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## ВЕСТНИК

НАЦИОНАЛЬНОЙ АКАДЕМИИ НАУК  
РЕСПУБЛИКИ КАЗАХСТАН

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**COMPARATIVE ANALYSIS OF THE KAZAKHSTANI COMPANIES'  
PERFORMANCE BEFORE AND AFTER IMPLEMENTATION  
OF THE NORMS OF CORPORATE GOVERNANCE**

**Abstract.** Nowadays, the quality of corporate governance is one of the most significant factors in making investment decisions. Modern investors prefer companies where corporate governance is performing effectively. That is why in Kazakhstan many companies are implementing the international standards of corporate governance. These standards based on the principles given in the Cadbury Report of 1991, the OECD principles of corporate governance (1999), the Sarbanes and Oxley Acts of 2002, and other. In 2015 “Samruk-Kazyna” JSC, the national strategic holding and active investor, approved the new Corporate Governance Code. The primary goal of this article is to analyze the main financial and economic indicators of large Kazakhstani listed firms and to make the forecast as they will change in connection with entering of new regulations of corporate governance. There were calculated and analyzed the numerous indicators of companies’ performance, such as return on assets (ROA), return on equity (ROE), and return on sales (ROS) of ten Kazakhstani business giants, portfolio companies of the national holding “Samruk-Kazyna” JSC, during the period of 2012-2016.

**Key words:** corporate governance, company, ROA, ROE, ROS, economic and financial performance, Kazakhstan.

**Introduction.** Corporations are one of the most significant factors of economy development of any country. Such organizational and legal forms provide a unique means of business, permitting practically unrestricted access to financial resources for their own development. The successful development of such companies has demonstrated the development of proprietary and managerial tools and mechanisms, the sharing of interest between shareholders and other interested parties. All of these questions relate to areas of corporate governance, actuality of which is significant among professionals [1-3], as well as in mass media.

The international experience of corporate practice on the example of numerous corporate crises shows the following. A company with weak corporate governance poses a serious threat to the interests of investors, society and the state. The brightest example is the American company “Enron”. The collapse of this giant of the American industry occurred in a matter of days. It happened only due to a lot of mistakes, abuses and fraud in the activities of the company's managers and directors, which became possible due to the poor quality of corporate governance. Losses of unsuspecting shareholders amounted to 60 billion US dollars, 5.6 thousand employees were left without work, the directors of the company were sentenced to long prison sentences and compensation of million losses. This was very much reflected in the company's counterparties. And this is just one of the high-profile episodes of the consequences of poor corporate governance in the history of corporate scandals in the international arena [4].

The practice of joint stock companies in Kazakhstan and other countries of the former USSR relating to emerging markets shows that the development of the corporate sector and the stock market, involving both domestic and foreign investments, requires corporate governance system, the level of which corresponds to world standards. This is due to the fact that the degree of the company's compliance with the

basic principles of good corporate governance is becoming an increasingly important factor in making investment decisions [5, 6]. In June 2000, McKinsey consultancy conducted a survey of 200 major international investors to find out how the quality of corporate governance in companies influences investment decisions. During the survey more than 80% of investors stated that they are willing to pay more for the shares of companies in which corporate governance is performed effectively than for shares of companies that have obvious problems in that area, even if the two companies have similar indicators of profit and sales volumes. The same study showed that in emerging economies, to which Kazakhstan belongs, more than half of investors put first and foremost the quality of corporate governance in comparison with financial results [7].

In this regard, in recent years, interest in international standards of corporate governance has increased in Kazakhstan, both from companies and investors, and from government agencies designed to ensure investors' rights.

**Methods.** This study focuses on the influence of companies' performance by the implementation of corporate governance norms. The main methods used in this work was analysis of secondary data, such as statistics, literature review and case study approaches and syntheses of new ideas and models. During the model development process, the authors searched several databases for relevant Corporate governance norms frameworks and their related concepts by using a broad search strategy. To identify the key Corporate governance norms and principles frameworks and consolidate them into one model, the authors used consensus-based decision-making and a narrative thematic synthesis guided by several qualitative criteria. Our first task was to identify the scope of the Corporate governance norms and related literature within and outside of business and economic databases; thus, our aim was to get a large sample of the concepts by using a broad search strategy. We searched several databases using each database's unique thesaurus and field codes. We also identified key texts from both academia and consultative business practitioners by cross referencing these texts from resources identified in the search. We reviewed all frameworks and their concepts independently and later, during a retreat, built consensus around our final choices. During the retreat, each author described her/his reasoning for choosing specific frameworks and concepts using the criteria. Another author would subject these arguments to critical discourse and offer opportunities for rebuttal. The discourse continued until both authors could agree on which frameworks and constituent concepts to include in the review [8].

Theoretical analysis of works in the field of assessing the effectiveness of corporate governance allows us to conclude that there are two principal approaches to this assessment: quantitative and qualitative. Quantitative methods for evaluating the effectiveness of corporate governance are based on an analysis of the economic activities of the corporation. The unity of methods of this approach is the understanding that effective financial and economic activities of the corporation entail a stable financial state, which confirms the effectiveness of corporate governance. This approach absorbed both methods for assessing the financial condition, as well as methods for assessing market value. Quantitative methods for assessing the effectiveness of corporate governance, based on the analysis of the financial condition of the corporation, are currently most used, that is why it was chosen as a main scientific method of this research [9].

**Results.** Despite the fact that the term "corporate governance" has recently been widely used in practice, which is largely due to the increase in the scope of management tasks in large companies, and a significant number of publications have been devoted to it, the very concept of corporate governance does not have an unambiguous definition.

For example, The World Bank defines corporate governance as "a set of laws, rules, regulations and codes of conduct adopted voluntarily allowing a company to attract human and material resources necessary for its activity and it also offers the opportunity to conduct an efficient activity, generating long-term value to shareholders, interest groups and society as a whole"[10]. A well-known definition is that given by *A. Shleifer and R. Vishny*: corporate governance "refers to how lenders of a company ensures that they will receive the benefits due on the investment made" [11]. Another prestigious institution, the International Federation of Accountants (IFAC) defines the concept as follows: "corporate governance is a set of practices of the Board and executive management exercised to ensure strategic directions for action, achieve goals, risk management and responsible use of financial resources" [12]. The Organization for Economic Cooperation and Development (OECD), identifies corporate governance as the system by

which companies are directed and controlled [13]. This refers to how rights and responsibilities are divided between Board of Directors, executive managers, shareholders and other stakeholders, specifying also how decisions regarding the activity of the company are made.

From our perspective, the term "corporate governance" is used in various treatments:

- in narrow sense: the principles of interaction of owners of corporation (shareholders) with corporate management and hired operating managers. In this context the main attention is paid to realization of ownership rights in corporate control and to the rights of control;
- broader interpretation assumes system of relationship of managers with all financial investors;
- in the broadest sense: system of interaction of all stakeholders having the interests in corporation and influencing their activities.

*1. Corporate Governance Norms and Principles.* After decades of unhurried growth in the Western economy, corporate governance became the subject of close scrutiny in the early 1990s, after the UK was shaken by a series of major corporate bankruptcies (in which investors lost billions of pounds. In fact, it is after these scandals that corporate governance becomes a separate, key management resource for investors.

To investigate these incidents, an ad hoc committee was established in May 1991, headed by Sir Adrian Cadbury, whose purpose was to investigate the shortcomings of British corporate governance and develop measures to restore investor confidence.

The recommendations of the report issued by the committee in December 1992 subsequently formed the basis for a wide range of corporate governance codes in the United Kingdom, the United States and other countries. In fact, these recommendations offered new approaches in delineating the spheres of activity and responsibility between shareholders and management, the distribution of executive and supervisory functions. There were stipulated rules and procedures that would provide investors with access to full and reliable information about the company's activities [14].

In 1999 the OECD formulated and published its own principles, which is the only set of principles generally accepted in the world, having been adopted by the World Bank in its work recognized and approved by the Financial Stability Forum as one of the 12 key standards for international financial stability.

These principles are:

- protection of the legal rights and interests of shareholders;
- equal treatment of all shareholders;
- mutual trust and respect for all stakeholders;
- transparency of corporate decision making;
- transparency and provision of information to all the interested parties on the development strategy and current activities;
- personal liability of the members of the Board of Directors and Executive Bodies and their accountability to the Joint Stock Company and the shareholders;
- adherence to generally accepted standards of business ethics;
- continuous improvement of the corporate management system based on international and domestic best practices.

Table 1 – Periods and discourses of corporate governance

Period of events	1973-76	1991-92	2001-03	2007-10
Field-configuring events	Rise of mutual funds; stagflation; corporate underperformance esp. US	Corporate failures, esp. UK: Maxwell, BCCI, Colorall, Polly Peck	Corporate failures, worldwide: e.g. World Com, Tyco; Parmalat; HIH; dot-com bubble	Global financial crisis: Lehman, Merrill Lynch, AIG; RBS, HBOS, Northern Rock; Fortis
Discourse	Market mechanisms of corporate and managerial control	Board structure	Board independence and professionalism	Board, investor relationships
Key documents	Jensen and Meckling (1976); Rappaport (1981)	Cadbury (1992)	Library of Congress (2002); Breeden (2003); Higgs (2003)	FRC (2010b); European Commission (2014)



The next push was taken by corporate governance in the early 2000s, after a series of scandals with falsified financial reporting in the US that led to the creation of the Sarbanes-Oxley Act in 2002 in the US [15], and, finally, after the financial crisis of 2008 [16]. Generally, modern scientists identify four periods in the corporate governance policy making (table 1) [17].

So, we can confidently say that corporate governance is a rather young direction, which is in an active phase of its development and search for its best forms.

*2. Kazakhstani Companies' Performance Before and After Implementation of the Norms of Corporate Governance.* The principles of corporate governance are the initial principles underlying the formation, functioning and improvement of the corporate governance system of the society.

The main objective of our study is to analyze financial and economic indicators, such as ROA, ROE, and ROS, the group of companies of the national holding Samruk-Kazyna before and after the implementation of corporate governance standards.

“Samruk-Kazyna” JSC is a strategic holding and active investor whose mission is to increase the national welfare of the Republic of Kazakhstan, and to support modernization of its economy. Following the Presidential Decree in 2008, the Fund was established as a business corporation – an investment holding, where the sole shareholder is the Government of the Republic of Kazakhstan.

The Samruk-Kazyna Fund fulfill its mission through the efficient management of portfolio companies for increasing their long-term value and sustainable development as well as through making catalytic investments in the development of priority sectors of the national economy. “Samruk-Kazyna” group includes thirteen companies in oil and gas, transport and logistics sectors, chemical and nuclear industry, mining and metallurgy, energy, machinery building, and real-estate sectors (table 2) [18].

Table 2 – Net asset value of “Samruk-Kazyna” JSC, 2016

Industries and Sphere	In percentage	In million USA dollars
Oil and Gas	62.43	16 727
Transport	10.9	2 920
Energy	8.45	2 264
Industry	6.5	1 741
Mining	5.85	1 568
Communication	4.09	1 096
Chemical Industry	1.16	311
Real Estate	0.38	102
Machine Building	0.25	66
Total	100	26793

In October 2014 the Board of Directors of “Samruk-Kazyna” JSC approved so called Transformation Program. The main reason of launching such tremendous changes in the holding was the proclamation of a new Kazakhstani strategy until 2050 “Kazakhstan 2050 Strategy: New Political Course of the Established State”. This document outlines Kazakhstan’s aspirational target to become one of the world’s top 30 developed nations. To achieve this aspiration, Kazakhstan will need to make a major breakthrough in terms of investment growth and improved productivity of its existing assets. Samruk-Kazyna controls some of the country’s key assets and has a critical role in setting the necessary conditions to achieve the Strategy goals.

The Transformation Program’s main goals are:

- to increase value of Fund’s group of companies;
- to increase efficiency of portfolio management;

– to implement new principles of corporate governance, following standards of the Organization for Economic Cooperation and Development.

The transformation of Samruk-Kazyna and its portfolio companies consisted two stages: in the first stage (2014-2015) the Program involved the Fund itself and three pilot companies, and in the second stage (2015-2016) the Program cascaded into the other portfolio companies. By starting the transformation

program, the Fund's group will launch a process of continuous improvement which will become the new corporate norm after completion of the Program [19].

In 2015 the RK Government approved the new Corporate Governance Code. The Code takes into account the management specifics of state holdings and covers the best corporate governance practices. The international experts of the OECD level were actively involved in its development. Numerous consultations were held with the stakeholders both inside and outside the Fund. The document can be easily cascaded to the entire quasi-public sector in Kazakhstan [20].

For this research we (1) analyzed the data of the 10 largest portfolio companies of "Samruk-Kazyna", operating in various industries of economy over the last five years starting 2012; (2) identified the main factors affecting the possible changes, and (3) made future forecasts.

Figure 1 represents the amount of return of assets of the 10 largest companies of "Samruk-Kazyna" in percentage from 2012 to 2016. There are eleven graphs, which respectively relate to return of assets in the following companies, including the whole Fund itself: KazAtomProm, Tauken Samruk, Joint Chemical Company, Air Astana, KEGOK, KazMunayGaz, Kazakhstan Engineering, KazakhTeleCom, Samruk Energo, Kazakhstan Temir Zholy, and Samruk Kazyna Fund.

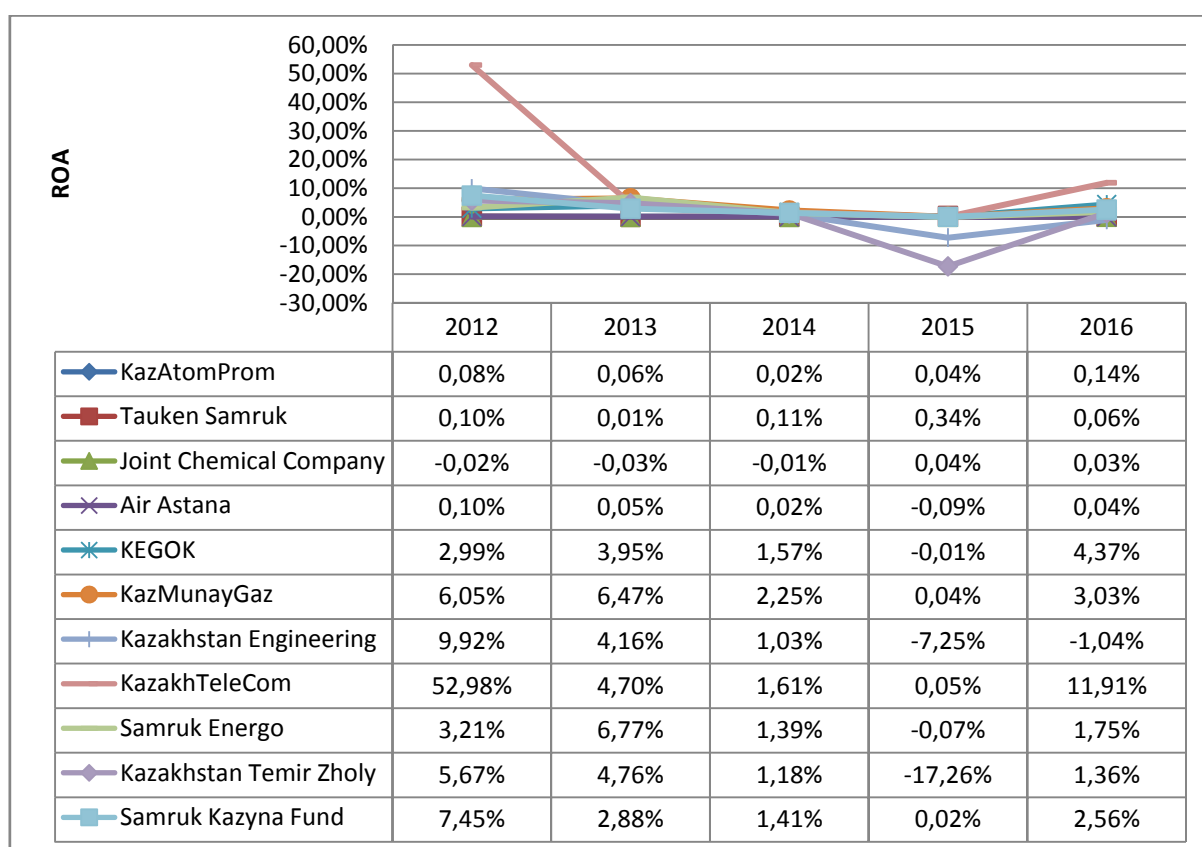


Figure 1 – Dynamics of ROA ratio by "Samruk-Kazyna" portfolio companies, 2012-2016

In this graph representing the return of assets between 2012 and 2016, we can see a large contrast between the dynamics of changes in return of assets between telecommunication company and other enterprises. That tendency is caused by the increase of Kazakh Telecom net income. In 2012, the return of assets of communication went down significantly by the year of 2013 and then continued to fell steadily until 2015. Contrary to such fluctuations in communicational field the return of assets in other firms remains almost the same throughout three years period, except Kazakhstan Engineering and Kazakhstan Temir Zholy (national railway operator). Their ROA indicators felt down significantly in 2015.

In 2016 we can see a positive tendency of grow of almost all "Samruk-Kazyna" portfolio companies and expect that this trend will be kept the upcoming years.

Figure 2 shows the dynamics of ROE ratio of large Kazakhstan companies.

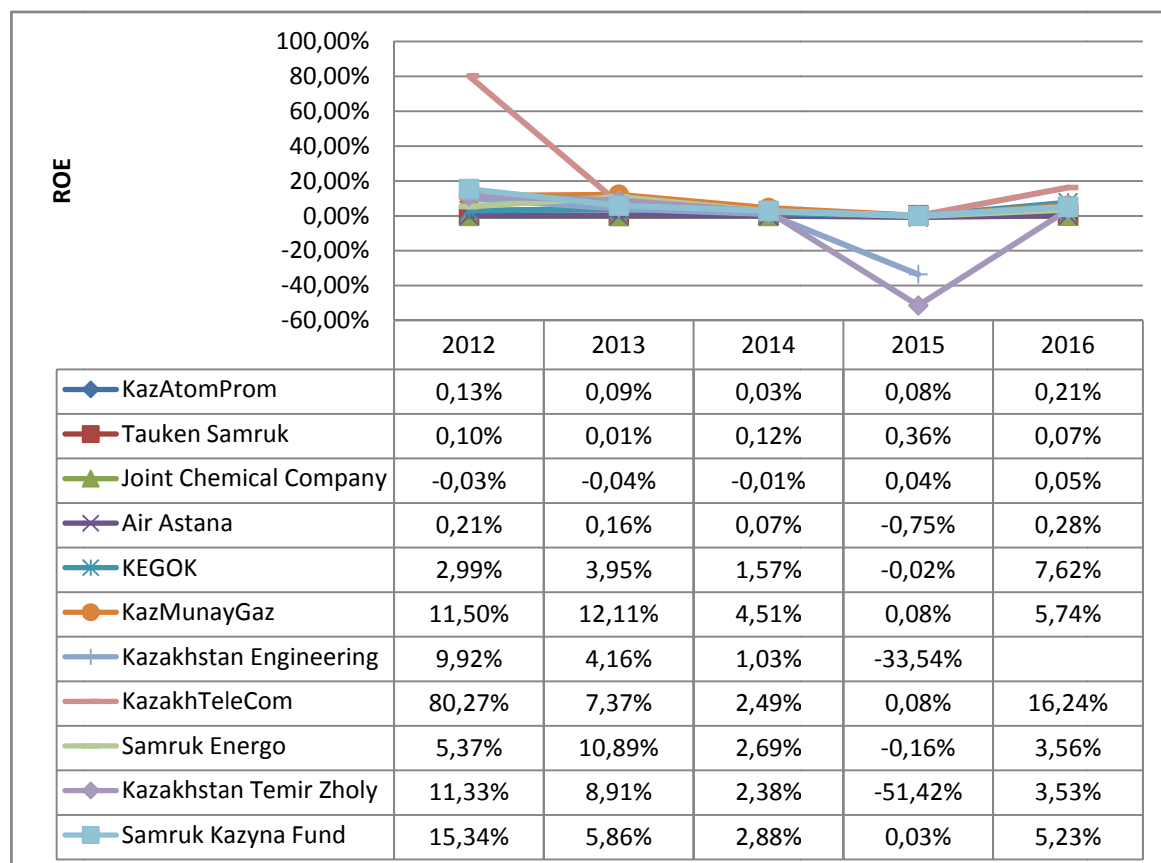


Figure 2 – Dynamics of ROE ratio by “Samruk-Kazyna” portfolio companies, 2012-2016

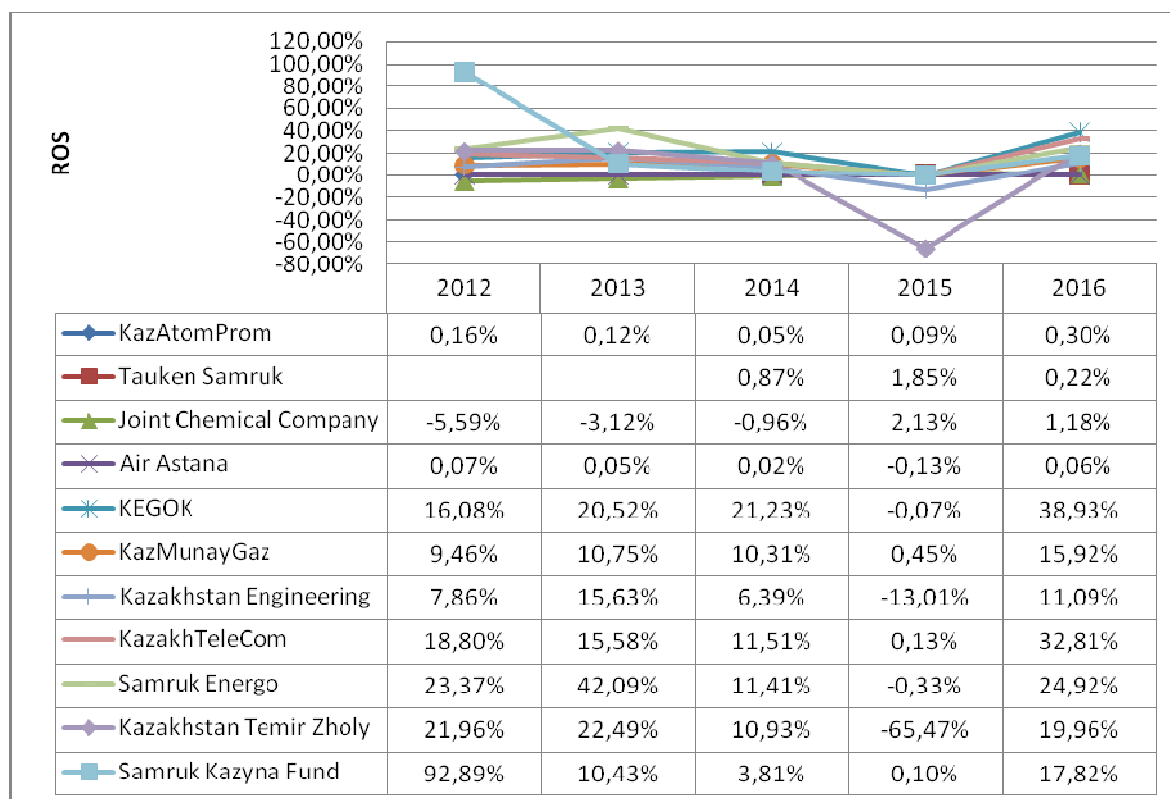


Figure 3 – Dynamics of ROS ratio by “Samruk-Kazyna” portfolio companies, 2012-2016

The return of equity of all companies' average had a moderate decline from 2012 till 2014 which was continued by steady decrease by the year 2015. According to the data of 2016 we can see the positive changes in this financial indicator.

Figure 3 shows the dynamics of ROS ratio over the last five years. Here we can see almost the same picture as in previous two figures. Two companies that were unsuccessful in 2015 were the railway transportation which faced more than 65 percent loss and machinery building with 13 percent loss. In general, it is forecasted that there will be an upward tendency of the return of sales of all given companies.

**Discussion.** As we can see from the above analysis, the decline in financial and economic performance of portfolio companies which has been observed over the past five years has reached its bottom in 2015. Since 2016, their steady growth has been observed. This is also confirmed by the data of the first half of 2017. In our opinion, such a positive trend is due to the changes that have occurred since the implementation of the transformation program at "Samruk-Kazyna", one of the goals of which was to improve corporate code and introduce new modern standards of corporate governance.

The Code itself is only a set of principles and provisions that the Fund and its portfolio companies should follow. To know whether the company fulfills the principles of the Code or not, the Fund has created a corporate governance diagnostic which helps to measure the corporate governance rating and make recommendations to improve corporate governance in the companies. This rating allows the Fund as a shareholder to assess how far the portfolio companies have progressed in the corporate governance development. The new Corporate Governance Code has significantly expanded the range of tasks and raised the level of corporate practice. Several leading companies of the Fund have been tasked to prepare for an IPO. And this means that corporate governance in companies have to meet all the necessary requirements of the best international practice, otherwise these companies will simply not be of interest to investors. After all, investors should be convinced that their investments are protected, they are provided with qualitative growth, and the management methods in the companies are transparent and accessible for understanding.

To summarize, corporate governance is a complex system including not only board of directors, executive managers, and shareholders, but also investment banks, auditors, consultants, credit rating agencies, and regulators. Corporate governance has its own rules, norms, and regulations. Corporate governance affects firm's economic and financial performance, and finally shareholders' wealth. Nowadays, company's efficiency mostly depends on how well the corporate governance principles are instilling into overall management process.

For this study, we analyzed the data of the ten largest "Samruk-Kazyna" National Holding's portfolio companies during 2012-2016. In our opinion, the trends of the ROA, ROE, and ROS indicators shows that the implementation of the Transformation program and the new Corporate Governance Code positively affect companies' performance. According to our forecast, this trend will be kept in perspective.

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## **СРАВНИТЕЛЬНЫЙ АНАЛИЗ ДЕЯТЕЛЬНОСТИ КАЗАХСТАНСКИХ КОМПАНИЙ ДО И ПОСЛЕ ВНЕДРЕНИЯ НОРМ КОРПОРАТИВНОГО УПРАВЛЕНИЯ**

**Аннотация.** В настоящее время качество корпоративного управления является одним из наиболее важных факторов при принятии инвестиционных решений. Современные инвесторы предпочитают компании, где корпоративное управление работает эффективно. Именно поэтому в Казахстане многие компании внедряют международные стандарты корпоративного управления. Эти стандарты основаны на принципах, изложенных в Докладе Кэдбери 1991 года, принципах корпоративного управления ОЭСР (1999 год), Актах Сарбанса и Оксли 2002 года и других. В 2015 году АО «Самрук-Казына», национальный стратегический холдинг и активный инвестор, утвердило новый Кодекс корпоративного управления. Основная цель статьи – проанализировать основные финансово-экономические показатели крупных казахстанских компаний и сделать прогноз по их изменению в связи с введением новых правил корпоративного управления. В работе были рассчитаны и проанализированы ряд показателей деятельности компаний, такие как рентабельность активов (ROA), рентабельность собственного капитала (ROE), доходность продаж (ROS) десяти казахстанских бизнес-гигантов, портфельных компаний национального холдинга «Самрук-Казына», в период с 2012 по 2016 годы.

**Ключевые слова:** корпоративное управление, компания, ROA, ROE, ROS, финансово-экономическая деятельность, Казахстан.

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**КОРПОРАТИВТІК БАСҚАРУ НОРМАЛАРЫН ІСКЕ АСЫРУ АЛДЫНДА  
ЖӘНЕ КЕЙІН ҚАЗАҚСТАНДЫҚ КОМПАНИЯЛАР ҚЫЗМЕТІНІҢ ТИІМДІЛІГІН  
САЛЫСТЫРМАЛЫ ТАЛДАУ**

**Аннотация.** Бүгінгі таңда корпоративтік басқару сапасы инвестициялық шешімдер қабылдаудың маңызды факторларының бірі болып табылады. Заманауи инвесторлар корпоративтік басқару тиімді жұмыс істейтін компанияларды артық көреді. Сондықтан Қазақстанда көптеген компаниялар корпоративтік басқарудың халықаралық стандарттарын енгізіп жатыр. Бұл стандарттар 1991 жылғы Кадбери туралы есепке негізделген қағидаттарға негізделген, ЭЫДҰ корпоративтік басқару принциптері (1999), Сарбанс және Оксли 2002 жылғы актілері және басқалар. 2015 жылы «Самұрық-Қазына» АҚ, ұлттық стратегиялық холдинг және белсенді инвестор, корпоративтік басқарудың жаңа кодексін бекітті. Осы мақаланың негізгі мақсаты - ірі қазақстандық компаниялардың негізгі қаржы-экономикалық көрсеткіштерін талдау және корпоративтік басқарудың жаңа ережелеріне байланысты өзгеретіндіктен, болжам жасау. Өз кезегінде, 2012 жылдан бастап 2016 жылға дейінгі, қазақстандық бизнес-гиганттар, «Самрук-Қазына» ұлттық басқарушы холдингі портфельді компанияларының активтер рентабельділігі (ROA), меншікті капиталдың рентабельділігі (ROE), және сатудан түскен кірістері (ROS) сияқты компаниялар қызметінің көптеген көрсеткіштері есептелді және талданды.

**Түйін сөздер:** корпоративтік басқару, компания, ROA, ROE, ROS, қаржы-экономикалық қызмет, Қазақстан.

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