# Basic Principles of Corporate Governance Efficiency Rating

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In the context of the globalization of economic relations, the issue of competition between countries to attract foreign investment into the national economy has become. The process of investing capital in a market economy is associated with many options, alternatives and risks. Under such conditions, investors choose companies from those countries where there is a transparent efficiency of their activities, assessed by methods generally recognized in world practice. This can be seen in joint-stock companies that have an appropriate information base and a mechanism for attracting investments through the stock market. Increasing competition in the investment market, which is characteristic of today's conditions, imposes increasingly stringent requirements on corporate governance. A series of surveys of institutional and private investors conducted by McKinsey revealed that about 80% of investors note the significant importance of the quality of corporate governance in assessing the attractiveness of a company. An analysis of investor behavior confirms the golden rule: "Investments come only where the rights of shareholders are respected."

Based on mathematical models and various methods, researchers from different countries tried to assess whether the improvement of corporate governance really affects the efficiency of companies. Research results are ambiguous, which is due to the difficulty of choosing adequate performance / cost indicators, especially the level of corporate governance, and the fact that the results of quantitative analysis are not always identical to the company's attractiveness to investors. Thus, in the work of Black, an attempt was made to assess the relationship between the level of corporate governance and the market value of JSCs using the example of Russia. Using the corporate governance ratings calculated in autumn 1999 by Brunswick Warburg and the ratio of actual capitalization to potential capitalization determined by the Troika Dialog group of companies for a sample of 21 JSCs, Black proved a significant correlation between these indicators. Black's assessment of the impact of corporate governance on capitalization showed that improving corporate governance from the level of, for example, Mosenergo OJSC to the level of Vimpelcom JSC can increase capitalization by 3–4 times.

However, in reality, the analysis of a single-stage cut is insufficient. For a more reliable analysis, it is necessary to study panel data. That is, if it were possible to show that improving corporate governance in individual JSCs increased their capitalization over time, then the results would no longer depend on the choice of “potential” capitalization

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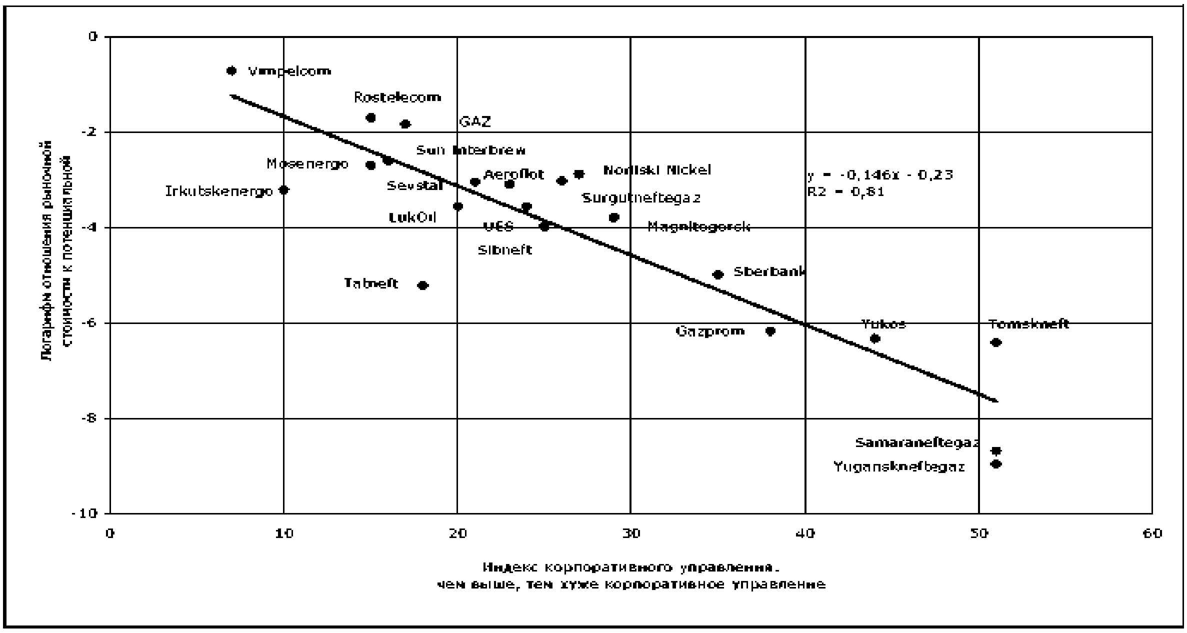


**Rice. 1. Impact of corporate governance on the market value of Russian companie**

Such an analysis was carried out in the work of Raczynski, where it is shown that the effect is actually 6–7 times weaker, but in this case, the impact of corporate governance on capitalization is quite large: improvement of corporate governance by 1 point (according to the Brunswick scale or the Institute for Corporate Governance and rights) increases capitalization by 2%, improvement of corporate governance by 1 standard deviation - by 50%.

Thus, high-quality corporate governance in joint-stock companies creates an opportunity for real protection of private property, ensuring the interests and rights of shareholders, as well as the formation of investment-attractive and competitive national companies that can become the main engine of economic growth in the country. However, today in practice there is no generally accepted methodology for assessing the quality of corporate governance.

It is rather difficult for investors to understand the variety of financial instruments, assess the risk of investments, and compare the instruments offered on the market. In addition, self-assessment of individual risk is associated in most cases with unacceptable labor, financial and time costs. In such situations, subjective conclusions are not enough, and independent assessments are often needed. Such a role in the modern economy is played by the rating system, which is usually understood as determining the position of the object of analysis relative to other objects, i.e. ranking according to certain characteristics.

The provisions of Basel II (Basel, 2004) increased interest in ratings and their models [133]. The development of approaches based on internal rating systems has become of practical importance. All this has increased interest in understanding the rating process, in assessing the practical possibilities of using ratings, including through modeling, as well as in problematic issues of rating.

To a large extent, rating methods are closed, have a significant expert component, which makes it difficult to use them more widely for risk assessment, decision-making, including national ratings, their systems, as well as rating models that can be used as preliminary assessments in the process of making decisions. investment decisions.

To form a methodology for rating the effectiveness of corporate governance in the country, it is necessary to analyze the structure of the global rating services market and the main trends in its development, to identify the significance of the corporate governance rating for emerging capital markets.

We identified the following factors as the main reasons for the rapid development of the global rating market (Fig. 3.2).

The ratings of the American agencies Moody's and Standard & Poor's, as well as the US-British agency Fitch Ratings, have become a generally accepted measure of the financial position of world corporations and banks, as well as countries in general. According to the RAs themselves, they control about 95% of the global market for ratings: S&P accounts for 40%, Moody's - 39% and Fitch - 16%.

Rating means an assessment of the state of the rating subject, and not the construction of a list of rating subjects according to any ranking. At the same time, the assessment of the state of the rating subject allows comparison with analogues or an abstract standard. In this capacity, the rating is a preliminary stage in the compilation of a ranking - a ranked list. Consequently, the concepts of rating and ranking are close and interrelated, but are not synonymous.

The rating is also defined as an individual numerical indicator of an organization's work, which allows to evaluate the effectiveness of its social, industrial, economic activities among other organizations of the same type (also organizations that are at the same level of management), or to determine the position of this organization in the general classification of a single system, including themselves a level hierarchy of their activities.

Thus, the rating assessment is a generalized conclusion about the performance results based on a qualitative and quantitative analysis of the processes under study. Unlike other types of assessments, the use of a rating assumes that not one organization is analyzed, but several, which are compared with each other.

The ratings of corporate governance efficiency considered in our study reflect the point of view of the organization that compiled the rating on the so-called non-financial risks. The corporate governance rating system is based on the analysis of the company from the point of view of an ordinary shareholder - a minority shareholder who does not have access to classified information and is unbiased, since the company does not pay him for the analysis. Such ratings are designed to help determine the fair value of shares and help investors make investment decisions by providing the necessary information about the level of corporate governance in companies. To date, this is the most objective method of analysis that allows investors to gain a deep understanding of the quality of corporate governance in a company.

The corporate governance rating makes it possible, taking into account national characteristics, to differentiate companies depending on the quality of corporate governance.

Based on the global experience of corporate governance ratings, let us consider the main components of assessing its quality, risks, etc. In practice, all published corporate governance ratings are divided into the following three groups (Fig. 3.3).

The vast majority of assigned ratings are of a sanctioned nature, and the commission charged from the customer of the rating, which is called the market access fee, is no coincidence that these commissions are often made dependent on the issuing activity of the client, - represents an important component of the income of agencies. The amount also varies depending on the status of the issuer, but in any case, its order is tens of thousands of dollars annually. It is important to note that there is a certain logic in the collection of such a rent by the RA - otherwise, all joint-stock companies would receive a free service for certification of the effectiveness of their corporate governance.

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