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### "The Role of Corporate Governance in Securing Stakeholders' Rights: Challenges and Recommendations"

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#### Abstract

Corporate governance serves as the backbone of sustainable business practices, balancing the rights and interests of diverse stakeholders—from shareholders and employees to creditors and communities. This paper underscores its critical role in mitigating legal risks, preventing managerial conflicts, and fostering ethical decision-making that prioritizes long-term value over short-term gains. Without robust governance frameworks, companies face heightened vulnerabilities: marginalized minority shareholders, workplace instability, and reputational damage from scandals like Enron and Malaysia's 1MDB, where weak oversight led to catastrophic financial and social fallout.

Global challenges further complicate governance, including rising cybersecurity threats, which cost firms millions annually, and systemic corruption enabled by insufficient regulatory enforcement. The analysis highlights disparities in board independence, with only 25% of global boards meeting independence benchmarks, often sidelining stakeholder interests in favor of insiders. To address these gaps, the paper advocates for stronger legal frameworks aligned with international standards, such as the OECD Principles, and enhanced enforcement modeled after proactive agencies like the UK's Financial Conduct Authority. Recommendations emphasize transparency through mandatory audits, stakeholder engagement channels, and equitable board composition to amplify minority voices. Ultimately, the study argues that effective corporate governance is not merely a compliance exercise but a strategic imperative—one requiring systemic reforms to safeguard stakeholder trust and ensure resilient, equitable organizations in an increasingly complex global landscape.

#### Introduction

Before starting with the central points of this paper, let's break down certain terms to make it more clear to the readers. **What is corporate governance? What is the significance of it?**- Well, corporate governance is the system of rules together with practices that helps companies good management and control. Its significance can be seen on protection and assurance of rights of interest-holders in the company. As long as there are many stakeholders, like: employees, shareholders, creditors, governance system is always in need of well-structured mechanisms, that can easily hold fair balance. Employees want to **secure thier job** positions, Shareholders want **clear representation** from directors, creditors wish to **get paid on time** without issues. To make all these parties satisfied, there must exist good corporate governance.

Problem Statement:

- A) One of the main challenges that companies face due to lack of corporate governance are **legal and regualtorys risks**. Companies struggling with policies or strategic decisions are prone to face legal lawsuits, fines, investigation, or fundamental breach of ethical standards.

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- B) Another one is **conflicts with management**. Shareholders group in the company may have **unnecessary or improper influence over management's strategic decision**, consequently, leading to conflict with management.
- C) Moreover, every organisation achieve advantages from ethical guidlenes to prioritize long term value creation, unlikely, **absence of ethical standards** can lead to disparate outcomes, whereby merely **short term values** can be supported

### The Importance of Corporate Governance in Protecting Stakeholders' Rights

In various circumstances, shareholders with majority shares and voting power manipulates rights of many minorities by taking an advantage of such power. Be it in forced buyouts, for example, **majority shareholders force minority ones to sell their shares**, this is typically done through **amendments into articles of association** or through **legal provisions** that allows forced buyouts once the ownership threshold is met. That is why stakeholders rely on corporate governance mechanisms to safeguard their rights. Minority shareholders frequently face marginalization, particularly in jurisdictions with weak legal protections. **According to a 2020 World Bank report**, many emerging economies fail to provide sufficient safeguards against abuses by majority shareholders.<sup>1</sup> Shareholders depend on governance frameworks to ensure fair treatment and protection against abuses by majority shareholders.<sup>2</sup>

From employees' perspective, the better the system for workplace security, fair compensation, ethical management, the longer they see themselves in an organisation and **this is very important to prevent massive strike**.

The main pillars of Corporate governance are fairness, accountability, transparency. Shareholders and creditors expect transparent **reports to make clear decisions**. **The Enron scandal in the early 2000s** demonstrated how the absence of transparency could lead to catastrophic corporate failures, wiping out shareholder wealth and damaging employee livelihoods.<sup>3</sup>

**Fairness in Board composition** creates good environment where minority shareholders' voice and concerns can be heard . That means that effective corporate governance creates ecosystem where interests of stakeholders can be recognised and protected.

Independent directors are critical for providing oversight and avoiding conflicts of interest, yet a **2023 Deloitte report** indicates that only **25%** of corporate boards globally meet independence standards.<sup>4</sup> In family-owned businesses or state-influenced corporations, such as those common in emerging markets, boards often prioritize insider interests over stakeholders.

### Global Challenges

Corporate governance also faces risks from global trends such as cybersecurity threats. The 2023 IBM Security report showed that data breaches cost an average of \$4.45 million, harming customers,

3. World Bank, *Doing Business 2020: Protecting Minority Investors* (World Bank 2020) 52.

<sup>2</sup> *In re Appraisal of Dell Inc.* 2016 WL 3186538 (Del Ch June 13, 2016).

<sup>3</sup> Jonathan Macey, *Corporate Governance: Promises Kept, Promises Broken* (Princeton University Press 2008) 32.

<sup>2</sup> Jonathan Macey, *Corporate Governance: Promises Kept, Promises Broken* (Princeton University Press 2008) 32.

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investors, and company reputations.<sup>5</sup> Corruption and insider abuse compound these issues, as seen in the 1MDB scandal in Malaysia, where billions were misappropriated due to weak governance and regulatory oversight.<sup>6</sup>

These challenges undermine the ability of corporate governance frameworks to protect stakeholders, necessitating reforms and stronger enforcement

Recommendations for Addressing Challenges

### A. Strengthening Legal Frameworks

Governments should introduce comprehensive corporate governance laws that mandate independent boards, transparency in financial reporting, and equitable treatment of all stakeholders. For example, Uzbekistan could benefit from aligning its governance framework with international standards, such as the OECD Principles.<sup>7</sup>

### B. Enhancing Enforcement Mechanisms

**Effective enforcement** is crucial. Regulators need resources and authority to monitor compliance and impose penalties for violations. **Judicial bodies must also play a proactive role** in resolving disputes and protecting stakeholders' rights. Lessons can be drawn from the United Kingdom's Financial Conduct Authority, which combines stringent oversight with effective enforcement.<sup>8</sup>

**Mandatory disclosures and independent audits** should be standard practice to enhance transparency. Companies must also engage stakeholders proactively, creating channels for minority shareholders, employees, and communities to voice concerns. This inclusive approach fosters trust and accountability, ensuring that governance benefits all stakeholders.

### Conclusion

Corporate governance is indispensable for securing stakeholders' rights and fostering sustainable corporate practices. However, challenges such as weak enforcement, lack of transparency, and insufficient stakeholder engagement hinder its effectiveness. Addressing these challenges requires robust legal frameworks, enhanced enforcement mechanisms, and adherence to international best practices.

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5. IBM Security, *Cost of a Data Breach Report 2023* (IBM 2023) 14.

6. Clare Rewcastle Brown, *The Sarawak Report: The Inside Story of the 1MDB Exposé* (Gerakbudaya 2018) 55.

7. OECD, *Principles of Corporate Governance* (OECD 2015) 12.