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THE INFLUENCE OF CORPORATE MANAGEMENT ON ECONOMIC DEVELOPMENT AND GROWTH

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Abstract. The **purpose** of the article is to identify the impact of corporate governance on the economic development and growth of the state. The article proposes possible channels for the growth and development of corporate governance: good corporate governance can expand companies' access to external financing, which, in turn, contributes to the attraction of new investments, higher rates of economic growth and the creation of new jobs; good corporate governance can reduce the cost of capital and increase company value, making investment more attractive, leading to further economic growth and increased employment; effective management increases operational efficiency due to better allocation of resources and improvement of management, helps more equal distribution of welfare; effective corporate governance reduces the risk of a financial crisis, which can cause devastating economic and social consequences; effective corporate governance leads to improved relations with all interested parties (stakeholders) and, accordingly, improved labor relations, as well as creating conditions for working on social problems, in particular, issues of environmental protection.

The theoretical and **methodological basis** of the research is represented by the scientific works of leading scientists in the field of corporate governance, as well as the author's interpretation of the impact of corporate governance on the economic development and growth of the state. In the research process, such methods as analysis and synthesis, the method of historical and logical modeling were used. As theoretical methods, the formalization method, the "from abstract to concrete" method, as well as the historical method and the method of economic interpretation are used in the work. From a **practical point** of view, the method of grouping statistical data, statistical and econometric analysis was also used in the study.

Keywords: corporate management, enterprise development, economic growth, effective management, development.

JEL Classification: G34; D74.

INTRODUCTION

The relevance of the study is determined by the fact that corporate governance under the conditions of strengthening integration processes requires ensuring a high level of competitiveness of the corporation on world markets. Currently, one of the most urgent issues of improving the efficiency of corporate governance is the growth of the market value of shares, which is possible in the case of improving management decisions due to the development of the concept of corporate governance. Therefore, the problem of improving the mechanism of corporation management, taking into account the consistency of corporate interests of the subjects of corporate relations to create an optimal corporation management strategy, is of particular importance.

LITERATURE REVIEW

A significant number of monographs, articles in scientific anthologies and magazines, and publications in the periodical press are devoted to the issues of various aspects of corporate management and the functioning of corporate entities. The study of published works shows the weakening of attention to the systematic study of corporate management, the need for an organic combination of theoretical and economic research with analysis, which allows to give a comprehensive reflection of the nature of the corporation, distinctive features of development, the role of this institution in the socio-economic transformation of the country, in the formation of a socially oriented mixed economy.

According to the definition of the founder of the new institutional economics Nort D. (1990), institutions are "rules of the game or, more formally, human-made constraints that shape interactions for people." Institutes are designed to facilitate the efficient exchange of goods and services between economic agents.

The main thesis of the new institutional economy about the exceptional importance of institutions for attracting investment and economic growth is gaining wider recognition among economists, and is supported by theoretical and empirical research. Thus, A World Bank Policy Research Report (1998) shows that countries with high quality institutions but ineffective macroeconomic policies grew twice as fast as with the reverse combination.

The new institutional theory distinguishes between formal institutions laid down in constitutions, laws, state structure, and informal institutions - norms, customs, traditions. Both of them are an integral part of the institutional environment. The question is to what extent they complement or replace each other, what is the correct ratio between them. In particular, the work of Keefer and Shirley (2000) is devoted to this problem. Studies show that in some cases informal institutions can indeed replace formal rules. However, one of the disadvantages of informal institutions is that they are usually available to a limited number of participants. In addition, informal institutions do not protect against crime and the arbitrariness of the state. Keefer and Shirley show on the example of China that it is the successful combination of formal and informal institutions that has allowed China to attract significant foreign investment. Understanding the comparative importance of formal and informal institutions allows making the right emphasis when carrying out institutional reforms. Thus, the creation of the Code of Corporate Conduct is undoubtedly an attempt to create an informal collection of rules and norms of corporate governance to at least partially compensate for the lack of developed formal institutions, such as corporate legislation and the judicial system.

Corporations often do not have enough money to finance new investment projects with a positive discounted return. Funds can be borrowed on the credit market or attracted to the stock market by placing an additional issue. In both cases, the cost of capital will be lower if it is possible to convince investors that they will receive income for the invested funds. Recent cross-country studies of ownership structure and corporate governance institutions have shown that in countries with insufficient legal protection of the rights of small investors, company ownership is more concentrated (1999). If the legal environment cannot guarantee small shareholders the protection of their interests, then companies fail to raise capital in the stock market at a reasonable price.

There are a number of studies that show the relationship between corporate governance and the investment attractiveness of a company in transition economies. In the work of Black (2001), an attempt was made to estimate the relationship between the level of corporate governance and the market value of companies.

The underdevelopment of the stock market has ceased to be an insurmountable obstacle to attracting foreign investment. In the work of Becht et al. (2002) listed five ways of protecting investors' rights: ownership concentration; market of corporate control; delegation and concentration of control in the hands of the board of directors; providing management with incentives aligned with the interests of shareholders; use of courts to punish managers in case of violation of their duties to shareholders. The liquidity of the stock market is extremely important for the delegation and concentration of control in the hands of the board of directors, but it may also be sufficient for the remaining mechanisms. Indeed, as shown in the work of Bergloef and Bolton (2002), in most of the countries of Central and Eastern Europe, investment growth takes place against the background of an underdeveloped stock market. The main source of new capital is direct foreign investment.

Despite the fact that the European banking system is much more competitive than in Ukraine (due to the presence of foreign banks), banks mainly lend not to long-term projects, but to working capital. At the same time, as stated in Bergloef and von Thadden (1999), generally speaking, in transition economies, large investors play a much more important role in the development of companies than small shareholders. Moreover, excessive protection of small investors may increase the costs of acquiring a controlling stake and managing the enterprise by a large owner, thereby increasing the transaction costs of corporate control.

PAPER OBJECTIVE

The purpose of the article is to identify the impact of corporate governance on the economic development and growth of the state.

METHODOLOGY

The theoretical and methodological basis of the research is represented by the scientific works of leading scientists in the field of corporate governance, as well as the author's interpretation of the impact of corporate governance on the economic development and growth of the state.

In the research process, such methods as analysis and synthesis, the method of historical and logical modeling were used. As theoretical methods, the formalization method, the "from abstract to concrete" method, as well as the historical method and the method of economic interpretation are used in the work. From a practical point of view, the method of grouping statistical data, statistical and econometric analysis was also used in the study.

RESULT AND DISCUSSION

In the literature on corporate governance, there are various definitions, but they can be divided into two groups. The first group of definitions examines the actual behavior of corporations: their operations, efficiency, growth, financial structure, and relations with shareholders and other participants. The second group of definitions deals with the regulatory framework, that is, the rules by which companies operate. The source of rules is the legal and judicial systems, financial markets and labor markets.

The first group of definitions covers issues of corporate governance within the company itself, such as: the work of the board of directors, the impact of paying managers remuneration for the company's performance, the relationship between personnel policy and the company's performance, as well as the role of different groups of shareholders.

The second group of definitions examines the laws and regulations that regulate the activities of joint-stock companies and their impact on the behavioral patterns of companies, investors and other parties to the business process. The regulatory base of the company's activity can be narrowly or broadly defined.

The narrow definition focuses on the rules of the capital markets that regulate investments in the equity capital of public companies: requirements for listing, measures of influence in the implementation of insider deals, rules of disclosure of information and accounting, protection of the rights of minority shareholders.

The definition, which specifies the provision of financing for the activities of companies, focuses on how external investors protect themselves from abuse by insiders. Definitions of this group include issues of protection of the rights of minority shareholders and the effectiveness of the rights of creditors enshrined in the laws on collateral security and bankruptcy. Definitions of this kind affect the composition and rights of the corps of executive directors and the possibility of filing collective lawsuits by shareholders. Such a definition is close to what was proposed by economists Shleifer A. (1997): "Corporate governance regulates how providers of finance to joint-stock companies ensure the return of their investments."

This definition can be expanded and say that corporate governance regulates the problems of interaction of investors in situations of dispersed ownership structure and the resolution of conflicts between the interests of different groups that have such interests in companies.

According to a broader definition, corporate governance can include how a company creates added value and how it is distributed among stakeholders (interested groups of the company). According to these definitions, the goal of a properly organized corporate governance system of a company is to maximize the company's contribution to the economy. In this case, the concept of corporate governance includes relations between shareholders, creditors and companies; between financial markets, institutions and companies; between employees and companies. According to this definition, corporate governance can also include corporate social responsibility, including philanthropy and environmental protection.

Some believe that the system of corporate governance is determined by rules, and financial markets and outsiders play a key role here. This opinion prevails in English-speaking countries. In most other countries of the world, it is believed that institutions, primarily banks and insiders, determine the system of corporate governance. In fact, both institutions and rules are important, and making a sharp distinction between them, despite all its popularity, can lead to a dead end.

Institutes do not appear in a vacuum and are subject to the influence of both domestic and international norms. On the other hand, laws and regulations are influenced by the organizational and business structure of the country. Moreover, institutions and rules evolve over time through a political process that influences the design of economic and legal institutions.

The number of institutions and rules that can affect the code of effective corporate governance is staggeringly large. The easiest way to get a proper understanding of the content of corporate governance is through a functional approach, according to which financial services, for all their diversity, when decomposed into their constituent elements, show similarities in many, if not all, key aspects. Functional analysis of financial services (rather than specific products provided by financial institutions and markets) reveals functions of types:

• pooling of resources and division of shares;
• transfer of assets in time and space;
• risk management;
• production and provision of information;
• solving incentive problems.

Corporate governance can be defined as a set of institutions and rules involved in the performance of these functions in relation to companies. For example, both markets and institutions influence how the corporate governance function of producing and providing quality and truthful information is carried out.

Recent corporate governance scandals in the United States and Europe, some of which have led to the largest bankruptcies in history, have caused a crisis of confidence in the corporate sector. Now, not only economists-financiers, but also traders, pensioners specializing in current operations, employees of all ranks, managers and prime ministers are talking about corporate governance.

During the wave of financial crisis in 1997-1998 in Asia, Russia and Latin America, the behavior of the corporate sector affected the economy of these regions in general. Deficiencies in corporate governance have undermined the stability of the global financial system. And, as recognized in many countries and in many political circles, the improvement of corporate governance is of enormous economic importance, important for broad sections of society.

But in addition to crises, there are several other reasons of a structural nature that explain the importance of establishing corporate governance for economic development and the well-being of society. The private investment process operating according to market principles is now more important than ever for the economy of most countries. Improved corporate governance supports this process. With the increase in the size of companies and the increase in the role of financial intermediaries and institutional investors, the decision to attract capital ceased to be the exclusive prerogative of their owners. The openness and liberalization of financial and real markets have expanded the choice of investments, making the decision-making process of capital allocation more complex. Structural reforms, including price liberalization and increased competition, have increased the company's exposure to market forces.

All this made it difficult to monitor the use of capital and increased the need for effective corporate governance. In general, the influence of corporate governance on the growth, development and well-being of society is carried out through several channels. Empirical evidence indicates the existence of such an influence at the level of the country, industry, individual company and the position of the individual investor.

The importance of corporate governance is as follows:

1. The private investment process, operating on the basis of market principles and based on effective corporate governance, is now more important than ever for the economy of most countries. After privatization, issues of corporate governance became relevant in industries that were previously in the hands of the state. In search of capital, companies turn to open markets, and cooperatives and societies are registered on the stock exchange as Public Enterprises.

2. Technological progress, the liberalization and opening of financial markets, trade liberalization and other structural reforms, especially price liberalization and the abolition of restrictions on goods and property rights, have made it difficult to allocate capital domestically and abroad. These complexities make effective corporate governance both more important and more difficult.

3. Raising capital is largely not the sole prerogative of the owner, as companies become larger and the role of financial intermediaries increases. In many countries, the role of institutional investors is also increasing. This process requires effective corporate governance.

4. Liberalization and reforms have changed business on a national and global scale. The old corporate governance schemes are being replaced by new ones, but at the same time inconsistencies and gaps are revealed.

5. International financial integration is developing, the volume of trade and the size of investment flows are increasing. This leads to the emergence of international corporate governance problems, including conflicts based on national differences in corporate governance cultures.

Possible channels of growth and development of corporate management:

• good corporate governance can expand companies' access to external financing, which, in turn, contributes to the attraction of new investments, higher rates of economic growth and the creation of new jobs;

• good corporate governance can reduce the cost of capital and increase the value of the company, making investment more attractive, leading to further economic growth and increased employment;

• effective management increases operational efficiency due to better allocation of resources and improvement of management, helps more even distribution of welfare;

• effective corporate governance reduces the risk of a financial crisis, which can cause devastating economic and social consequences;

• effective corporate management leads to improved relations with all interested parties (stakeholders) and, accordingly, improved labor relations, as well as creating conditions for working on social problems, in particular, issues of environmental protection.

The quality of the corporate governance system affects not only the access and volume of external financing, but also the cost of capital and the valuation of the company. Outsiders are more reluctant to provide financing and tend to set higher prices for the provided financial resources if they are not sure of providing an adequate return.

Under weak corporate governance, conflicts between small and large shareholders intensify, and the former receive an inadequately smaller share of profits. Research results clearly show this. In countries where property rights are weakly protected, the cost of capital is higher and the value of the company is lower. Investors are also inclined to lower the valuation of companies and countries where corporate governance is relatively poorly developed. Many studies confirm that good corporate governance is necessary to create an attractive investment climate in which companies are competitive and financial markets are efficient.

Perhaps one of the most famous studies in this area is the Survey of the Opinions of International Investors, prepared by the McKinsey company in 2000 and revised in 2002. The study emphasizes that the success of a company serves as quality management, but also the creation of an image of quality management in this company on the market. This suggests that, by taking care of the correct corporate governance in the company, managers can significantly increase its shareholder value.

Another study conducted by Deutsche Bank based on the Study of Public Financial Statements of Companies confirmed the conclusions made by McKinsey. Deutsche Bank has concluded that listed companies in the developing regions of Latin America, Africa, Eastern Europe and the Middle East receive a premium to their stock price if they have effective corporate governance in place.

Moreover, in countries with weak guarantees of ownership rights, controlling shareholders receive a share of the company's value that exceeds their direct share through minority shareholders. In countries with low corporate governance development, which bypass more attractive types of investment, there is a higher cost of capital and a correspondingly lower value of companies.

Ultimately, improved corporate governance allows for increased company value through more effective management, better asset allocation, more effective HR policies, and other improvements.

Research from the United States, Korea, and other countries suggests that at the company level, improved corporate governance leads not only to higher returns on equity and higher value, but also to higher profits and sales growth. These findings are supported even after adjusting for the fact that more efficient companies adopt higher corporate-level standards and show higher performance for other reasons. This formulation of the question in the study also shows, albeit with a somewhat lower degree of conviction, that operational characteristics are higher in countries with a higher level of corporate governance.

Other factors may explain why this happens. For example, companies in countries may have more opportunities for growth, their reporting shows high profits, although corporate governance there is poorly developed, and reporting may be biased. Enterprises that, in conditions of weak corporate governance, for example, can declare inflated indicators in their reporting against the real ones.

The weak relationship between company operations and corporate governance at the country level may also reflect the fact that corporate governance in most countries is unrelated to the conflict between management and owners, which tends to lead to inefficient company performance and low return on assets.

But since most companies in such a country have a highly concentrated capital structure or are controlled by insiders, corporate governance is more likely to deal with conflicts between controlling shareholders and minority shareholders, leading to lower valuations and access to external financing.

This opinion is also confirmed by a comparison of the return on investment related to the cost of capital for corporate management systems of different levels of development. This relationship is largely derived from the higher cost of capital, i.e. lower company valuation, in countries with weak corporate governance.

The quality of corporate governance can also influence the company's behavior during economic shocks and even lead to financial difficulties with adverse consequences for the economy. During the East Asian financial crisis, companies in which managers had a high level of control but insufficient ownership had a combined rate of return of 10-20% lower than that of other companies.

This suggests that corporate governance can play an important role in determining the behavior of a particular company, in particular with respect to the incentives for insiders to expropriate the assets of minority shareholders in difficult times. Similarly, a study of stock market movements of listed companies from Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand found that companies with better accounting disclosures and a higher concentration of ownership in outsiders' hands performed better. These findings are consistent with the idea that corporate governance helps to explain the behavior of companies during the financial crisis.

Country-level data show that weak corporate governance legal institutions were a major factor in exacerbating the stock market downturn during the 1997 East Asian financial crisis. In countries where investor protection is weak, net capital inflows are more sensitive to adverse events that adversely affect investor confidence. In these countries, the risk of expropriation increases during times of crisis, because The expected return on investment is low. Therefore, these countries are more likely to experience a collapse in currency and stock market prices.

The idea that weak corporate governance of individual companies can affect the entire economy is not limited to developing countries. It has recently been suggested that in developed countries, corporate collapses and overstating profits (Enron, WorldCom), corporate robbery by managers (Tyco), audit fraud (Arthur Andersen), and fictitious reports of stock price increases (prepared by supposedly independent investment analysts) led to a crisis of confidence on the part of investors, to a drop in the market and other consequences for the entire economy, in particular, a slowdown in economic growth. Thus, weak corporate governance can create a negative image for the economy in general in any country.

Weak corporate governance can affect the functioning of the country's financial markets. In particular, it can increase financial instability. When information is poorly protected due to lack of transparency and insiders' advantages in monitoring companies' activities, investors and analysts have no opportunity to analyze companies (because gathering information will be expensive) and no incentive (insiders win anyway).

In an environment where property rights are weakly expressed, insider investors, including analysts, with private information can, for example, take advantage of it before it is publicly disclosed.

Practice shows that the lack of transparency associated with weak corporate governance leads to more synchronous price changes on the stock market, limiting the role of markets in price formation. A study of stock market prices in a common trading and currency mechanism (Hong Kong Stock Exchange) found that stocks in an environment where investors are not protected (China) trade at a higher spread than protected stocks (Hong Kong).

Another area where corporate governance influences companies is mergers and acquisitions. In the 1990s, the volume of M&A transactions and premiums paid were higher in countries with good investor protection.

The analysis also shows that in cross-border deals, the acquirer is usually a company from a country where investors' rights are protected, which suggests that cross-border deals play an important role in improving corporate governance, improving the degree of protection of investors in companies being acquired, as well as that cross-border agreements contribute to the convergence of corporate governance systems.

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CONCLUSION

It is not so obvious how much participation in social issues correlates with the successful activity of the enterprise. Social activities require expenses. They can be direct, when charitable actions are carried out or funds are directed to environmental protection, thus reducing profits. They can be indirect when the company becomes less flexible and operates with low efficiency.

Evidence is usually provided that such forms of social corporate responsibility pay off: it can be good business for everyone and go hand in hand with good corporate governance. Thus, environmental protection and social philanthropy are indirect, such actions can create a positive externality in the form of improved relationships with other stakeholders.

Only a few studies attempt to describe such an effect. The desire, for example, of many companies to introduce high international standards (ISO 9000) that go beyond narrow production and sales, suggests that a positive effect can be observed at the company level.

If we talk about individual countries, the more developed of them seek to improve corporate governance and establish rules, need greater social responsibility of enterprises.

However, some evidence shows that the forms of participation that are imposed by the state may not be so attractive from a financial point of view. In the course of the study, it was found that, for example, in Germany, where the legislation provides for the introduction of employees to the board of directors and giving them the right to control the company's assets, the ratio of the market price to the accounting valuation of the company's value and the return on shares decreased.

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ВПЛИВ КОРПОРАТИВНОГО УПРАВЛІННЯ НА ЕКОНОМІЧНИЙ РОЗВИТОК ТА ЗРОСТАННЯ

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Мета статті полягає в виявленні впливу корпоративного управління на економічний розвиток та зростання держави. У статті запропоновані можливі конали зростання та розвитку корпоративного управління: хороше корпоративне управління може розширити доступ компаній до зовнішнього фінансування, що, своєю чергою, сприяє залученню нових інвестицій, вищим темпам економічного зростання та створення нових робочих місць; хороше корпоративне управління може знизити вартість капіталу та підвищити вартість компанії, роблячи інвестиції привабливішими, що веде до подальшого економічного зростання та збільшення зайнятості; ефективне управління підвищує операційну ефективність завдяки кращому розподілу ресурсів та вдосконалення менеджменту, допомагає більш рівномірного розподілу добробуту; ефективне корпоративне управління знижує ризик фінансової кризи, яка може спричинити руйнівні економічні та соціальні наслідки; ефективне корпоративне управління призводить до покращення взаємовідносин з усіма зацікавленими сторонами (стейкхолдерами) та, відповідно, поліпшення трудових відносин, а також створення умов для роботи над соціальними проблемами, зокрема, питаннями захисту довкілля.

Теоретична та методологічна база дослідження представлена науковими працями провідних учених у галузі корпоративного управління, а також авторським трактуванням впливу корпоративного управління на економічний розвиток та зростання держави. У процесі дослідження використовувалися такі методи, як аналіз та синтез, метод історичного та логічного моделювання. Як теоретичні методи в роботі застосовуються метод формалізації, метод «від абстрактного до конкретного», а також історичний метод, метод економічної інтерпретації. З практичної точки зору в дослідженні також були задіяні метод угруповання статистичних даних, статистичний та економетричний аналіз.

Ключові слова: корпоративне управління, розвиток підприємства, зростання економіки, ефективне управління, розвиток.