results.

The first chapter **“Theoretical and methodological approaches to creating corporate governance system”** is devoted to the research of the concept, essence, principles of corporate governance and mechanisms of their application, study national corporate governance system of Uzbekistan, as well as foreign models of corporate governance and opportunities of applying their most advanced practices in the Republic of Uzbekistan.

Despite the long history of corporate governance, in economic theory there is no generally accepted definition of this concept. The definitions proposed to date largely depend on the country and the law-governed situation, functional tasks of the institution providing this the definition, as well as the research view of the author.

There is no definition of a corporation in the legislation of Uzbekistan. However, in foreign definitions domestic economic partnerships and economic entities are equated with corporations. Article 58 of the Civil Code of the Republic of Uzbekistan defines: “Economic partnerships and economic entities represent commercial organizations with a charter capital (authorized capital) divided into shares (contributions) or shares of founders (participants). The property created due to the contributions of the founders (participants) or the acquisition of shares by them».

According to the opinion of S.A. Masyutin, “Corporate governance is a contemporary, progressive type of management activity within the economic system, characterized by the availability of a corporate strategy, corporate style of performance of managers of all levels, corporate culture, financial and informational openness”. From the point of view of S.P. Kukura, expressed in his monograph, the concept of corporate governance covers the area of the research and practical knowledge and the type of management - the sphere of practical activity related to solving the problems of structural organization and regulation of the activities of large enterprises in the form of corporations.

Uzbek researchers-scholars in their research papers also present their views on the definition of the “corporate governance” concept. For example, the scholar M.Khamidulin believes that “Corporate

governance is a conscious, constant, real participation of the owners of the corporation in determining their formulations and making strategically important management decisions”.

Furthermore, the author Z. Ashurov believes that corporate governance is an eclectic concept, i.e. this concept is based on heterogeneous, often opposite and internally unrelated views, ideas, principles, points of view. This conclusion has enabled the author of the research to define the “corporate governance” concept of from the economic, financial, legal, political, sociological and psychological points of view (Figure 1).

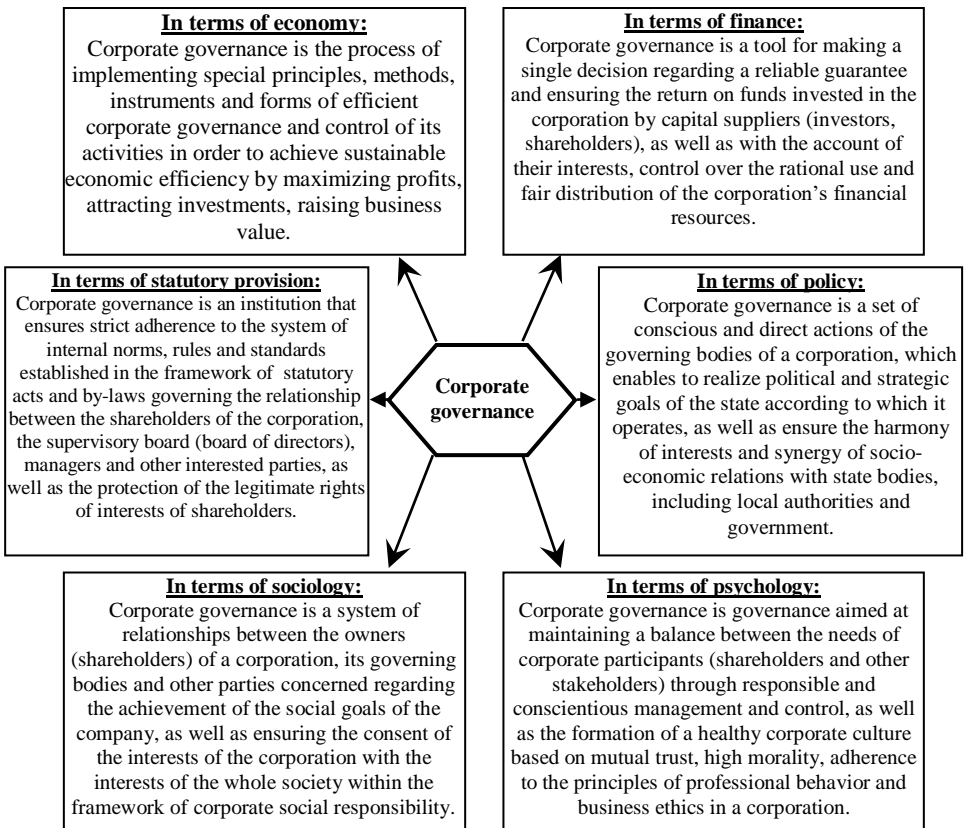


Figure 1. Definitions of corporate governance based on various approaches

Despite the differences, the majority of the definitions we have

identified some common elements:

- it is the system of relationships characterized by certain structures and processes;
- participants in these relationships may have various interests;
- all parties participate in the management and control of the company.

It is noted in the dissertation, that the Uzbek model of corporate governance is in the process of formation. The basic focus areas of the corporate governance system in Uzbekistan are determined by the following laws: “On joint stock companies and protection of shareholders’ rights” (in the new wording approved on May 6, 2014); Law “On securities market” (new wording, 2015); Law “On competition” (2012); Law “On auditing” (new wording, 2000); Law “On accounting” (new wording, 2016).

In compliance with the Decree of the President of the Republic of Uzbekistan dated №PD-4720 “On measures to introduce modern methods of corporate governance in joint-stock companies” dated April 24, 2015, the following focus areas for the further development of the corporate governance system in Uzbekistan have been identified:

- comprehensive analysis of international experience and implementation of current methods of corporate governance on this basis;
- priority creation of joint stock companies with foreign capital participation;
- radical restructuring of the management structure of joint stock companies;
- enhancing the role of shareholders, including minority shareholders (with an insignificant share of shares) in the strategic management of the joint-stock company;
- educating and professional development of management personnel.

As a result of implementing legal, regulatory and institutional measures over the years of independence, Uzbekistan has developed its own system of corporate governance.

Having considered and studied foreign models of corporate

governance, the following most advanced practices can be applied in the system of corporate governance in the Republic of Uzbekistan:

- expand the access of companies to external financing, which, in turn, helps attract new investment, higher rates of economic growth and creation of new jobs;

- lower the cost of capital and raise the value of the company, making investments more attractive, which results in the further economic growth;

- enhance operational efficiency through better resource allocation and improved management;

- reduce the risk of a financial crisis that could have devastating economic and social consequences;

- improve relationships with all the parties concerned (stakeholders) and, accordingly, improve labor relations, as well as create conditions for working on social problems, in particular, environmental protection.

There is no single definition of the corporate governance concept of in the economic literary sources since there are several models of corporate governance.

Corporate governance systems vary from country to country. The distribution of functions between the Board of Directors and executive bodies, the structure of the equity capital, and the role and participation of other parties concerned (stakeholders) in the company's operation are different. Definitely, the cultural and economic structure and the stock market development impact traditionally formed corporate governance system.

The practice illustrates that the introduction and observance of good corporate governance principles makes a direct economic impact for the company.

Uzbekistan is required to select the system that should reflect a "unique" solution, and not be a copy of the models used in other countries.

The second chapter of the dissertation "**Assessing efficiency of financial and economic activity management of "Uzbekneftgaz" JSC**" is devoted to consideration of methods of assessing efficiency of corporate governance. In addition, it analyzes organizational chart

of “Uzbekneftegaz” JSC and compares it with the management system of joint ventures and foreign oil and gas companies operating in the republic. Moreover, this chapter analyzes performance indicators in relation to management costs.

The criteria for assessing corporate governance are subdivided into structural and organizational, as well as economic. The structural and organizational criteria include availability of a corporate governance code, its organizational chart and a system of internal control and accounting. The economic criteria include: the share of profit directed to the payment of dividends, the ratio of the share’s net profit, the ratio of the equity capital, the ratio of dividend income per share and the ratio of the market share’s yield.

Based on the analysis of the world experience in approaches to assessing efficiency of corporate governance, we have created a scale for assessing its efficiency in reliance upon the most commonly used specific indicators and scored characteristics of each of the named criteria used for this purpose.

With the aim of assessing efficiency of corporate governance, the following specific structural, organizational and economic indicators have been used in the technique: corporate Governance Code availability (K1), organizational chart (K2), system of internal control and accounting (K3), share of profit allocated to dividend payments (K4), share’s net income ratio (K5), equity capital ratio (K6), ratio of dividend income per share (K7), ratio of the market return on the share (K8).

To assess efficiency of corporate governance, it is proposed to use such an indicator as “share of profit obtained through the introduction of new technological solutions into production” calculated by the formula:

$$P_{spi} = P_{pi} \times 100 / P_{pbt}$$

where, P_{spi} – share of profit from the introduction of new technological solutions;

P_{pi} – profit from the introduction of new technological solutions;

P_{pbt} – profit before profit taxes by an economic entity as a whole.

In general, the performance indicators of corporate governance can be significantly improved by the following measures:

- educating of members of the Board of Directors;
- increase in the number of independent directors;
- formation of key committees of the Board of Directors and approval of an independent director by the chairman of the audit committee;
- maintaining accounting in compliance with international financial reporting standards;
- improving the disclosure of information on proprietary interest transactions.

Currently, the level of corporate governance in Uzbekistan is still not high enough and does not meet international standards. The reasons and problems are the following:

- joint-stock companies practically did not perceive current trends in the development of corporate governance based on the construction of qualitatively new relationships between the management subjects;
- joint stock companies could not perceive the so-called “social function” as a required element of the existence of corporations;
- equity capital did not become the basic source of growth in the republican organized stock market.

All these factors on a global basis impede implementation of large-scale investments in Uzbek, including corporate securities of the oil and gas industry and reduce efficiency of operation of domestic companies.

In reliance upon the specific criteria calculated according to the reports of “Uzbekneftegaz” JSC, we have assessed efficiency of the company’s corporate governance (*All analyzes have been made according to the exchange rate of the Central Bank of the Republic of Uzbekistan “USD to UZS” for the reporting year: 2015 – 2422,4 UZS; 2016 – UZS; 2017 – 3231,48 UZS; 2018 – 8120,07 UZS; 2019 – 8339,55 UZS; 2020 – 9507,56 UZS*).

With the aim of referring the corporate governance system of “Uzbekneftegaz” JSC to a certain group, the table, given below, has been elaborated in accordance with the above tables (Table 1).

Table 1

**Assessment of the the corporate governance system efficiency
of «Uzbekneftegaz» JSC**

Indicators	Outcome-characteristic	Group
Corporate Governance Code availability (K1)	None	1
Share of independent directors in the Board of Governors (K2)	50%	3
System of internal control and accounting (K3)	Satisfies mainly external customers	2
Share of profit allocated to dividend payments (K4)	The dividend policy has been developed. The share of profit allocated for the payment of dividends is determined based on the results of the year	2
Share's net income ratio (K5)	Average 34.2% for 3 years	4
Equity capital ratio (K6)	Average 172.7% for 3 years	3
Ratio of dividend income per share (K7)	Average 0.6% for 3 years	2
Ratio of the market return on the share (K8)	100%, no growth	2
The level of corporate governance can be assessed as satisfactory. This may be due to the fact that until now this issue was not considered a priority and corporate governance standards are just beginning to be implemented. The economic condition is assessed as not stable at the adequate level.		Between 2 and 3 group

* Calculated by the author in reliance upon the research results.

As it is obvious from the data, nowadays the current management system demonstrates its inadequate efficiency, which signs are as follows: violating legal norms of corporate governance, duplication of functions, inefficient system of financing and movement of financial flows in the industry and lack of financial self-sufficiency, intensifying of the tax burden on the industry due to threefold taxation of dividends generated from one source of profit, low efficiency of the management structure of the central administrative office of the holding company, an increase in the number of large investment projects aimed at deepening processing of hydrocarbons and production of new types of products with the attraction of foreign investment and creation of new joint ventures, production sharing agreements requires their careful and constant support.

The third chapter **“Basic focus areas of improving the corporate governance system in the oil and gas industry”** presents developed prospects of the enterprises of “Uzbekneftegaz” JSC and the industry as a whole, considers opportunities for using world experience for the development of corporate governance in the oil and gas industry of Uzbekistan, as well as provides recommendations formulated to improve corporate governance practices with the aim of enhancing efficiency of the oil and gas enterprises.

Currently management of the performance of “Uzbekneftegaz” JSC relies on such a way that the main point is not simply an increase in the export of such strategic raw materials as natural gas, but the development of its own production for its processing and production of highly liquid oil and gas and chemical products with high added value that meet international standards for quality and environmental requirements. One of the focus areas to increase competitiveness of oil and gas enterprises is to radically improve their financial condition, rational and efficient use of available resources.

The analysis and assessment of the efficiency of sustainable development management of oil and gas industry enterprises has enabled the author of the research to develop a number of proposals aimed at improving it. One of these proposals is the reform of organizational chart and formation of systems of vertical and horizontal integration, ensuring by raising efficiency and sustainability of the functioning of intra-industry technological chains, rational use of fixed assets, investment and innovation resources, consistent diversification of production, a transition to a full-scale programmed development system, a radical revision evaluation criteria for the activities of enterprises in the industry, the introduction of indicative systems for programming sustainable development, promoting transformation of financial instruments of the mechanism of sustainable development.

With the aim of improving the efficiency of the organization and management of “Uzbekneftegaz” JSC in compliance with the tasks set, it is proposed to make amendments into the structure of the administration office of “Uzbekneftegaz” JSC, ensuring transition to

a two-level management structure for the majority of focus areas of the industry (Figure 2).

Improving the methods and criteria for assessing efficiency is also essential because since January 1, 2016, the majority of enterprises in the Republic of Uzbekistan have switched to assessing efficiency of their activities using the above-mentioned system of indicators (KPIs). By order-resolution of “Uzbekneftegaz” JSC and the Republican Council of the Trade Union of Oil and Gas and Geology Workers of Uzbekistan dated November 22, 2016 № 84/6-2 “c”, according to the clarifications of the State Competition Committee of the Republic of Uzbekistan dated July 7, 2016 № 3256/02-39 and № 01/05-1464 dated September 4, 2016, the proposals for determining key performance indicators and their specific weights were submitted to the Supervisory Boards of joint stock companies for consideration. They are based on the principle that the sum of the specific weights of both the main KPIs and additional ones constitutes 200% (100% and 100%), and the result is displayed as an arithmetic mean (weighted average) value, that is, $100\% (100 + 100):2$. The actual integral efficiency indicator (IEI) should be calculated in a similar way: the arithmetic mean of IKE for the main and additional KPIs.

In general, “Uzbekneftegaz” JSC has been proposed a list of 5 KPIs that have been introduced after transition to financial reporting in compliance with international standards and 21 KPIs, including the resulting ones - 14%, production - 48% and efficiency indicators - 38%. The share of the main KPIs (excluding the 5 unused KPIs) accounts for 62%, and, 38% constitute the share of additional ones accordingly. Distribution of weights according to 13 main KPIs has been proposed by this order to be the same for all joint-stock companies: 5 KPIs introduced after the transition to international standards - 2% each (10% in total); return on assets - 15%; ratios of absolute liquidity, financial independence and coverage (solvency) - 12% each; the period of turnover of accounts payable and receivable - 12% each; reduction in accounts receivable - 10%; dividend yield - 5%.

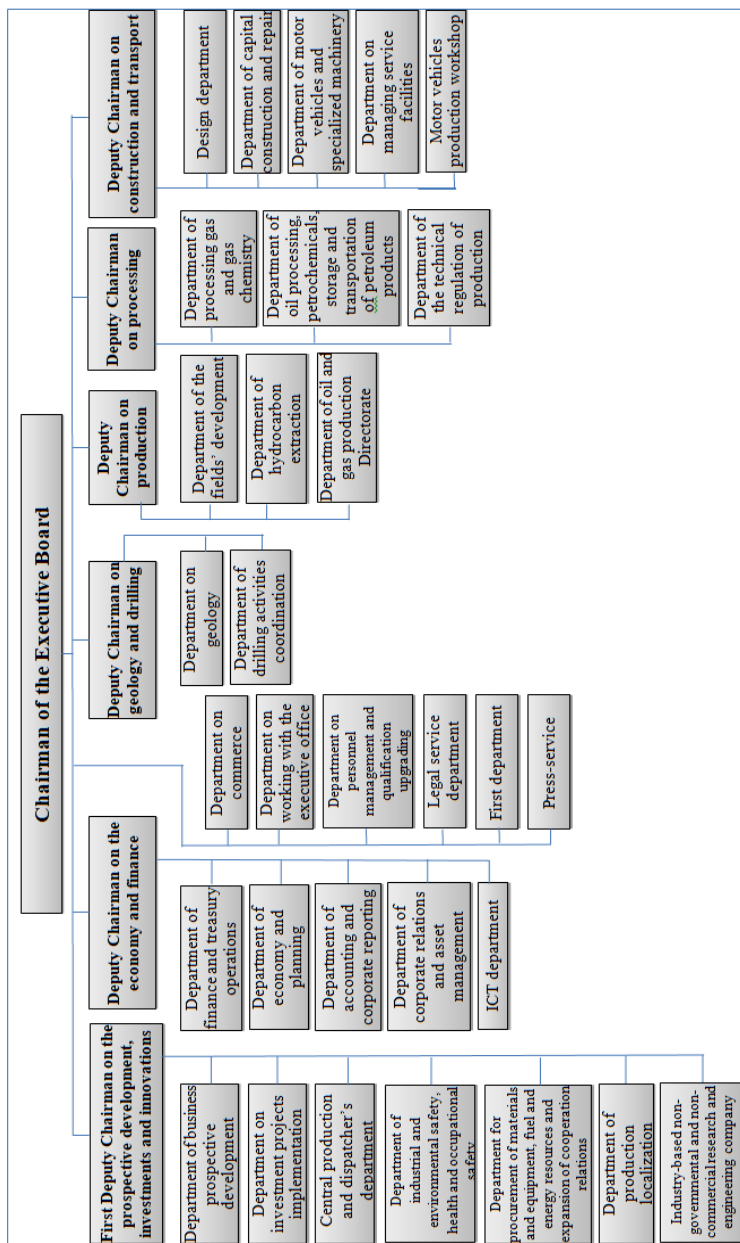


Figure 2. Proposed structure of subdivisions of direct subordination to the Chairman of the Executive Board of “Uzbekneftegaz” JSC (compiled by the author in reliance upon research)

For all joint-stock companies, except for “Uzneftegazdobycha” JSC, the number of additional KPIs was 13, and for the named company - 19. The weights of these indicators have been slightly different as well. The analysis of the use of KPIs, as shown by the author’s calculation on the basis of the average IQE for 2020 enables to draw the following conclusions about the efficiency of the executive body of joint-stock companies (Appendix 2-7).

In our opinion, a number of drawbacks have been revealed in the process of analyzing the use of the system of key performance indicators in joint-stock companies and individual business entities to assess their activities and efficiency of the executive body.

KPIs should entirely depend on the specifics of the activities of a particular unit. As the world experience recommends, when determining the number of indicators, in our opinion, the “10/80/10” rule should be applied. Almost all joint-stock companies have more than 21 KPIs, and taking this fact into account, their shares are “scattered”. It should be noted that all joint stock companies do not fulfill such indicators related to the main KPIs as a decrease in the turnover period of accounts payable and a decrease in the turnover period of accounts receivable. Only for “Uznefteprodukt” JSC and “Uzneftegazstroyinvest” JSC are expected to fulfill the tasks to reduce accounts receivable.

As it is obvious from the above data, none of the joint-stock companies, except for “Uzneftegazmash” JSC, has executed the task to reduce accounts receivable, and, as a result, the turnover of both accounts receivable and accounts payable slowed down. And solution of this problem requires the adoption of measures undertaken at the government level.

It causes doubts about the accuracy of the proposed formula for calculating such an indicator as “Execution of the task to reduce accounts receivable”, since the amount of accounts receivable changes daily and if one debtor repaid his debt, at least partially, another debt could arise, and so on constantly. In this regard, a simple comparison of the forecast for the reduction of accounts receivable with the decline in the balance sheet data does not reflect the real situation.

One of the problems of determining the integral efficiency ratio based on the results of 2020 with the account of 5 main indicators, is justified by the complexity of their calculations due to the fact that accounting in Uzbekistan is implemented according to national accounting standards (NAS), which have not yet changed, and the recommended formulas for their calculations rely upon different composition of costs (Appendix 8).

CONCLUSION

The conducted analysis and assessment of the efficiency of sustainable development management of oil and gas industry enterprises has enabled to develop a number of proposals aimed at improving:

1. Reforming organizational structures and formulating the systems of vertical and horizontal integration, which essential focus area is to ensure vertical and horizontal integration of industry enterprises, which in terms of management organization may appear as financial and industrial groups (FIG). It is a form of organizational association of legal entities united for the purpose of technological and economic integration for the implementation of investment projects aimed at raising competitiveness, expanding market for goods and services, enhancing efficiency and sustainability of production, creating new jobs;

2. Dynamic elements of management are entirely based on scheduled development;

3. Use of new scheduled indicators of the industry development efficiency by ensuring its sustainability and financial stability;

4. Application of outsourcing, that is, the transfer by a company of a part of production or business processes to another company that is considered an expert in this field;

5. Taking into account the prospects for the development of the oil and gas sector and the entire economy as a whole, further improvement of the management structure of “Uzbekneftegaz” JSC should be aimed at solving the following tasks:

- I. at the industry level:

- a) introduction of the most advanced technologies for the exploration of hydrocarbons to ensure the rates of work in this area,

exceeding the growth rate of raw materials production (with a ratio of 1.5);

b) introduction of cutting-edge technologies for the production of hydrocarbons, ensuring an increase in the level of their extraction, development of technologies for production from deep and complex wells, and a decrease in losses during production;

c) introduction of contemporary environmentally friendly technologies for geological exploration and production of shale oil, attracting for these purposes experienced foreign companies under the Production Sharing Agreement;

d) ensuring accelerated structural modernization of the industry towards an increase in the share of industries with high added value, primarily based on oil and gas processing;

e) raising production and economic efficiency of the industry in all areas, including through the widespread introduction of the most advanced information technologies and programs, strengthening the management links associated with the control and optimization of financial flows;

f) educating personnel with high qualification.

II. at the level of joint-stock companies:

With the aim of raising efficiency of the organization and management of “Uzbekneftegaz” JSC in compliance with the tasks set, it is proposed to:

Wind-up the three-tier structure of industry management in geological exploration, oil and gas production, construction and industrial engineering and make it a two-tier structure by deconsolidation of “Uzbekneftegaz” JSC and “Uzneftegazdobycha” JSC, as well as their structural divisions. Transfer the production management functions to the appropriate department within the holding. Create a servicing joint stock company from the remaining parts.

Retain the three-tier management structure in matters of gas transportation, as well as oil refining and sales of petroleum products. Thus, “Uztransgaz” JSC and “Uznefteprodukt” JSC as management structures, will continue their activities in the current regime, which is associated with the peculiarities of their production activities.

During the research of the system of key performance indicators, the following conclusions have been developed:

- Efficiency of enterprises implies the ratio of the result of economic activity to the expenses (costs) made on its implementation;
- The aim of assessing efficiency of management and performance of enterprises in general is to obtain a response to the question - to what extent the aim of the activities of enterprises and the efficiency of their use of resources are being fulfilled and whether the greatest possible economic effect is achieved;
- The basic procedure for assessing efficiency of enterprises is to analyze the dynamics of the system of indicators that characterize it;
- An enterprise efficiency assessment system helps to provide feedback between the company's strategic plans, the current state of affairs and the tasks that need to be solved to achieve the desired outcomes;
- Key performance indicators are the performance indicators of a unit (enterprise) that help an entity achieve strategic and tactical goals. Using key performance indicators (KPIs) provides an entity with the ability to assess its state of affairs and help assess strategy implementation.

The following published scientific papers represent the main assumptions of the dissertation:

1. Ивонина И.Э., Хамроева И.Н., Каримов М.К., Акбаров Б. Совершенствование системы оперативного управления основными фондами и контроля за их использованием // Материалы II республиканской научно-технической конференции «Проблемы бурения, заканчивания и капитального ремонта» Ташкент-2012

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