

Improving corporative management in state companies: prospects, distribution of power and collegial decision

Umirzak Shukeyev^{1,*}, *Mussa Niyazov*¹, *Nurzhamal Kurmankulova*², and *Irina Yardyakova*²

¹Esil University, Astana, Republic of Kazakhstan,

²Kazakh University of Technology and Business, Astana, Republic of Kazakhstan

Abstract. This article presents a methodology for assessing corporate governance belonging to the quasi-public sector organisations. The article discusses the main prerequisites based on which a new methodology for assessing this type of corporate governance is developed and applied. The object of the study is the National Welfare Fund “Samruk-Kazyna”. The analysis of corporate governance is considered from the perspective of an economic approach, within which three essential aspects are highlighted: structure, process and transparency. The work also presents a scale for assessing corporate governance, which allows performing a quantitative assessment of the effectiveness of the management system within the organisation. The study presents the results of applying this method, which demonstrate that most companies in the quasi-public sector have already reached a certain level of development in corporate governance, which became the reason for the search for a new approach to assessing this system. The authors emphasise the importance of defining criteria for improving the effectiveness of corporate governance and identifying the strengths and weaknesses of this system. In this context, corporate governance assessment is based on professional assessments and expert opinions and not simply on the presence of specific business processes. Moreover, this assessment must be agreed with the principles and requirements established by the Corporate Governance Code.

1 Introduction

Studying corporate governance assessment in quasi-public sector companies is essential because such companies have unique characteristics that distinguish them from private enterprises and government agencies. The importance of the quasi-public sector is reflected in the fact that quasi-public companies often play a crucial role in specific industries of the economy. Analysis of their corporate governance allows us to assess the effectiveness of their activities and develop recommendations to improve their efficiency and sustainability. A distinctive feature of quasi-state companies is a unique combination of state and private ownership, which dictates the need to study the features of their corporate governance.

*Corresponding author: umirshukeyev@gmail.com

Government involvement, direct or indirect, in the management of quasi-public companies, has a significant impact on decisions made, raising issues related to transparency, responsibility and management efficiency.

The complexity of relationships in the corporate sphere and the large number of proposed corporate governance models testify to the need to make significant efforts to create an effective management system and solve a broad spectrum of problems. In addition, the need for a unified approach to assessing the level or effectiveness of corporate governance makes it urgent to conduct research in this area. Analysis of the origin and evolution of corporate governance, highlighting its pros and cons, makes it possible to form a methodological basis for assessing corporate governance. Corporate governance is a set of participants, a model of government regulation, tools and mechanisms for innovative development, and achieving a balance of economic interests [1, 2]. This balance is achieved by satisfying all participants and developing trust and responsibility in management relationships. Most methods for assessing corporate governance focus on analysing compliance with the rights and interests of shareholders, paying little attention to the interests of other parties, which essentially contradicts corporate governance goals [3]. In addition, the effectiveness of corporate governance may have different weights for different counterparties since each group has unique interests and, therefore, its criteria for evaluating the company. This article examines the methodology for assessing corporate governance used in quasi-public sector companies and its applicability. Diagnosis of the corporate governance system is considered from an economic approach based on three aspects: structure, process and transparency.

Thus, conducting this study will allow us to identify potential problems and shortcomings in the corporate governance system of quasi-state companies and make recommendations to increase transparency and responsibility to shareholders and society. These recommendations should be based on objective criteria and indicators that allow for a comparative analysis of companies and identify best management practices. The study on the assessment of corporate governance in quasi-public sector companies represents an essential step in improving the level of transparency, responsibilities and management effectiveness in this sector, as well as in developing corporate governance standards.

2 Material and methods

Corporate governance means managing a business's organisational and legal structure, forming internal and external relations of the company and optimising its structure [4]. In the studies of Sorokin D.A., Corporate governance is defined as management entirely focused on realising the interests of shareholders through their goals in the company and depends on their interaction in implementing the financial strategy [5].

In the works of Barkhatov V.I. and Pletneva D.A., state corporations are considered a particular type of corporation with features of corporate governance. They emphasise that corporations are created based on critical structures, including financial, technological, intellectual and innovative potential, contributing to the state's economic growth.

The practice of corporate governance, where the owner is the state, is determined by regulation by the "OECD Guidelines on Corporate Governance", based on the principles of democracy and a free market economy [7]. These principles are applied in countries such as the US, Germany, the UK and Norway, considered leaders in improving corporate governance and the business environment.

Based on the work of Kharchilava H.P., It can be assumed that the regulation of the "OECD Guidelines" may be helpful for other countries since they are based on experience and offer specific solutions to the problems of corporate governance of state-owned companies. [8].

Therefore, to ensure the effective operation of state-owned companies in Kazakhstan, it is necessary to develop the institution of corporate governance by the principles of the "OECD Guidelines" and international experience. In 2015, the Samruk-Kazyna National Welfare Fund adopted a Corporate Governance Code based on these principles. Introducing a new corporate governance system should increase management's professionalism and improve state-owned companies' economic performance. Therefore, assessing the results of applying OECD principles in managing the Samruk-Kazyna National Welfare Fund remains relevant.

Despite efforts of researchers in the field of corporate governance assessment in quasi-state companies, unresolved problems and contradictions remain:

1. Methodological limitations: In some studies, there needs to be more consistency between the assessment methodology and the characteristics of quasi-public companies. It is necessary to develop specific assessment methods that consider their unique characteristics.

2. Lack of generally accepted standards. Different from the private sector, where generally accepted standards of corporate management exist, in a quasi-state sector, such standards may be less developed or absent. When a company publishes its shares on a stock exchange, it must comply with specific corporate governance standards. These standards typically include financial reporting transparency, board independence, and protection of shareholder interests. Such companies must follow corporate governance guidelines or codes set by regulators and organisations that develop standards.

For private companies which do not apply to the public offering of their shares on the stock exchange, requirements to comply with corporate governance standards may be less stringent or even non-existent. However, one should not accept that corporate governance is unimportant for private companies. Using best corporate governance practices can contribute to a company's stability, efficiency, and long-term success, even if it is not required to adhere to specific standards.

3 Research results

Quasi-governmental organisations are at the intersection of the public and private sectors. In this area, corporate governance standards may be less developed or absent for various reasons, such as unique ownership structure and impact on government interests.

In recent years, in different countries, there has been a growing interest in corporate governance in both the public and private sectors. Corporate governance standards are becoming increasingly important, even for companies that do not necessarily follow them. Organisations seeking long-term success and sustainability can implement the best corporate governance practices regardless of their status in the market [9].

Regarding unresolved issues and contradictions in studies of corporate governance in quasi-state companies:

1. Methodological limitations: One of the problems is the incongruity of the methodology for assessing the characteristics of quasi-state companies. It is necessary to develop special assessment methods that consider their unique characteristics.

2. Definition of independence: Corporate governance implies the independence of directors from the influence of founders and top management. However, in quasi-public companies, this definition may vary.

3. Role of the State: State participation in the management of quasi-state companies is a feature of this sector. The role and influence of the state on decisions and management efficiency require additional research.

4. Transparency and accountability: Transparency and reporting of quasi-public companies may need to be more developed, making it difficult to assess their corporate management.

5. Interaction with other organisations. Quasi-state companies frequently interact with government agencies and other public entities, which may affect their corporate governance. This interaction requires additional analysis.

6. Role of the Board of Directors: The Board of Directors plays a vital role in corporate governance. However, in some quasi-public companies, the board of directors may formally influence accepted decisions and effective management.

Addressing these unresolved questions and controversies in corporate governance research in quasi-public companies is essential to improving transparency, responsibilities and management effectiveness in these organisations [10, 11].

The assessment of corporate governance in quasi-public sector companies is carried out to increase its effectiveness. It is necessary to use a structured and consistent approach, including developing a methodology, diagnostics of the corporate governance system, development of recommendations and an action plan, their implementation, and monitoring the implementation of this plan.

As a result of diagnostics in the Samruk-Kazyna National Welfare Fund companies, the average corporate governance rating in 2015 was 79%, significantly exceeding the results of 2009, when the rating was 47% [12]. However, most companies have already passed the stage of forming basic corporate governance processes, and attention has been redirected to a more in-depth analysis of processes. This included assessing the quality of processes, their industry focuses and alignment with the company's strategy.

Active improvement of corporate governance in the companies of the Samruk-Kazyna group led to a significant increase in the rating. It marked a new stage, requiring a more in-depth study and analysis of management processes, taking into account the characteristics of each company [13]. It allowed us to focus on developing tailored strategies and approaches that contributed to further improvement of corporate governance and achieving more excellent active company results.

Thus, systematic improvement of corporate governance in quasi-public sector companies ensures their stability and efficiency. Essential steps in this direction are the development of an assessment methodology, analysis of unresolved issues, improvement of management processes and an individual approach to each company.

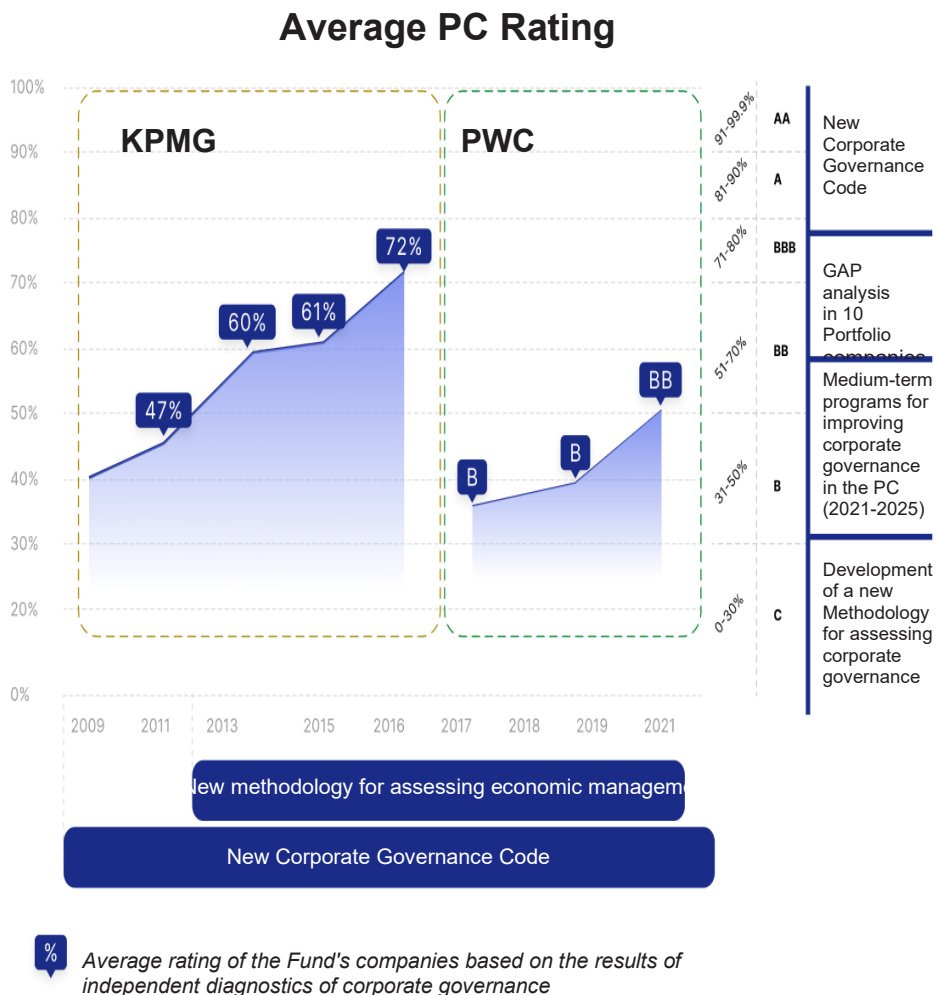


Fig. 1. Corporate governance rating in the Fund group from 2009 to 2021, according to source [12]

In other words, the assessment of corporate governance in the companies of the Samruk-Kazyna group, according to the 2009 version, needed to be updated and more representative of modern needs. The group's new strategy emphasised the importance of company boards as a critical transformation factor and changed the focus board requirements to their industry and investment expertise. The importance of board committees and corporate secretaries has also increased significantly.

In this regard, the Fund's corporate governance team and PricewaterhouseCoopers specialists have developed a new methodology for diagnosing corporate governance in the Fund's group. The main goal of this methodology was to improve the efficiency of corporate governance in the Fund's companies. The authors rely on global best practices by introducing a structured and consistent approach to assessing and developing its corporate governance systems.

This new methodology for diagnosing corporate governance has been adapted to industry and corporate sector changes. Providing more relevant and profound instruments

for evaluating and developing corporate governance allowed the Fund companies to more accurately build their strategies and operating processes, optimise their activities and increase their competitiveness in the world market.

Consequently, introducing a new methodology for diagnosing corporate governance has become a critical step for the Samruk-Kazyna group in ensuring effective and modern management of its companies, contributing to achieving strategic goals and improving management at all levels. The step-by-step process for diagnosing corporate governance is presented in Figure 2.

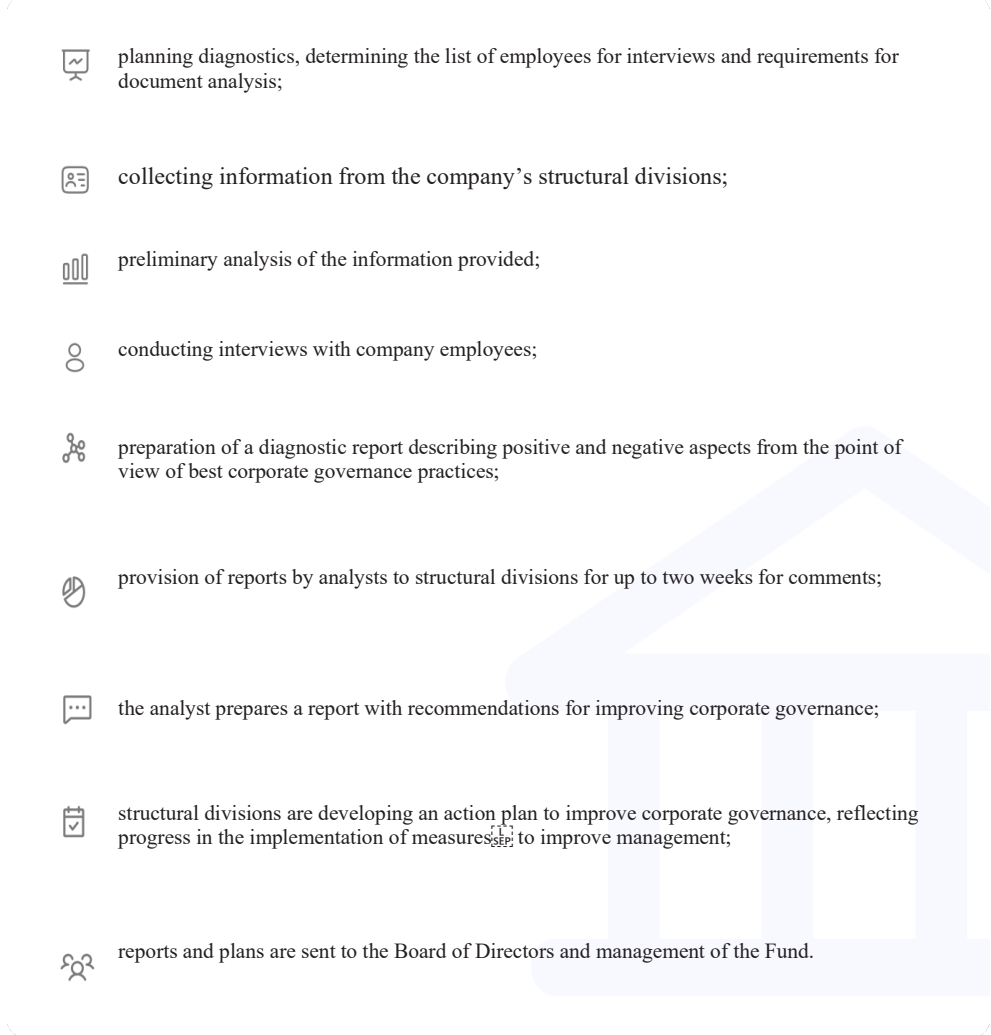


Fig. 2. Corporate Management Diagnostics Process

The new methodology complies with the provisions of the Fund's Corporate Governance Code and the level of development of the Fund's portfolio companies. It assesses the key areas that determine the quality of strategic management in the Fund's group of companies:

- effectiveness of boards of directors and executive bodies;
- Management of risks;
- internal control and audit;
- sustainable development;

- shareholder rights and transparency.

Each area is assessed and has its weight in the overall corporate governance rating.

After analysing each specified area, each company is assigned a corporate governance rating. The diagnostics are carried out so that the company cannot influence the final rating, and all logistic diagnostics are carried out by the company's board, acting as an interested shareholder seeking an objective assessment. A significant change in the new methodology is the move from numerical ratings to letter ratings (C, B, BB, BBB, A, AA, AAA), which are more familiar to stakeholders and similar to the global credit ratings of S&P, Moody's and Fitch. This new Fund methodology was unique and represented an advanced tool for assessing corporate governance in the country.

Currently, the process of assessing corporate governance in the Samruk-Kazyna group is entirely consistent with the new Code of the Fund and the latest international standards in the field of corporate governance for 2016. It ensures high compliance of the methodology with the best global practices and modern standards in corporate governance.

It should also be noted that developing a new methodology for diagnosing corporate governance was carried out in English and initially aimed at supporting independent directors of the Samruk-Kazyna group. It demonstrates the Foundation's commitment to international integration and adaptation of world standards in its activities.

The development of a new methodology made it possible to complete the entire cycle of changes in corporate governance in the Samruk-Kazyna group and begin the active phase of introducing new approaches in practice. Test diagnostics of corporate management were carried out in six companies of the Fund included in the transformation perimeter and then expanded on eleven of the most prominent companies of the group (Table 1).

Chapter	Wei ght	Company					
		KMG	KTZ	KAP	SE	Kazpost	KEGOS
Efficiency of the Board of Directors and the Executive Body	25%	BB	B	BB	B	BB	BB
Risk management, internal control and audit	25%	BB	BB	BBB	BB	BB	BB
Sustainable development	20%	B	B	B	BB	B	BB
Shareholders' rights	15%	BB	BB	BB	BB	BB	BB
Transparency	15%	BB	B	BB	B	BB	BBB
Overall company rating	100 %	BB	B	BB	B	BB	BBB
		56%	48%	60%	52%	56%	65%

Fig. 3. Corporate management ratings by sections of the Fund's portfolio companies*

Note: * According to source [12]

The new methodology allowed the Fund's group companies to more fully and accurately assess the effectiveness of their corporate governance systems, identify areas requiring improvement and shortcomings, and determine the steps necessary to eliminate them. It has strengthened corporate governance and ensured more responsible and transparent management at all levels of companies in the group [14]. Introducing a new diagnostic technique was a crucial step in increasing the efficiency of the Samruk-Kazyna group and ensuring its competitiveness on the world stage.

The results of this diagnostic, the authors generated vital recommendations, including strengthening composition boards with new members with industry expertise, auditing and project risk management. The company's management was recommended to fill gaps in personnel management, labour protection and safety. Companies are advised to strengthen compliance functions and internal controls to prevent fraud, especially if they plan to go IPO. Audit committees working for the boards of directors have been asked to deepen their collaboration with reports received through hotlines and results of internal investigations [15]. Board chairs were encouraged to actively promote the integration of risk management principles into core business processes and planning.

The effectiveness of the Board of Directors of the Samruk-Kazyna National Welfare Fund is measured by the achieved financial indicators. The introduction of new corporate governance principles into the operating activities of state-owned companies influenced these results as follows (Figure 3):

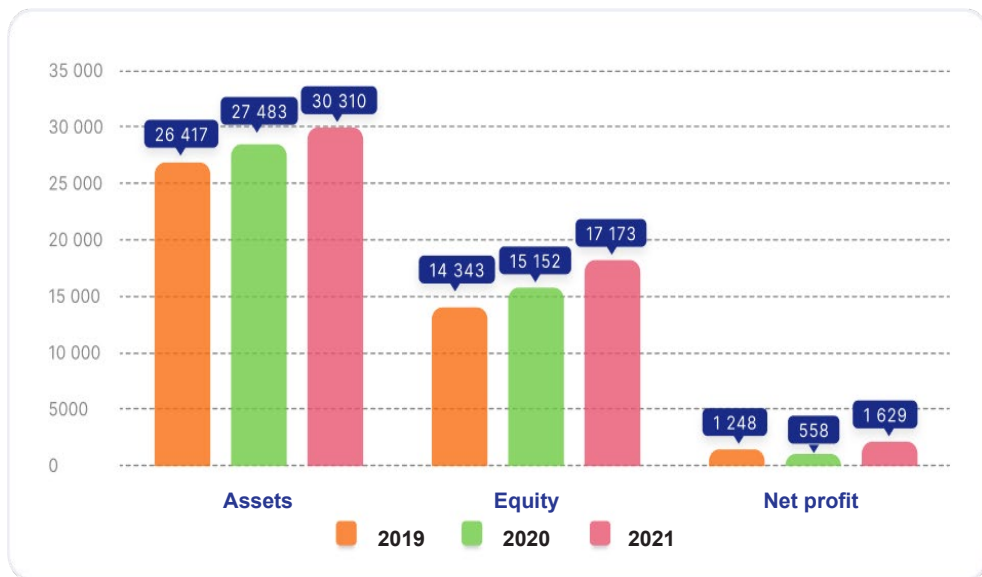


Fig. 4. Financial results of the Samruk-Kazyna National Welfare Fund group for 2019-2021, billion tenge*

Note: *According to source [16]

The data presented in the figure reflects the results of improved financial performance of state companies in 2021. Net profit increased 2.9 times, assets increased by 10.3%, and equity capital increased by 13.3%. These indicators indicate the effective management of operational processes in these companies.

Thus, to improve corporate governance, the following recommendations can be proposed:

1. To form a broad base of independent directors from several Kazakhstan leaders, who, in the long term, will enrich the boards of state-owned companies with all the necessary skills. However, it is essential to emphasise that this does not mean a complete replacement of foreign experts on boards of directors by Kazakh specialists. This policy of replacing local personnel may be beneficial in the long term. However, it should be noted that the high cost of ex-pats and the need to train local personnel within the country also have their justification.

2 An essential aspect of the functioning of the largest state-owned companies is their close interaction with international stakeholders. The companies of the Samruk-Kazyna group do not exist in isolation but are in constant contact with world markets. Each is integrated into global added chains and closely interacts with international counterparties [17, 18].

3 The geopolitical situation in the region and new strategic challenges facing companies require active interaction and diversification in the global economy [19]. It means that it is necessary not only to be present on world markets but also to cooperate with the world's largest partners and investors actively.

4 The participation of foreign members of the boards of directors of Samruk-Kazyna in the group companies plays a crucial role in establishing connections with international institutions and the investment community. They act as an intermediary for companies in the global economic environment and influence strategic decision-making, considering the changing global conjuncture and game rules.

5 The introduction of international expertise and experience into the decision-making processes of the group's companies contributes to adaptation to rapidly changing global conditions. It increases the competitiveness of national companies in the global market. Considering the global context, joint strategic decision-making contributes to effectively developing and achieving set goals.

6 Thus, foreign members of the board of directors in the Samruk-Kazyna group of companies add significance to the global perspective in management. It provides connections to global markets and allows companies to effectively adapt to changes in the global conjuncture, realise successful diversification and develop in the conditions of global challenges and opportunities.

The critical shortcoming of corporate governance in the Fund's group, which should be paid attention to, is the system's duality for appointing the CEO (Chairman of the board) of the Fund's most prominent portfolio companies [20]. It is a complex issue that requires serious decisions. According to the Fund's Corporate Governance Code, the system for appointing the Chairman of company boards requires the approval of their candidacies with the President or the Administration of the President of the Republic of Kazakhstan. In such a system, board chairs appointed at the highest level may find themselves effectively unaccountable to their boards. Even with formal compliance with other corporate governance provisions, board chairs may need to consider board members' views when making important decisions regarding significant transactions or investments. However, the board of directors must be personally responsible for fulfilling its fiduciary duties to shareholders. It leads to a dilution of accountability and responsibility at all levels of management within the Fund group.

It can be proposed to delegate the authority to appoint the Chairman of the boards of portfolio companies exclusively to the boards of directors to solve this problem. It will strengthen the independence and autonomy of boards of directors and also increase their ownership of the appointment process boards. The main advantage of this approach is that boards of directors consisting of independent experts will be able to more objectively evaluate candidates for the Chairman of the board and select those most consistent with the strategy and interests of the company and its shareholders. Increasing the role of boards of directors in appointing board chairman helps to improve the efficiency of corporate governance in the Fund group. It increases transparency and responsibility when making strategic decisions.

Finally, the need to decentralise management structures in state-owned companies is a proven and effective system of controls and balances that reduces management risks in business. While collaboration with boards of directors can cause some discomfort for corporate executives, it is a necessary mechanism for mitigating corporate governance risks. The diversity of opinion and expertise provided by boards helps avoid unilateral decisions and improves the quality of decisions. A system of collegial management creates a more sustainable and adaptive organisation capable of responding to changes in the business environment.

Thus, despite the complexity and probability of conflicts, the system of peer management remains a needful component of effective management, especially for large state companies. It helps to increase transparency, responsibility and sustainability in business management, which is the basis for the successful operation and development of companies in the modern world.

4 Conclusion

Finally, governance mechanisms diagnostics assess the performance of state companies and identify their strengths and weaknesses. It allows us to formulate recommendations for further improving the efficiency and transparency of corporate governance.

One key aspect of the analysis is separating power and management powers. The concentration of power in the hands of one leader can create imbalance and information asymmetry in the company. The importance of boards of directors operating by international standards lies in their ability to provide alternative assessments of management decisions and carefully analyse risks to the corporation.

The system of collegial management, despite its challenges and difficulties, remains necessary to reduce management risks. It ensures a diversity of opinions and expertise and helps account for unilateral decisions. With their diverse knowledge and experiences, boards of directors create a more resilient and flexible organisation that can adapt to environmental changes.

Effective corporate governance requires a balanced approach, including a global perspective, power sharing, and a collegial decision-making system. These measures contribute to increasing responsibility, transparency and sustainability in the management of companies, especially in the modern world where companies are in constant contact with global markets and challenges.

References

1. I.G. Minervin, *Chroniques d'experts*, **10.04**, 124-135 (2018)
2. D. Turekulova, L. Mukhambetova, N. Kurmankulova, R. Satkanova, G. Bermukhamedova, *Journal of Environmental Management and Tourism*, **9(7)**, 1414–1420 (2018) [https://doi.org/10.14505/jemt.v9.7\(31\).06](https://doi.org/10.14505/jemt.v9.7(31).06)
3. V.A. Shakhova, *Bulletin of Tver State University. Series: Economics and Management*, **1 (1)**, 222-230 (2015)
4. N.V. Bandurina, *Legal regulation of corporate management of federal property in the Russian Federation*: abstract. Dis. Doctor of Law Sciences (Moscow, 2012) 43.
5. D.A. Sorokin, *Vestnik Chelyabinsk State University*, **21**, 98-106 (2015)
6. V.I. Barkhatov, D.A. Pletnev, *The success of small and medium-sized businesses in Russia*. Monograph. (Moscow, Pero, 2016) 212.
7. I.S. Shitkina, D.O. Biryukov, *Companies with state participation: features of legal regulation and corporate governance*. National report on corporate governance. VI, Moscow, 25-37 (2013)
8. Kh. P. Kharchilava, *Vestnik State University of Management*, **18**, 25-38 (2012)
9. D. Turekulova, B. Beisengaliyev, S. Valiyeva, N. Kurmankulova, G. Saimagambetova *Journal of Environmental Management and Tourism*, **13(1)**, 211–222 (2022) <https://doi.org/10.14505/jemt.v13.1>
10. *Methodology for diagnosing corporate governance in legal entities: more than 50 per cent of the voting shares are directly or indirectly owned by National Welfare Fund Samruk Kazyna JSC*: (Astana, 2012), 183.
11. *Methodology for assessing the effectiveness and corporate risk management system in subsidiaries and dependent organisations of Samruk-Kazyna JSC*. Approved by the decision of the Board of Samruk-Kazyna JSC dated August 7, 2012, minutes No. 33/12
12. Official website of JSC “National Welfare Fund “Samruk-Kazyna”. URL: <https://sk.kz/>

13. *Decree of the Government of the Republic of Kazakhstan* dated November 5, 2012 No. 1403 On approval of the corporate governance code of National Welfare Fund Samruk-Kazyna JSC (as amended as of September 13, 2021) <https://sk.kz/upload/iblock/4c1/wqmwwqjw49kyws1zio7ufykqa3fa8ly7r.pdf>
14. A.R. Admati, *Journal of Economic Perspectives*. Princeton, **31 (3)**, 131–150 (2017) <https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.31.3.131>
15. D. Turekulova, B. Beisengaliyev, A. Turekulova, G. Saimagambetova, *E3S Web of Conferences*, **402**, 08041 (2023) <https://doi.org/10.1051/e3sconf/202340208041>
16. *Annual Samruk-Kazyna National Welfare Fund report for 2021*. Nur-Sultan, 146 p. https://sk.kz/investors/financial-performance/reports/annual_report_2021/
17. J.L. Bower, L.S. Paine, The error at the heart of corporate leadership. *Harvard Business Review*, Boston, **95**, 5/6 (2017) <https://hbr.org/2017/05/managing-for-the-long-term#the-error-at-the-heart-of-corporate-leadership>
18. L.A. Hill, G. Davis, The board's innovation imperative. *Harvard Business Review*, Boston, **95**, 11/12, 102–109 (2017) <https://hbr.org/2017/11/the-boards-new-innovation-imperative>
19. A. Manasbay, B. Beisengaliyev, A. Turekulova, N. Kurmankulova, D. Turekulova, *Journal of Applied Economic Sciences*, **13(8)**, 2437–2445 (2018) [https://doi.org/10.14505/jemt.v12.3\(51\).05](https://doi.org/10.14505/jemt.v12.3(51).05)
20. A. Taubayev, M. Kuttybai, Y. Saifullina, E. Borisova, A. Kabdybay, *Economic Annals-XXI*, **174(11-12)**, 51–57 (2018)