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## METHODOLOGICAL ASPECTS OF ADMINISTRATING CORPORATE SOCIAL RESPONSIBILITY IN THE SYSTEM OF CORPORATE GOVERNANCE

*Non-financial factors of growth in the value of companies, previously considered of secondary importance, have been treated with more care in the last 20 years. At the same time, there is a growing awareness of the need for more efficient solutions of social problems. There is a need to create new mechanisms of business administration of these issues, and corporate social responsibility (CSR) in particular. The article explains the rationale for why CSR is an objective necessity for business development and corporate governance (CG). The experience of Kazakhstan is given as a case study.*

*Keywords:* corporate social responsibility; corporate governance; stakeholders.

Геннадій В. Косолапов

## МЕТОДОЛОГІЧНІ АСПЕКТИ УПРАВЛІННЯ КОРПОРАТИВНОЮ СОЦІАЛЬНОЮ ВІДПОВІДАЛЬНІСТЮ В МЕЖАХ СИСТЕМИ КОРПОРАТИВНОГО УПРАВЛІННЯ

*У статті показано, як за останні 20 років все більшої ваги набувають позафінансові чинники зростання бізнесу, що відбувається паралельно процесу пошуку нових ефективних шляхів вирішення соціальних проблем. В управлінні бізнесом формуються принципово нові механізми, в т.ч. корпоративної соціальної відповідальності (КСВ). Детально описано та аргументовано низку об'єктивних причин, чому потрібна КСВ для подальшого розвитку бізнесу в цілому та корпоративного управління зокрема. Надано приклади впровадження КСВ у казахстанській практиці бізнесу.*

*Ключові слова:* корпоративна соціальна відповідальність; корпоративне управління; стейкхолдери.

*Табл. 1. Літ. 10.*

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## МЕТОДОЛОГИЧЕСКИЕ АСПЕКТЫ УПРАВЛЕНИЯ КОРПОРАТИВНОЙ СОЦИАЛЬНОЙ ОТВЕТСТВЕННОСТЬЮ В РАМКАХ СИСТЕМЫ КОРПОРАТИВНОГО УПРАВЛЕНИЯ

*В статье показано, как за последние 20 лет всё большее значение приобретают вне-финансовые факторы роста бизнеса, что происходит параллельно процессу поиска новых эффективных путей решения социальных проблем. В управлении бизнесом формируются принципиально новые механизмы, в т.ч. корпоративной социальной ответственности (КСО). Детально описан и аргументирован ряд объективных причин необходимости КСО для дальнейшего развития бизнеса в целом и корпоративного управления в частности. Приведены примеры внедрения КСО в казахстанскую практику бизнеса.*

*Ключевые слова:* корпоративная социальная ответственность; корпоративное управление; стейкхолдеры.

**Introduction.** The general idea of the principles, values and standards of business conduct is determined globally and is reflected in the modern CG. The global financial crisis poses new requirements for investors and other market participants, which necessitate new ways to assess the importance of correct and efficient management of

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companies. During the crisis, the list of companies affected by ineffective CG has been filled with the global brands once seemed invincible. The concept of sustainable development, CSR, fairness, business ethics and anti-corruption are important components of CG, largely determining competitive advantages and financial success of companies at market today. The items listed above refer to organizational innovations in management. High level of CSR, ethics and business conduct (that was not peculiar to business a generation ago), are declared as essential principles of CG today and are recommended as best practices. It is no secret that corporate scandals have become a part of business environment that reinforces the need to systematize CG procedures in different countries.

An important fact of modern business is its growing power. According to the World Bank in 1990 the 100 largest economies in the world comprised 10 multinational corporations. In 2009, there were already 50, and in 2010 – 52 corporations. Evaluating the strength and the power of business, since the middle of the 20th century the international community began to realize that business, being part of community, is responsible for what is happening in the society. First of all, corporations should be responsible for negative impacts they have on the economy, environment and social issues in a specific region. So there is the concept of CSR, which means the responsibility of company to all people and organizations under the influence of its activities, and to the society as a whole.

In the 1950–60s the concept of CSR was seen as a part of CG in the United States and Canada; and concerned mainly the issues of social security of staff, corporate philanthropy, assisting local authorities on the professional and sponsorship basis (Kustin, 2005). Later, the CSR concept developed into a belief that corporations have a broader responsibility to key stakeholder groups: employees, communities, customers and suppliers, society and the state, rather than determined by the law (Discussing the national conxpr..., 2014). Voluntary contribution of business to social, economic and environmentally sustainable development by maximizing the positive impact of business on society and minimizing the negative has become considered as CSR. In 1999, the OECD Guidelines have fixed stated "corporate governance structure should recognize the statutory rights of the interested parties (stakeholders) and encourage active cooperation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises". Stakeholders are any individuals, groups or organizations that have a significant impact on decision made by a company or are influenced by these decisions. The principles of the OECD are: "Corporate governance framework should proceed from the fact that the recognition of the interests of stakeholders and their contribution to long-term success of the corporation meets its own interests of the corporation".

In considering the question of the relationship between CSR and CG, we note that in the theory of CG there is a prevalent concept stating that CSR and CG converge at two levels: at the level of values and the level of risk (Social Responsibility..., 2008). An effective CG model should be based on universal values, willingness to change, dialogue of stakeholders, cooperation with society and the state, accountability and transparency. The above values are fixed in environmental and social commitments that form the basis for CSR. Socially responsible companies take on additional responsibilities, aimed at improving environmental and social standards of liv-

ing compared to mandatory provisions of law. Convergence of CSR and CG is also stimulated by the fact that CSR implementation minimizes non-financial risks and contributes to the development and improvement of management system as a whole. Reduction of non-financial risks related business to reputation, environment, market position etc. are the tasks for risk management of a company as a whole.

Thus, the interests of stakeholders and their involvement in decision-making is the obligation of corporate management, in order to increase the efficiency of a company. The company should recognize the value of stakeholders' contribution in long-term success. Company strategy should be take into account the vital interests of company's employees, partners and society at large. It is important to ensure effective allocation of powers between the government and the accountability of officials for strategy implementation. As a result, CSR, logically inscribed in CG, will boost company's business reputation, its market value, financial stability and sustainability in general.

Distribution of managerial powers of the corporation in the implementation of CSR in accordance with the Law "On Joint-Stock Companies" can be as follows (Kazakhstan Center for Social Practices, 2014):

- General meeting of shareholders adopts the crucial decision on the development of CSR. CSR principles are fixed in the CG Code.
- Board of Directors approves company's strategy, goals and CSR policy. It supervises activities of executive bodies, according to the format and standards of social responsibility.
- Executive body organizes the execution of decisions of the General Assembly and the Board of Directors and is responsible for the implementation of CSR strategy and principles of CG. It introduces the methods of CSR implementation and management of financial risks; prepares social reporting; organizes PR campaigns.

Let us consider the examples of best practice of CG on integrating CSR into CG. One of the stock exchanges of the world, actively used by Kazakhstani corporations, the London Stock Exchange, offers its customers enter the CG split listing on 5 basic components:

- Board of Directors.
- Risk management.
- The system of internal control.
- Internal audit.
- The policy of social responsibility.

As you can see, the system includes the policy of social responsibility of the company, which in conjunction with other elements of the system makes it more adapted to crisis and more stable in its development in the eyes of the investment community. On the other hand, the presence of the element responsible for CSR is considered by rating agencies, thus ultimately increasing its competitiveness in the market, *ceteris paribus*.

Interaction and possible scenarios faced by corporations with different quality of CG and CSR are shown in Table 1.

The situation described in the lower right quadrant Table 1, is ideal. Under any scenario the company has the opportunity to be in the lower quadrant - that is, to become a model in all that relates to CSR and CG.

Table 1. The relationship of corporate governance and corporate social responsibility, created by the author

		CG	
		WEAK	STRONG
CSR	WEAK	Aim is to apply the principles of CG	Aim is to shape high corporate culture
	STRONG	Aim is to increase the responsibility towards respecting the rights of the interested parties (stakeholders), provide active cooperation with them for the purpose of sustainable development	Aim is to comply with the principles of CG and CSR, following the best practices

*What is the appeal of CG in terms of management of CSR?* "Corporate governance" is a system, by which corporations are managed and controlled. Corporate governance framework establishes the division of rights and responsibilities of participating corporations and prescribes rules and procedures on decision-making. Through these steps a company is creating a structure that allows defining the objectives and the way to achieve them, and also allows monitoring the implementation of these objectives (Heath and Norman, 2002).

The level of CG depends on the company's awareness of the importance of implementing good practices of CG and strict adherence to the fundamental principles of quality control. In the early 1990s a systematic approach to QA was in great need in the global corporate practice. There was a need to form the rules and procedures governing corporate relations, information technology support for CG mechanism. So there was an impetus to the development of a Code of corporate governance/behavior. Stock exchanges, corporations, institutional investors, association directors, and corporate managers worked on the code. Legal status of CG codes in different countries is only a recommendation but it is also a part of the requirements at listing on the stock exchanges.

In the current Law of RK "On Joint Stock Companies" the CG code is defined as "a document approved by the general meeting of shareholders of the company, which regulates relations arising in the management, including the relationship between shareholders and the company's governing bodies, between the bodies of the company, the community and stakeholders". Under this Law a public company shall make provision for a CG code, as per company's Charter (Kazakhstan Center for Social Practices, 2014).

Many issues on CG are outside the legislative field, they have organizational and ethical nature, not a legal one. CG code is a set of voluntarily adopted standards and internal rules establishing and governing corporate relations. Its structure reflects the role of interest groups (shareholders, managers, staff, society and public authorities etc.) and the resolution of disputes related to CG. Model code of CG was adopted in Kazakhstan in 2005. In 2007, it was also mentioned in the comments to the Code of Corporate Governance.

Improvement of this code is continuing; so Chapter 10 "The role of stakeholders in corporate governance" proposes to focus on the following:

- Respecting the rights of stakeholders by the society.
- Defining the role of the Board of Directors in integrating social issues and the environment in business relationship.
- Provide access for interested parties to accurate information about company in accordance with internal regulations and procedures.
- The ability to speak freely to the Board, or any other authorized officer/authority on observations and suggestions about illegal or unethical actions of employees or officials.

Thus, we believe that in Kazakhstan legal and administrative framework is established for corporations to implement CSR and its administering. The review of the situation is a necessary but not sufficient condition for practical and large-scale implementation of CSR in Kazakhstan. Further work is needed to implement this concept in the country more widely. Particularly acute problem is the understanding by the business community the objective nature of CSR and the mutual benefits from its implementation to all stakeholders. This conclusion is confirmed by the analysis of CSR development in Kazakhstan.

***Analysis of CSR development in the Republic of Kazakhstan.*** Main priorities in the promotion of the Republic of Kazakhstan to join the group of the most competitive and dynamic states are closely related in particular to social responsibility and social functions of business. Further development of Kazakhstani economy is inextricably linked to the rise of corporate social responsibility.

Boundaries and scope of CSR are greatly enhancing. Today, CSR is not limited to charity and includes a wide range of issues of compliance of business rules with law, respect for business and professional ethics, environmental requirements, obligations to employees, customers and the community etc.

The most important areas in the formation of socially responsible behavior of Kazakhstan's business are (Berentaev, 2010):

- formation of civilized social and labor relations, implementation of international labor standards;
- transition to international standards of quality management (QMS), including environmental safety standards, and on this basis – production of quality products and services;
- creation of safe working environment through the introduction of advanced technologies, environmental protection, certification under the international standards in the field of occupational health and safety OHSAS 18001, International environmental standards ISO 14001-96;
- social investments;
- charity.

At the national forum on corporate social responsibility, held on 24 January 2008 in Zhezkazgan, socio-oriented business organizations signed the agreement to promote the principles of the Global Compact of the United Nations in the field of social and labor relations. For the first time the Master Agreement between the Government, national associations of trade unions and employers for 2007–2008

included a section aimed at the implementation of the 10 principles of the UN Global Compact on corporate social responsibility.

In the Republic of Kazakhstan the principle number 3 of the Global Compact is actively implemented. It states that businesses should uphold the freedom of association and recognize the right to collective bargaining. An important aspect of partnership of government, business and workers in the conclusion of sectoral tripartite agreements is the implementation of the Labour Code. Today, in mining, engineering, chemical, oil and gas and construction industries the correction factors on wages are established from 1.1 to 2.2.

Domestic companies engaged in the formation of socially responsible behavior are determined to create safe working environment through the introduction of advanced technologies, protection of the environment etc. Large businesses are certified by the international standard in the field of occupational health and safety OHSAS 18001 and at the same time under the international standard in the field of ecology ISO 14001-96. Us examples here we can mention "Kazakhmys", "TCO" LLP, JSC "UK TMK " and many others.

Investment by entrepreneurs began to have a significant impact on social development of regions. Big business sees its integral objective in investment in the development of territories inhabited by their employees. Small and medium-sized enterprises also intensify its participation in social development of regions. Investments goes into the construction and renovation of kindergartens, schools, medical facilities, sports facilities, other improvements of local territories.

The largest mining and manufacturing company "Kazakhmys", which is in the global top-10 in terms of extraction of copper, originally formed their socially responsible behavior, corporate responsibility. The Company believes that for competitiveness and production efficiency it is extremely important to achieve the highest standards of health, safety, labor and the environment, as well as activities in the social sphere. More than 150 social projects are on the account of this corporation.

Memorandums on mutual cooperation are practiced between businesses and government officials. On the basis of such a memorandum signed between the "Kazakhmys" Corporation and the administration of the Karaganda region, 4.2 bln KZT has been allocated by the corporation in 2010 for the solution of social problems in the region. These funds were used for the repair and construction of social facilities: hospitals, sports and cultural facilities.

Conclusion of the Memorandum with business entities on their participation in social development of regions and the implementation of social projects entrepreneurs takes place in all regions of the republic. In all regions of the country domestic business is constantly offering charitable assistance to the poor.

At the same time, the conducted SWOT-analysis on social responsibility of Kazakhstani business shows the prevalent weaknesses at this stage is high level of economy's monopolization (Berentayev, 2010). This reduces competition, especially within small business, does not create conditions for development of medium and large business, is not helping to the formation of socially responsible behavior. In general formation of socially responsible behavior is still in its initial stage: there is no uniform approach to the definition of social responsibility in most business environments, there is no awareness of it as an integral part of reproductive processes, it is a



new management philosophy, according to which the main capital is not the natural resource, but human potential and confidence in company (brand). Weak domestic business is focused on international standards and guidelines on CSR management and sustainable development. Accordingly, considering the circumstances, our companies are not competitive at the international level in this field.

There are significant threats to the formation of socially responsible behavior of domestic business. A serious problem is certain mistrust of public authorities.

Firstly, there is a perception that government officials shift the solution of social problems on the shoulders of business.

Secondly, more importantly, there is the dominance of the political elite in the relationship with business. This creates the conditions for much confrontations between business elite and the political groups and this does not contribute to the formation of socially responsible behavior of any business organizations or the state itself. This fact is relevant to the opacity of business income. Entrepreneurs often say that cashing of income without the "roof" attracts too much of unnecessary attention from various structures. When there is a request for sponsorship by the authorities, it is impossible to refuse, at the same time business cannot be sure where the allocated funds actually go to. Such relations contribute to the development of shadow economy, increase corruption, making it impossible for a legal business to grow from small to medium, and especially to large. All of this destroys the conditions for formation of socially responsible behavior of domestic business.

Summarizing the problems and the results of SWOT-analysis carried out on social responsibility of national business and the development prospects of Kazakhstan's model of CSR, they seem to present in the following areas (Orazymbetova, gg-old.otgroup.kz).

1. It is necessary to develop and promote the concept of corporate social responsibility in Kazakhstan and to create conditions for legal consolidation of its status. Solving legal problems of business socialization will help create the regulation mechanism for socially responsible behavior. Along with the rights and obligations under social responsibility of business it is necessary to develop a mechanism to stimulate socially responsible behavior, which should include incentive measures on the part of the state and society, associated with tax incentives, programs to encourage conscientious fulfillment of their obligations, benefits of licensing, public recognition.

2. To adjust social responsibility of business, its qualitative assessment, it is necessary to appeal to the international experience of socializing business and to the international standards on sustainable development and corporate social responsibility.

3. For the purpose of comparability, relevance and competitiveness of socially responsible behavior of domestic business with the international standards of corporate social responsibility it is necessary to have trainings on developing corporate plans on "sustainable development" and corporate social responsibility reports. Funding is required from business community for this kind of training specialists, as well as special PR-activities: negotiation and exchange of experience at the global, European and national levels, company presentations abroad. It is necessary to develop a standard on this kind of specialty and to introduce it into the system of higher education.

4. For the formation of socially responsible business behavior in the Republic it is necessary to create such economic conditions for business development, which would give opportunities to grow in a natural way from small to medium, from medium to large.

5. In practice, we have the administrative burden on business, the intervention of government officials in business activities, enforcement of socially responsible behavior. Therefore, it is necessary to eliminate the administrative burden, strengthening the fight against corruption, which will contribute to the development of corporate social responsibility, openness and transparency of companies.

6. Development of civil society and responsible citizenship will enhance the formation and development of socially responsible business conduct.

7. Establishment of a mechanism to stimulate the state socially-oriented business, public recognition of socially responsible behavior of business.

An important problem in the formation and development of socially responsible behavior of business is to identify the efficiency of social transformations of enterprises and companies defining the relationship between social benefits and the impact of their work.

In 2013 the Eurasian Fund of Central Asia began to develop a common approach to promoting the CSR concept in Kazakhstan – the National Concept of CSR (Tarasov, 2013).

The researchers note that, in general the key directions of CSR are defined in the RK as:

- policy organization in the field of environmental protection, occupational health and safety;
- sponsorship and charity;
- social partnership;
- support for sports;
- educational programs (Tarasov, 2013).

The Round Table "CSR in Kazakhstan: situation, problems and prospects" was held in Astana in July 2013 with financial support from the Netherlands Embassy in Kazakhstan, and during it (Discussions on the national..., 2014):

- Project Director, Foundation "Center for Research Sanji" N. Baytugelova noted that 63% of the respondents know the concept of CSR; 83% of companies include into it, first of all, social packages/programs and improvement of working conditions at enterprises; 59% associate CSR with charitable help to community; 52% mentioned their participation in regional development programs. Among the major obstacles in the implementation of programs/activities on social responsibility companies referred to the lack of incentives from the state (34%), lack of financial resources from the company (32%), lack of transparency and accountability of local authorities on the use of social investments (30%). The results of the surveys in 2008 and 2013 showed that the business continues to believe that the strong role of the state is the future of CSR in Kazakhstan. Big businesses mostly want to be active promoters and implementers of CSR initiatives. The role of civil society is seen as a link between government and business.

- Ambassador of the Kingdom of the Netherlands to the Republic of Kazakhstan, P. van Leeuwen noted that CSR in Kazakhstan as compared to 2008,



now gives more attention to its necessity. Since Kazakhstan is developing as an industrial country, the question of CSR is very acute. However, as compared to again 2008 the ethical standards of conduct with competing companies and with customers decreased.

Corporate Social Responsibility Week was held in Almaty on 14–19 October 2013 under the UN supervision, along with the party "Nur Otan" and the National Economic Chamber "Atameken" (Discussions on the national..., 2014), which shows significant development of social responsibility in the country.

The extent of the problem is so great that it requires further investigation at different levels. It seems that a reliable basis for CSR development in Kazakhstan may only be a profound methodological study, taking into account the local conditions and the level of business development, clear division of responsibilities for social development of the society between government and business. This is especially important for Kazakhstan, as more than 80% of assets are in the private sector, and 25% of them are owned by foreign investors. Therefore, all the sectors of Kazakhstan's economy shall bear the corresponding burden of social responsibility.

### **Conclusions.**

1. The search for new forms of social market economy is the need to develop social responsibility of business. As corporations are the "creatures" of government, they are also subject goal to serve the public interest.

CSR systems should be an important part of companies be involved in all internal processes, become an integral part of CG and corporate culture. CSR system should be based on the principles of synergy and sustainable development in order to increase the market value of a company, supplemented by "the concept of a participant", as well as the maintenance of financial stability, sustainable economic development and society in general. Legal provision in Kazakhstan is created for these matters.

2. The need for corporate social responsibility linked to public interest is an objective reality. Business cannot grow outside society and out of public interest. All businesses need to realize that today their social responsibility is not wishful thinking, but an objective reality, providing their survival in a competitive environment. CSR is not a charity, but a responsibility in front of the state, for giving it the right to enrich business. It is necessary to develop and promote the concept of corporate social responsibility in the RK and legal consolidation of its status.

3. Socialization of market economy is impossible without improving the public sector. It should be aimed at the harmonization of interests of all its members and financial viability of the state economy to the crisis at all levels. A mechanism should be formed to stimulate the state socially-oriented business, public recognition of socially responsible business conduct.

4. It should be recognized that innovative development of the economy in Kazakhstan requires not only financial and material support, but also the development of moral and ethical values, creating a spiritual need in the community for everything new that is able to meet the material and spiritual needs of the person, without any prejudice.

5. What should be done is to increase government funding to develop new economic theories including into the curricula of universities the course of "social econo-

му". For educating socially responsible owners and managers in the Republic of Kazakhstan it is useful to study this course after high school education and in more detail – at the master's level.

6. Ethical standards of doing business in Kazakhstan are behind the requirements of fair competition. In terms of industrial growth, CSR is designed to regulate the ethical behavior of business.

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