



Available online at <http://jess.esrae.ru/>

## “Journal of Economics and Social Sciences”



### Corporate Social Responsibility in Kazakhstan: challenges and prospects.

Tomsk Polytechnic University

Olga V. Mikhaylova<sup>a</sup>, Alexander Y. Chmykhalo<sup>a</sup>, Yelizaveta Shefer<sup>a</sup>

<sup>a</sup>School of Engineering Entrepreneurship, Tomsk Polytechnic University

---

#### Abstract

The article discusses the main principles and forms of corporate social responsibility and the level of their effective introduction in countries with economies in transition, particularly in the Republic of Kazakhstan, on the example of Karaganda Structural Steel Plant Imstalcon. There is a comparative overview of the development of the perception of corporate social responsibility in developed countries and countries with economies in transition. The focus of the study is at identifying the current obstacles for and prospects of CSR development in Kazakhstan, as well as examining the level of CSR awareness in the business environment in Kazakhstan. The correlation between CSR activities of companies and their financial performance is provided. The article highlights the key business benefits brought about through implementing social practices.

*Key words:* Corporate social responsibility, business ethics, social security, environmental safety, economic performance, occupational health.

---

#### 1. Introduction

The main objective of any enterprise is to improve production efficiency. Corporate social environment is one of the essential components of an enterprise successful development. Successful societal transformation can be achieved through concerted effort of the most significant actors. The interaction of political, social and economic entities, based on principles of social partnership, contributes to the sustainable development of the country.

Corporate social responsibility (CSR) refers to business practices that benefit the society and environment at large. There are a few general categories of social responsibility that many modern businesses are practicing:

Environmental efforts: one of the main goals of corporate social responsibility is environmental protection. Enterprises, regardless of their size leave a big carbon footprint. Steps that organization can take to reduce these marks are seen as a benefit to the company and society in general.

Philanthropy: the business practice of social responsibility, involving the transfer of funds to state and local charities.

Ethical labor standards: companies demonstrate their corporate social responsibility by treating employees fairly and ethically, respecting the norms of labor legislation.

Volunteering: participation in volunteer projects reveals a lot about the sincere intentions of the company. While doing good deeds without expecting anything in return, companies have the

opportunity to express their concerns on particular issues and to support the particular organizations.

Corporate social responsibility is defined by the European Commission as 'the responsibility of enterprises for their impacts on society' (The European Commission's strategy on CSR 2011-14). In accordance with the international standard on social responsibility ISO 26000 a company is responsible for its impact on a society in seven areas, namely: organizational governance, labour practices, human rights, fair operating practices, relations with consumers; the environment, communities involvement and development. This standard has not been certified, thus making businesses' engagement in CSR activities an act of good will rather than a mandatory practice.

The cases of voluntary gratuitous monetary donations of private businesses into non-profit areas in Kazakhstan are few, while in foreign countries the lists of those participating in corporate philanthropy and community volunteering are long. Due to the fact that volunteering is stipulated by the law, companies gain a lot of wealth both tangible and intangible from these operations.

The development of CSR in CIS (Commonwealth of Independent States) countries is characterized by some features, namely: little involvement of the national governments in the formation of the national agenda for CSR, a minor role of public and expert organizations, as well as of the media in shaping CSR, and a great pressure from international institutions (UN, EU, embassies of European countries) to develop CSR strategies. It should be noted that addressing and implementing CSR in the CIS countries is largely stimulated by statutory acts (laws, government decrees and programs).

In Kazakhstan a few companies have a corporate social responsibility management structure, with a special division running CR practices and a high-level CR executive reporting to the company's board of directors. Another problem is the allocation of cash into social projects without making entries in companies' financial statements for the purpose of tax avoidance. Ideally, sponsorship and charitable activities should be an item on a company's budget. In practice, some companies prefer not to envision this line in order to avoid taxation and extra auditing. Most companies choose to take a risky but less costly way of keeping a double account system. However, government officials of Kazakhstan perceive the CSR development as an inevitable and positive phenomenon for the country. By promoting CSR strategies governments benefit from businesses' paying taxes and performing social obligations. The governments, in their turn, have to make and adopt laws that encourage the development of CSR, to arrange CSR initiatives by providing informational and administrative support to business.

## **2. The theoretical background**

Corporate social responsibility (CSR) as a concept refers to a company's consideration of societal interests while assuming responsibilities for the impact of its operation on customers, suppliers, employees, shareholders, local communities and other public stakeholders. Those responsibilities extend beyond statutory obligation to comply with legislation and imply that organizations voluntarily take additional measures to improve the quality of life of workers and their families, as well as that of the local community and society as a whole.

The term "corporate social responsibility" (CSR) first emerged in the works of American scholars in the early twentieth century. In Russia, Kazakhstan and other post-Soviet countries the concept of corporate social responsibility was introduced with their transition to market economy in the last decade of the previous century.

Howard Bowen defined corporate social responsibility as a need for a company "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of

the objectives and values of our society"[2]. H. R. Bowen's definition implies two conditions. Firstly, businesses exist for society and, therefore, must operate in its interests. Secondly, enterprises should act as "moral agents" of society and, consequently, must reflect its values. In other words, the idea of corporate social responsibility supposes that companies should work for the benefit of society, even when pursuing their economic interests.

Archie B. Carroll offered a three-dimensional model of CSR, which incorporates social issues, corporate social responsibility, and social responsiveness. A. Carroll then set forth the following definition: "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of an organization at a given point in time" [3].

The above models testify to the quest for bringing together economic and regulatory contexts, as well as some philosophical categories.

### **3. Methodology of the research**

The object of the study is the concept and strategy of corporate social responsibility. The subject of the ongoing work is the implementation of strategies of corporate social responsibility on the example of the metal-manufacturing plant Imstalcon. The main purpose of the study is to identify the impediments and prospects in the implementation of CSR practices in Kazakhstan.

The data base for this study comes from the writings on CSR by foreign and national experts, dictionaries, encyclopedias, Internet resources, analytical and informal reports from the official website of Karaganda Structural Steel Plant Imstalcon, and the findings of the questionnaire survey of the company's employees.

### **4. Results and discussion**

#### *4.1 Models of corporate social responsibility in developed countries*

Under the current research project we conducted a survey of the Imstalcon company employees (in all, 73 respondents) to see how the concept of corporate social responsibility, including its most important aspects, is viewed by large companies. The respondents were asked, firstly, to name and, secondly, to rank the most important aspects of CR in order of priority. The survey reveals that there is little agreement among the employees as to what CSR practices are, with only a few of them being identified as the most common.

In general, corporate social responsibility covers the following issues:

- ✓ the disclosure of information on a company's performance, including tax payment in compliance with law, and, as a consequence, transparency of financial statements;
- ✓ improved product and service quality leading to the increased revenue of the enterprise;
- ✓ increased social security for employees through new social programs and improved working environment;
- ✓ the implementation of environmental projects, which is a significant criterion for large manufacturing enterprises, such as Karaganda Structural Steel Plant Imstalcon;
- ✓ philanthropy, which, in contrast to sponsorship, does not generate tangible gains, but favourably contributes to the further development of the enterprise.

In terms of importance the CSR practices have been prioritized as follows:

1. Social security for employees
2. Quality products and services
3. Transparent financial statements

4. Environmental activities

5. Charitable donations.

Most respondents claim that at the core of the CSR policies of any company, regardless of its size, are the improvement of working conditions, the implementation of social packages and programs for the company's personnel. The focus on internal issues indicates the awareness of the importance of the personnel for the company's further advancement.

The issues of corporate social responsibility are still not very popular at large organizations. Only 23 percent of the employees of the company believe that CSR is now an important consideration in making business decisions ("promising direction"), with 39 percent of respondents placing little emphasis on CSR as a company's enhancement driver ("low interest"). Seventeen percent of those surveyed revealed a negative attitude to CSR labeling it as a "fashionable idea" companies are forced to follow. CSR is still a fuzzy, or "weird" concept for ten percent of the respondents, while eleven percent of those asked found it difficult to assess the current state of the CSR practices in Kazakhstan ("not sure").

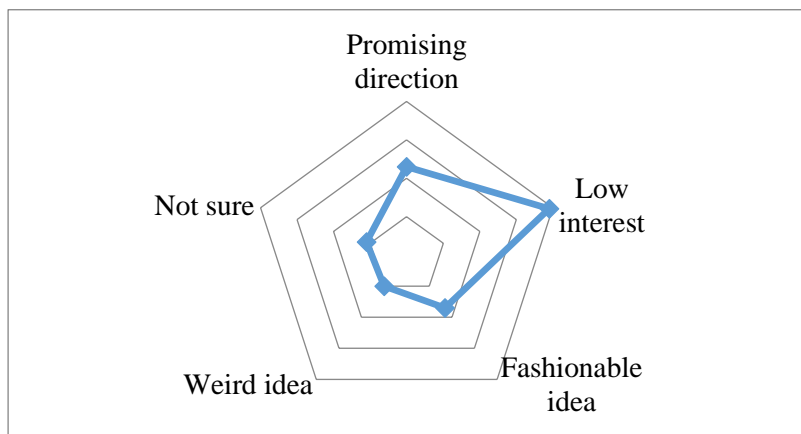


Fig. 1. The attitude of employees to CSR

According to the Karaganda Structural Steel Plant Imstalcon representatives, CSR is perceived by citizens only as charitable efforts. However, over the past few years the community members have become more socially active and aware of their role in encouraging companies to be 'socially conscious' and address the social problems of their employees and the community at large.

The CSR practices implemented by businesses have been shaped by regulatory basis of countries, as well as their cultural, historical, and national contexts.

Researchers have identified several models of CSR development.

#### *4.2 The American model of corporate social responsibility*

For a long time it was believed that corporate social responsibility is an American phenomenon, because the tradition of businesses' voluntary contribution to other societal sectors was widespread in the United States in the 19th century.

Due to the nature of American entrepreneurship, many aspects of the society remain self-regulating till this day. To a greater extent, the right to health is exercised by the Americans as a right to choose whether to go to a medical institution or not. Hence, CSR initiatives undertaken by companies are voluntary, which entails a complete transparency of the American model of corporate social responsibility.

#### 4.3 Models of corporate social responsibility in Europe

In contrast to the US, where corporate social responsibility deeds are initiated by the companies, in Europe the relations of companies with their stakeholders are regulated by statutory requirements of the respective countries.

Table 1. Models of CSR in the US and Europe

Aspects of CSR	The USA	Europe
Economic responsibility	The focus is on the profit and the company's responsibility to its shareholders	The focus is on the responsibilities to employees and local communities
Legal responsibility	State regulation is perceived as interference in personal freedom	The state is an institution introducing and enforcing the codes of conduct
Ethical responsibility	It is treated more widely, namely as part of the general system of social protection of the population	It aims to combat unemployment: reduce staff turnover, create new jobs, and promote local societal business projects
Philanthropy (Charity)	Sponsoring art and cultural projects, University education	Charitable efforts in compliance with legal regulations because of the strict tax laws

The table shows that the European model of corporate social responsibility is fundamentally different from the American one.

European business views the state as an institution that leads to the implementation of accepted rules of conduct, whereas in the US such state intervention is treated as a violation of the freedom of business. While the goal of the American model of corporate social responsibility is to generate profit, the European model involves taking additional responsibilities for employees and local communities. Despite the noticeable differences in the two approaches, both models pursue one goal, which is to ensure the sustainable development of a society.

#### 4.4 The Russian model of CSR

The Russian model of CSR is still being shaped. Corporate social responsibility of a company implies the cooperation of a state, society and business; but until the turning point in Russian history the concept of "business" in the country did not exist. The main reason for the development of corporate social responsibility in Western countries was the pressure from a community and nonprofit organizations, while the Russian model, according to many researchers, is determined greatly by the relationship with the government [2]. At that historic period of changes the government was not guided by the social demands of the society and, in fact, was unable to respond even to the most basic needs. It should be right to recall here that besides the governmental pressure

the society itself, or rather the conditions it found itself in, greatly influenced the model of the post-Soviet corporate social responsibility.

Currently a number of factors hinder the development of CSR in Russia, namely the lack of state stimulation of CSR initiatives, the weakness of market institutions, corruption, etc. However, there are noticeable similarities between the Russian and European models, with national authorities initiating and promoting CSR behavior of business.

#### *4.5 CSR in Kazakhstan*

Over the past two decades Kazakhstan has become one of the most developed countries in Central Asia and the South Caucasus region. Due to its rich natural resources, it has one of the fastest growing economies in the world and attracts more direct foreign investments than all other Central Asian countries together. Kazakhstan has one of the best investment climates in the region. Kazakhstan participates in a wide range of international initiatives and is a member of all major international institutions. In 2010 Kazakhstan took over the chairmanship of the Organization for Security and Cooperation in Europe (OSCE). Kazakhstan is also on the way to the World Trade Organization (WTO). At the regional level, in 2010 Kazakhstan joined the Customs Union with the Russian Federation and the Republic of Belarus, which facilitates the creation of the common economic zone and deepens regional economic integration. In addition, Kazakhstan is a member of the Shanghai cooperation organization, North Atlantic Cooperation Council, the partnership for peace. In 2012 the President of Kazakhstan N. Nazarbayev announced the Kazakhstan 2050 Strategy, which is the policy document outlining the main directions of the country's development [9]. Up to 2005 Kazakhstan's national business structures viewed CSR as some acts of charity or a one-time donation. The concept of CSR was formed by transnational corporations running in Kazakhstan. With the main aim of the country, postulated by its leader in the new strategy, being for Kazakhstan to get to the world's top 30 most developed countries by 2050, the current priorities for the national government are to diversify the economy, to establish favourable investment climate, develop public-private partnership. The strategy also envisages the support of entrepreneurial initiatives, new approaches to social policy.

#### *4.6 Analysis of corporate social responsibility of Karaganda Structural Steel Plant Imstalcon LLP*

Karaganda Structural Steel Plant established in the Soviet times is nowadays part of Imstalcon JSS, the largest enterprise manufacturing structural steel for buildings and civil engineering works in the Republic of Kazakhstan. The company turns out about 30-35 thousand tons of products per year, 85% of which is sold domestically. Along with major national businesses among its partners are some companies in Russia, Kyrgyzstan, Tajikistan, as well as such internationally renowned companies as Agip KSO; Tengizchevroil; ArcelorMittal; Japanese Company INI.

One of the key requirements for the fruitful cooperation of Karaganda Structural Steel Plant Imstalcon LLP with the consortium Tengizchevroil formed, inter alia, by major American and British companies was to comply with their standards; therefore the plant has adopted and implemented the Quality Management System in compliance with International Standard ISO 9001:2008. The quality testing and assessment were conducted by British company BM TRADA, one of the world's leading independent certification bodies. The plant has been granted certificates for the Superior Product Quality by the Tengizchevroil (TCO) management and for successful manufacturing of metal structures for the second generation project by PFD.

The year 2007 saw the development and implementation of the ISO 14001 Environmental management system and the OHSAS 18001, Occupational Health and Safety Assessment Series

on the basis of the ISO 9001 Quality management system. In the business sector of the design and manufacture of steel structures for industrial facilities and residential buildings the environmental management system and occupational health and safety management systems were tested and identified as compliant with the ISO 14001 and the OHSAS 18001 international standards by experts of IQNet and the Certification Association Russian Register.

In addition to the regulatory documents the Code of business ethics of Imstalcon was elaborated. The code of business ethics is a list of the company's ethical principles and business management rules compiled on the basis of the professional standards and ethical values accepted in society. The code complies with the world's accepted standards of business conduct and regulates diligent behavior of employees within the company, supports an atmosphere of trust, mutual respect and integrity. Timely detection and prevention of potential risks associated with the violation of ethical standards, enhances the company's reputation as a fair and transparent actor in business community.

#### *4.7 Occupational health and safety*

The main purpose of monitoring the matters of occupational health and safety is to have reliable information about the operation of each unit of the authorized body, their conditions, safe exploitation, compliance with the examination time limits, as well as detecting potential workplace hazards, the causes of those and taking appropriate industrial hygiene and safety measures.

Safety and labour protection officers are given a final copy of the Regular Health Examination report signed by a medical officer responsible for the inspection. The report has the list of the employees examined by every health panel specialist and found fit to work in hazardous working environment.

Any case of identified work-related illness must be, in due order, referred to the medical centre specialized in occupational diseases, where, after a special medical examination, the nature of the infirmity and its proximate causation are established. For this examination period an employee is given a disability list with full pay in accordance with legislation in force. Upon the completion of the examination an employee must be offered some lighter labour, if required by medical specialists. The head of the Safety and labour protection department has to monitor the attendance of medical examinations and the outcome of those.

The implementation of health programs is at core of the social policy of the Imstalcon Company. It allocates considerable sums of money for health insurance, welfare benefits, recreational and health promoting activities, and sick leave payments.

#### *4.8 Environmental efforts*

The international community has formulated standards of environmental safety, which are really high. In addition to the norms of environmental safety, the methods of achieving those have also been set forth. The ISO 14000 Safety Assessment Series articulates the responsibilities of the environmental safety management system. The procedure of identification and assessment of environmental aspects of activity of the plant is described in the developed procedure for Identification and assessment of environmental aspects.

Results of identified environmental aspects and occupational hazards are updated in the following cases:

1. In case of programming new types of activities, or production modernization;
2. In case of standard and non-standard types of activity;
3. In case of changing the activities of all the personnel;
4. In case of replacing components and raw materials;

5. In case of amended laws and regulations;
6. In case of the equipment being used in the workplace by other people.

#### *4.9 Charity*

The targets for sponsorship and charitable acts of the company are as follows:

- the provision of social, welfare and other forms of assistance to veterans of the Great Patriotic War, veterans of foreign wars, workers in the rear, retired veterans of labor, who used to be employed at the enterprise;
- the provision of assistance to sponsored schools, orphanages, disabled people;
- the provision of sponsorship of sports events and cultural organizations.

The Karaganda Assembly firm and Imstalcon - Temirtau LLP provides financial assistance to the Children for life Foundation for children with cancer, the regional Union of Chernobyl veterans of the city of Almaty, the organization of the veterans of the war in Afghanistan.

The Oskemen metal structures plant sponsors the public Professional football club association; and the Semipalatinsk Assembly firm provides financial assistance to the Kickboxing and Thai Boxing Federation of the East Kazakhstan Region.

It is evident that the company shows the greatest rate of involvement in socially important activities realizing that the mere compliance with the statutory regulations does not enhance business development opportunities.

The factors contributing to the successful implementation of the CSR policies by the Imstalcon company are the following:

- ✓ the enterprise has large production facilities and sufficient material resources;
- ✓ it hasn't withdrawn from social commitments inherited from the Soviet planned economy;
- ✓ it is interested in gaining access to foreign investment funds, which view the CSR as a way of reducing non-financial, intangible risks of companies;
- ✓ it is interested in entering foreign markets that require the implementation of international principles of transparency, ecological safety, labor relations, etc.

Unfortunately, we have to admit that the practices of this enterprise do not characterize the general situation in the country and are not even dominant.

### **5. Conclusion**

Increasingly in Kazakhstan the social responsibility of business is being given special attention. Now most of the entrepreneurs see that it is a multifaceted concept consisting of several elements: responsibility to employees, responsibility to consumers, responsibility to partners, local community and country as a whole. However, Kazakhstan still does not have laws which would establish a scale of moral values mandatory to all economic entities, does not have any standards of the quality of life as yardsticks for assessing the implementation of the social policy in the country.

It is imperative to run a massive awareness-raising campaign on CSR issues for the entire population, as well as to provide specially tailored programs for businessmen, public officials, consumers, etc. In addition, it is desirable to introduce elective courses in universities in order not only to increase awareness about CSR, but also to promote a holistic view of the essence, principles, and gains of the CSR practices.

The experience of European countries shows that consumers play an important role in the promotion of ideas and practices of CSR by choosing products or services of socially responsible companies that support and stimulate the development of CSR.

The factors impeding widespread social responsibility practices are the lack of incentives from the government, lack of comprehensive and conceptual promotion of CSR by the state, lack of financial resources in companies, lack of transparency and accountability of local authorities, lack of own experience, lack of information in society, and lack of perfect legislature.

The elimination of the barriers identified requires special consideration, but, in the long run, this would cause a positive shift in the attitude to the CSR and encourage a favorable environment for its implementation.

## References

1. Averin A.N. (2008) Social policy and social responsibility of the enterprise. Publishing House "Prior".
2. Bowen, H. R. (1953). Social Responsibility of the Businessman. New York: Harper & Row.
3. Carroll, A.B. (1979). A three-dimensional conceptual model of corporate social performance. *Academy of Management Review*, 4, pp. 497-505.
4. Corporate social responsibility. (2003). M.: Managers' association
5. Hohnen, P. (2007). Corporate Social Responsibility: An Implementation Guide for Business. International Institute for Sustainable Development, 104 p. [available at: [http://www.iisd.org/pdf/2007/csr\\_guide.pdf](http://www.iisd.org/pdf/2007/csr_guide.pdf)] [viewed on 23.03.2017]
6. Karaganda Structural Steel Plant Instalcon. (2008).[available at: <http://www.kzmk.kz/index.html>] [viewed on 23.02.2017]
7. Madrakhimova, F. (2013). History of Development of Corporate Social Responsibility. *Journal of Business and Economics*, Volume 4, No. 6, pp. 509-520 [available at: <http://www.academicstar.us>] [viewed on 20.02.2017]
8. Murphy, J. (2014). Corporate Social Responsibility and the Bottom Line. How strong is the connection? *World Advertising Research Center and The Marketing Society*, Issue 18.[available at: <https://www.warc.com/fulltext/MarkLead/76925.htm>] [viewed on 18.01.2017]
9. Nazarbayev N. A. (2012). The message of the President of the Republic of Kazakhstan. "Strategy 2050". [available at: <http://e-history.kz/en/contents/view/764>] [viewed on 02.02.2017]
10. Nazarbayev, N. A. (2012). Social modernization of Kazakhstan: Twenty Steps Towards a Universal Labor Society. [available at: [http://www.inform.kz/ru/social-naya-modernizaciya-kazahstana-dvadcat-shagov-k-obschestvu-vseobschego-truda\\_a2478336](http://www.inform.kz/ru/social-naya-modernizaciya-kazahstana-dvadcat-shagov-k-obschestvu-vseobschego-truda_a2478336)] [viewed on 02.02.2017]
11. Social responsibility of business in Kazakhstan. (2010).[available at: <http://articlekz.com/article/14163>] [viewed on 11.04.2017]
12. Wood, D., and Jones, R. (1995). "Stakeholder Mismatching: A Theoretical Problem on Empirical Research on Corporate Social Responsibility." *The International Journal of Organizational Analysis*, vol. 3, no. 3, pp. 229-267.