

# Corporate governance and its role in the transformation of the company

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**Abstract.** Corporate governance now plays a vital role in determining the future of companies. One of the leading indicators of the corporate governance system is the Board of Directors. The article describes the working mechanisms of the board in the context of the "Samruk-Kazyna" National Welfare Fund (NWF). Research shows a direct link between board composition and company value. Selecting qualified and competent board members is critical to ensuring effective corporate governance. In addition, the leading role of management also plays the definition of clear goals, deadlines for their implementation, and the use of incentives and punishments for their achievement or failure to achieve them. Particular attention is paid to the mechanism for building corporate economic management in a quasi-state sector through transformation programs. The transformation allowed the Boards of Directors of the Samruk-Kazyna NWF to transform from formal bodies into fundamental strategic institutions. The adopted Corporate Management Code played a crucial role in this process. This article discusses the main features of corporate management, the historical development of corporate management in Kazakhstan, the development process and norms of development management in the Samruk-Kazyna NFW. Our research shows that choosing the right board members and implementing effective incentives and penalties are critical elements of successful corporate governance that promote the sustainable development of companies.

## 1 Introduction

Corporate governance is, of course, one of the leading indicators of the success and sustainability of modern organisations. However, this concept remains a mystery even for experienced business people and experts. Many people need help to accurately define corporate governance and develop an effective mechanism for its construction [1]. There is no doubt that the role of corporate governance in the life of modern organisations cannot be underestimated.

Problems related to corporate governance began to arise, active with the emergence of large companies in the early 20th century. A separation of ownership and management

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rights accompanied this period. The owners transferred executive functions to other persons, who received the right to decide on current and strategic issues. This power transfer has increased conflicts of interest between shareholders and managers. This confrontation, which laid the foundations for corporate governance, necessitated the creation of mechanisms. They would provide systematic, reliable and effective control over the actions and decisions of the company's management apparatus.

The essence of corporate governance is to create limits that allow companies to identify, assess and manage risks associated with the operational and strategic activities of the company. However, it is essential to understand that the critical role in this system is played by shareholders, who become not only the company's owners but also its critical observers and regulators [2]. Their ability to directly influence the company's development trajectory is becoming one of the main aspects of corporate governance.

Today, among the main problems of corporate governance of domestic companies are weak and ineffective risk management systems, formal independence of the board of directors, and insufficient transparency and accountability to owners. It negatively affects the efficiency of companies. In this context, considering issues of formation and organisation of corporate governance in quasi-public sector companies seems urgent.

The purpose of this article is to review the experience of developing corporate governance in Kazakhstan, as well as the mechanisms for building effective governance in companies. In the research process, we will resort to the use of historical methods, deduction and induction. To better understand how corporate governance has evolved in this country and what lessons can be used to create more effective governance systems in the future.

## **2 Method and methodology**

Corporate governance remains one of the critical areas of research in the business world. This area often focuses on the company's Board of Directors. Research shows that it plays a crucial role in shaping successful corporate strategy. Berle & means, in one of the first studies in this area, emphasised the importance of the board of directors in generating profits and increasing the company's market value for shareholders [4].

However, research by Yermack and other scientists points to an interesting aspect: the inverse relationship between board size and company value. This is because as the number of members on the Board of Directors increases, decisions become more complex and slower, and the risk of dilution of responsibility increases [5]. This hypothesis is confirmed by studies by Guest, Rajangam, as well as Andres and his colleagues [6, 7, 8].

Corporate governance is about more than just capital structure or ownership structure. A company's organisational and legal form is determined by qualitative characteristics [9]. Some of the most significant indicators of corporate governance include the composition and functions of the Board of Directors, the practice of activity of management and control bodies, the ownership structure and state participation, the degree of information disclosure, its code of corporate conduct and ensuring the rights of shareholders [10].

Another exciting hypothesis in corporate governance research is the role of independent members on the Board of Directors. They can provide independent expert opinions because they are not involved in the company's day-to-day operations. However, research results vary, and while some studios confirm the positive impact of independent directors, others, such as Andres and his colleagues [11], find no significant relationship between the presence of an independent Board of Directors and company performance.

In Kazakhstan, corporate governance began to develop with the adoption of the Law "On Joint Stock Companies", and since then, corporate standards have been actively promoted in the country. As a critical task of corporate governance, the importance of

ensuring a balance of interests of various parties, including shareholders, employees and society, is emphasised when making strategic decisions and monitoring their implementation [12].

Consequently, corporate governance is a complex and multifaceted field of study, and its methodology requires constant updating and analysis. Understanding the role of the Board of Directors, independent directors, and other corporate governance factors is essential to a successful company strategy and ensuring that performance results are shared fairly among all stakeholders.

### **3 Results**

Currently, the National Welfare Fund “Samruk-Kazyna” regularly organises annual meetings of the Chairman of the Fund with members of the boards of directors of the Fund group, known as the “Forum of Directors”. The format of these meetings remains significant since they bring together the boards of directors of the Fund's portfolio companies. These are informal meetings between the company's board of directors and the shareholder, given that the Fund acts as a shareholder of many group companies by the law [13]. Throughout the day, Forum sessions provide participants with a complete understanding of the Foundation's strategic initiatives. Interactions with the Foundation's Chairman allow discussion of the most complex issues. Such meetings have been held since 2011, and Board of Directors members can discuss important issues with shareholders outside the official framework. The main goal of the Forum remains the Fund's transformation program.

Today, the Samruk-Kazyna National Welfare Fund group continues improving corporate governance. Since 2014, there have been significant changes in the composition of the boards of directors of key companies in the Fund's group—for example, the appointment of independent directors, which significantly increased transparency and responsibility in management. A critical moment was the appointment of a person with extensive experience in international management, finance, consulting and the energy sector to the position of Chairman of the Board of Directors of the group's largest company. This appointment provides even greater confidence in the company's ability to deliver outstanding new results. It is also important to note the success of ABN AMRO Bank N.V., which has become one of the leaders among banks in developing countries and an essential player in the global energy business market. These changes highlight the Fund's efforts to improve corporate governance and achieve success in the world marketplace.

An analysis of the selection process for independent directors in the Samruk-Kazyna National Welfare Fund showed significant improvement and a transition to a more systematic and targeted approach. The process is now based on candidates' professional and expert characteristics to ensure that the most competent and qualified executives are attracted.

Chairman of boards of directors and chairmen of nomination and remuneration committees play an essential role in ensuring the quality selection of candidates. They became key players in identifying the strategic needs of the Foundation group and establishing transparent and objective selection criteria. The Chairman of the nomination and remuneration committees are responsible for assessing candidates' qualifications and experience, taking into account the needs and characteristics of each company in the group.

One of the critical results of moving to a subject- and professional skills-based approach has been increased trust and satisfaction among stakeholders [14, 15]. An improved process for selecting independent directors has reduced the likelihood of conflicts of interest and contributed to more informed management decisions. It has also strengthened the reputation of the Fund and its companies in the market, which can attract investments and strengthen

its position on the world stage.

It is also important to note that selecting independent directors has become more open and transparent. Chairman of boards of directors and nomination and remuneration committees actively cooperate with market experts and professional associations. It facilitates sharing best practices and ensures high standards in selecting candidates.

As a result, thanks to the transition to a substantive and professional approach in selecting independent directors, the Samruk-Kazyna National Wealth Fund improved management efficiency, stakeholder confidence, and its reputation in the market. Prospects for development in this area remain encouraging, and the approved Corporate Governance Code is essential in further improving this process within the Fund group.

In December 2014, the Samruk-Kazyna National Welfare Fund board approved a new Corporate Governance Code [16]. This Code provided a comprehensive vision for the future management of the Fund. The Corporate Governance Code establishes the principles and standards of corporate conduct for all companies the Fund owns.

The Fund's Corporate Governance Code applies to the Fund itself and to organisations in which it owns more than 50% of the shares or participation interests. This includes virtually the entire Fund group, including both joint stock companies and partnerships, highlighting its importance in ensuring uniform standards of corporate governance and an agreed approach for the whole of the group's business.

One of the key objectives of the Code is the creation of transparent and responsible corporate structures that ensure effective management of the Fund's group companies. It also helps to increase trust among investors, stakeholders and the public, making it easier to attract investment and ensure the sustainable development of companies.

The Corporate Governance Code includes several fundamental principles, such as transparency of decision-making, consideration of the interests of all stakeholders, effective functioning of boards of directors, protection of the rights and interests of shareholders, and independence of supervisory and audit authorities.

The prospects for developing and implementing the Fund's Corporate Governance Code remain encouraging since its principles and standards strengthen management discipline and increase responsibility and efficiency in the group of companies. Ongoing implementation and compliance with the Code will help the Samruk-Kazyna National Welfare Fund achieve high standards of corporate governance and take a leading position in the market [17].

The draft Code of Corporate Governance of the National Welfare Fund "Samruk-Kazyna" was developed by the team of the Corporate Governance Department. Particular attention was paid to the development of the Code, and the team consulted with international experts from the Organization for Economic Cooperation and Development (OECD). It made it possible to introduce modern and advanced corporate governance practices that comply with international standards into the Code.

The Fund's Corporate Governance Code has been highly appreciated by corporate governance experts both in Kazakhstan and abroad. The application of most of the provisions of the Code in the development of a model code for state joint-stock companies of the Ministry of Economy of the Republic of Kazakhstan will allow the dissemination of best practices and principles among a broader range of companies in the country.

The development of the Corporate Governance Code resulted from close cooperation with various parties interested in the activities of the Fund. Independent directors of the Fund group, representatives of government authorities, representatives of the quasi-public and private sectors, and well-known experts in corporate governance took part in the discussion of the Code. This wide range of participants ensured that diverse viewpoints and interests were considered, making the Code a balanced and transparent document.

One of the essential requirements established by the Code is the mandatory disclosure

of information about the facts and reasons for non-compliance with its provisions in the annual reports of the Fund and its companies. It also provided a requirement for sustainability reports from 1 January 2017. This disclosure obligation promotes greater transparency in the activities of the Fund and its companies, increasing trust among investors, partners and the public.

Applying the Fund's Corporate Governance Code is essential in developing responsible, transparent and effective management principles in the group of companies. It is expected that the application of the Code promotes stability and sustainable development of companies owned by the Fund and will also help attract new investments and increase competitiveness in the global market.

### **Management structure**

The Fund Group has a clear hierarchical structure with the Chairman of the Board, the Fund Management Board, the Board of Directors and the Supervisory Board.

### **Shareholders' rights**

Shareholders of the Fund have voting rights and participate in making strategic decisions at general meetings of shareholders.

### **Independent directors**

The Board of Directors includes independent directors, contributing to the independence and objectivity of decisions made.

### **Committees of the Board of Directors**

The Board of Directors has audit, nomination and remuneration committees, which provide deeper analysis and control over relevant areas of activity.

### **Transparency of decisions**

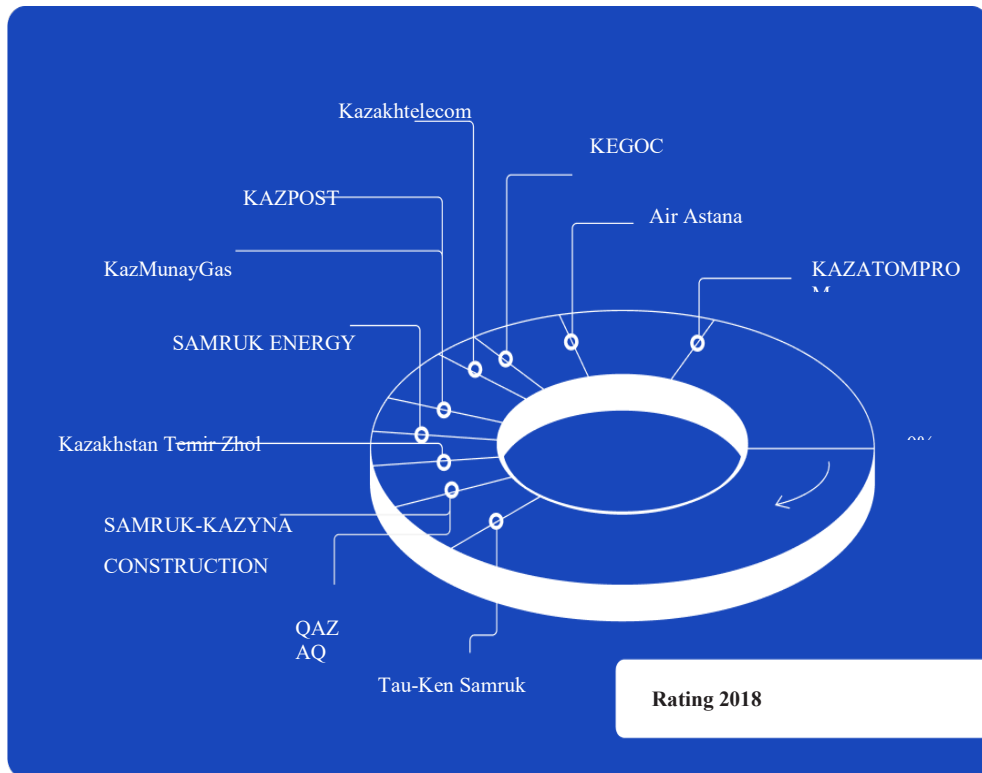
The decisions taken and the Fund's financial reporting are provided to stakeholders and the public, ensuring a high degree of transparency.



**Fig. 1.** Fundamental Principles of the Corporate Governance Code National Welfare Fund "Samruk-Kazyna"

Following these principles contributes to developing objective analyses of companies and obtaining recommendations from financial advisors, analysts and rating agencies, improving management and increasing corporate governance transparency.

In corporate governance, the Board of Directors plays a crucial role in ensuring the effective management of the company. One of the essential principles is that the Chairman of the Board of the Fund should not give direct instructions to the managing directors and Chairman of the directors of portfolio companies. Instead, the Chairman of the board of a Fund's portfolio company must have a certain degree of autonomy and be subject to the decisions of the company's board of directors. The selection of members of the board of directors must be carried out with particular care to ensure a high level of professionalism and independence of its members. Figure 2 presents an assessment of corporate governance in leading companies of the Samruk-Kazyna National Wealth Fund, reflecting the effectiveness of implementing the principles of the new Corporate Governance Code [17].

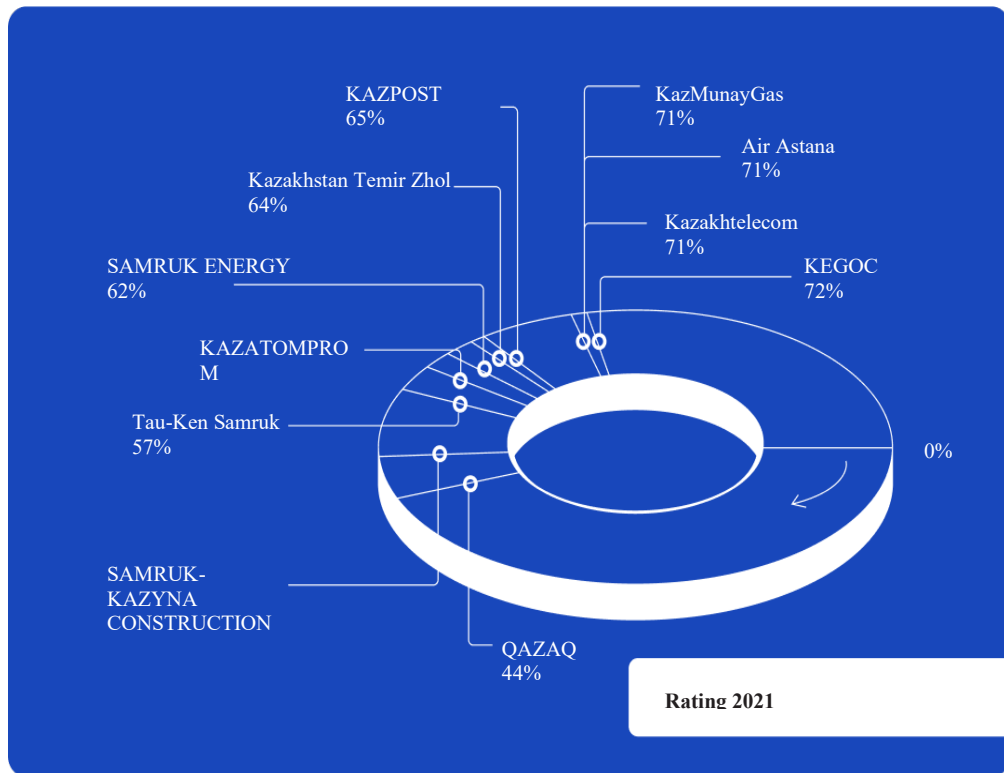


**Fig. 2.** Assessment of corporate governance in leading companies of the Samruk-Kazyna National Welfare Fund, rating 2018.

Low	Developing		Ready for IPO		Market
C	B	BB	BBB	A	AA
0%-30%	31%-50%	51%-70%	71%-	81%-90%	91%-99,9%

**Fig. 3.** Numerical and letter grades of corporate governance

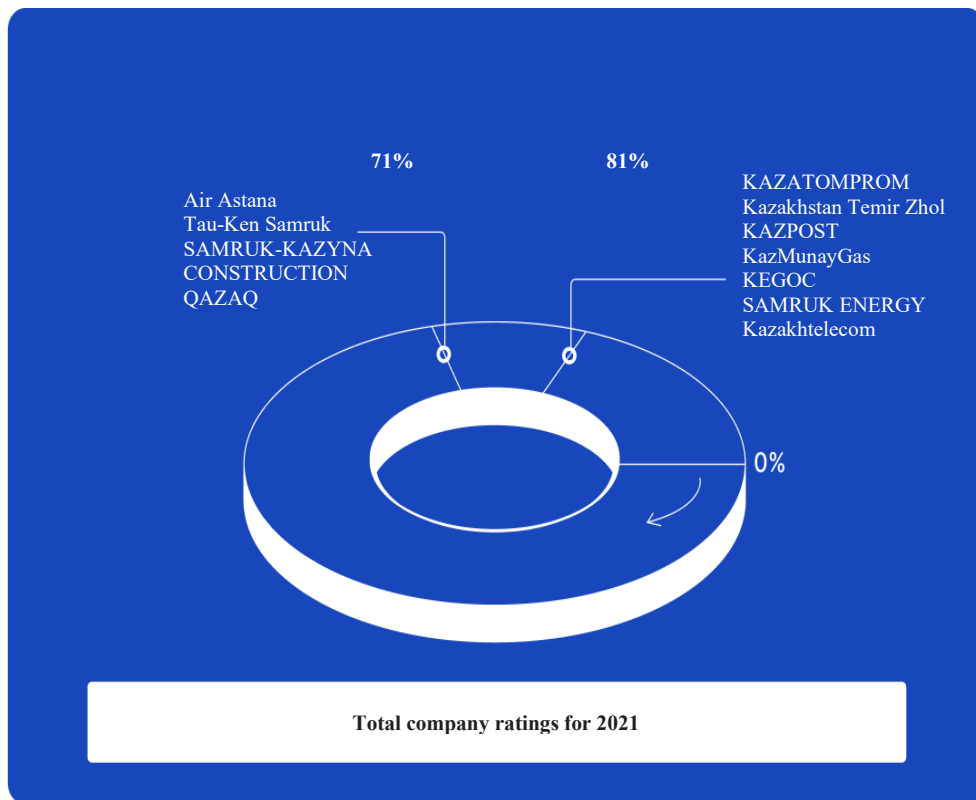
The companies' rating reached the average level over four years of applying the new optimal management structure (B, B.B.).



**Fig. 4.** Assessment of corporate governance in leading companies of the Samruk-Kazyna National Welfare Fund, rating 2021.

This system is more effective than administrative management since it stimulates the achievement of goals through punishment and provides incentives, bonuses and rewards to employees.





**Fig. 5.** Ratings of companies of the National Welfare Fund “Samruk-Kazyna”

It is important to note that civil servants are not reimbursed for board membership if they are on the Board of Directors of the Fund. Thus, Samruk-Kazyna National Welfare Fund has made improving corporate governance and strictly selecting board members important in its strategy to increase transparency, responsibility and efficiency in its activities.

Top managers' remuneration is a critical aspect of corporate governance, which often causes discussions and disagreements in society. Positions on the remuneration of individual members of boards of directors at a high level and bonuses provided to executives for achieved results cause disagreements between founders and society.

Some view this practical approach as unfair and inconsistent with public interest and norms. In contrast, others believe it is necessary to consider market realities and involve highly qualified experts.

However, to function by the laws of the market, it is essential to consider the characteristics of this market and the competitive environment. The attraction of highly qualified managing directors requires offering them adequate and competitive salaries. For example, to retain talented I.T. executives, companies must offer appropriate financial compensation for their professional skills and achievements.

Consequently, the decision on the remuneration of top managers is complex. It requires consideration of a balance between the satisfaction of public interests, the principles of corporate governance and the need to ensure the competitiveness and efficiency of the company. Considering each company's characteristics and market conditions, analysing the situation is necessary to achieve optimal results and satisfy all parties.

In April 2015, the Government approved a new Code of Corporate Governance for the Samruk-Kazyna National Welfare Fund. This event was an essential step for the Fund, allowing it to fully expand the powers of the boards of directors of companies under its management. The procedure for diagnosing and analysing observance of the practices of companies with modern corporate governance standards played a vital role in the formation of new requirements and profiles for the boards of directors of the Fund's key companies.

These target profiles identified specific characteristics and requirements for board members, such as professional experience, competencies in management, previous business successes, and other attributes necessary to implement the company's strategy successfully. Such changes have transformed boards of directors from formal "controlled" bodies into accurate strategic bodies management for companies.

These changes have led to improved interaction between the Fund and boards of directors of companies. The new Code has opened up new opportunities for independent directors of companies, strengthening their influence in the Samruk-Kazyna group. Such changes contributed to more open, responsible and efficient management of the companies included in the Fund.

## 4 Conclusion

In the modern context, public administration and corporate governance represent different strategies for organising and coordinating activities. State administration often requires a centralised system of authority that can act quickly and decisively, including using force to carry out orders. At the same time, forceful methods are not used in the corporate sector, and management is based on the principles of delegation of authority and other approaches. One of the main characteristics of corporate governance is the emphasis on setting goals and observing their achievement. Corporate governance uses key performance indicators (KPI) to help evaluate each manager and department. Each manager sets specific goals contributing to the company's overall goal of increasing efficiency and profitability.

The art of corporate governance is the ability to properly set board goals, select metrics, and determine executive for members executive body compensation levels. Each employee of the company must work to achieve their own KPI, which, in turn, affects the overall success indicators of the company. It is like creating a puzzle; every piece is needed to create a complete picture of the company's success.

Thus, corporate governance is a system in which employees and managers develop their goals and key performance indicators to achieve the company's overall goal. KPIs help measure results and make decisions based on facts and data. As a result, the company becomes more efficient and successful in its activities.

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