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Universidad del Zulia
Facultad Experimental de Ciencias
Departamento de Ciencias Humanas
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Introduction of Corporate Governance Principles in the Higher Pedagogical Education System (Experience of the Republic of Kazakhstan)

¹Aliya Sankhayeva, ¹Larissa Shkutina, ¹Nataliya Mirza, ²Gulbahram Zhakisheva, ²Madina Ospanova

¹Buketov Karaganda State University, Karaganda City, 100028 Kazakhstan

²Karaganda Medical University, Karaganda City, Kazakhstan

Abstract

The article discusses the prerequisites for the emergence of corporate governance and the features of the application of the principles of corporate organization of activities in the educational sphere. The approaches to the introduction of corporate governance in the practical experience of universities, focused on the socio-economic performance of educational activities and ensuring the quality of specialist training, have been considered. The research objective is to review the key concepts of a corporate governance model and identify the opportunities and benefits of their implementation in the practice of the higher pedagogical education system in Kazakhstan. The research methodology is based on using a method of an expert survey of administration representatives of pedagogical universities of Kazakhstan. The practical significance of the study lies in the description of recommendations on the implementation of corporate governance principles in the practice of the higher pedagogical education system in Kazakhstan. Research results demonstrate that the main changes that should occur in the educational management system as a result of the introduction of corporate governance principles lie in the redistribution of the role, competencies, and powers from state bodies to the Supervisory Board and executive

bodies in key management issues, as well as changes in corporate culture.

Keywords: Corporate governance, corporate organization, educational activities, higher education institution, stakeholders, Supervisory Board.

I. Introduction

Recently, corporate governance principles have been of particular relevance. According to researchers, the increased attention is due to the development of corporate structures (Serafeim, 2014), transformations of the business environment (Grabbe, 2003), the pursuance of a new quality of management and the increased value aspect in business activity (Bertin, 2005). To a certain extent, as confirmed by research data, this is also facilitated by the pressure of globalization (Strange et al., 2009), the specifics of the network economy (Velthuijsen & De Graaf, 2009), the liberalization of commodity and capital markets (Bae & Goyal, 2008), and the modification of risks (Blanchard & Dionne, 2003). Although there is no uniform corporate governance model in the world, there are 32 generally accepted principles developed by the OECD Council (G20/OECD Principles of Corporate Governance, 2015) that can be applied in a wide range of economic, legal, social and political conditions. Besides, the “attachment” to corporate governance standards is the so-called public response to economic crises and the search for stability in financial markets. This is an attempt to establish the generally accepted, transparent and understandable worldwide “rules of the game” both in business and in any activity.

An equally important aspect of corporate governance is the value-based one, which determines the basis of a company’s corporate culture. A strategic approach to the formation and development of corporate culture consists of clear rules of conduct, a well-established communication system, continuous improvement and corporate social responsibility programs, educational, motivational and entertainment events. Priority issues include the resolution of potential conflicts of interest, the shift of control as a function of risk-oriented instruments. All this makes strategic managers build and implement modern, civilized corporate governance models: Anglo-American (the USA, New Zealand, England, Australia, Canada), German (Germany, Scandinavian countries, France, Belgium) and Japanese ones, in accordance with the peculiarities of local legislation.

Therefore, the leading universities of the world are involved in the process of introducing the basic corporate governance principles into the practice

of their activities.

Kazakhstan has long begun the path to introducing corporate governance standards, where the financial market, in particular, banking institutions, joint-stock companies, and the state-owned enterprise management sector, should be recognized as the most successful (Suleimnov, 2018). Now the question is how to implement the best corporate governance practices to the best advantage of a company or an organization and, most importantly, to extend the corporate governance infrastructure to all sectors of the economy, including to the sphere of higher education. Not so long ago, corporate governance was understood as compliance with corporate law regulations. According to Shikhverdiev (2015), corporate governance covers many more issues and is a multidimensional and simultaneously controversial category.

The need to integrate Kazakhstan into the world economic and cultural space necessitates an objective rethinking of the best world experience of educational systems and the use of their achievements in the practice of the educational system. According to Pak et al. (2015), in this context, such issues as the reorganization of government bodies, transformation of management standards as one of the main levers of civilization development of the state and ensuring the competitiveness of educational institutions in world markets, become particularly relevant for the higher education system. An excessively centralized, nontransparent, inefficient, outdated management and financing system loses the ability to respond adequately to the challenges of the global and digital economy, and therefore requires an early transition from the administrative-regulatory management of educational institutions to the modern educational management system (Abdiraimova & Burkitbaev, 2014).

Thus, the relevance of the study of the problem of corporate governance in educational activities is due to the need for:

- increasing the competitiveness of universities in the global educational space;
- ensuring their investment attractiveness for investors, as well as for applicants and employers;
- creating an effective mechanism for managing the property of universities;
- striking a balance of interests of all stakeholders, participants in educational activities (employers, students, teachers, management personnel);
- distributing the management functions at universities;

□ establishing an effective interaction among the components of a separate university and among different universities to achieve the best results of interdisciplinary interaction, etc.

II. Literature review

In order to determine the essence of the category “corporate governance”, scholars and practitioners have repeatedly considered the evolution of the very concept of corporate governance, the founders of which were Wolfensohn (1998) (transparency through public reporting, corporate culture, honesty and responsibility), Triker (2005), Ansoff (1999), Meyer (1996) (equilibrium and balance of interests among participants of corporate relations), Monks (the relationship among various participants, namely shareholders, managers, members of the board of directors, employees and other stakeholders, in determining the direction of development and performance of corporations) (Monks & Minow, 2011), P. Drucker (2004) (a management model, the purpose of which is to ensure the interest of respective owners (shareholders) through the rights and obligations of ownership (possession)) and other researchers. The essential aspects of this issue have been thoroughly studied, while sectoral differences, for example, the specifics of the educational sphere, have not been properly disclosed. The research objective is to review the key concepts of the corporate governance model and identify the opportunities and benefits of their implementation in the practice of the higher pedagogical education system in Kazakhstan.

The research hypothesis is as follows: the solution of current problems of higher education in Kazakhstan lies in the plane of introducing modern corporate governance models, the essence of which is based on generally accepted principles in world practice.

Based on the results of this study, it can be concluded that the objective stated in the study has been achieved.

III. Methods

To achieve the objective stated, a method of expert survey was used to determine the principles of corporate governance at pedagogical universities generally accepted in world practice.

Thirty-three experts, administration representatives of three pedagogical universities of Kazakhstan, were involved in the expert survey. The experts were tasked with listing the basic corporate governance principles that met the requirements for improving the efficiency of the educational process at pedagogical universities.

Furthermore, the experts were asked to point out the main changes that

should occur in the educational management system as a result of the introduction of corporate governance principles.

The processing of survey results was to determine the significance of the corporate governance principle, depending on its rank (the number of expert references), as well as the main changes that should occur in the educational management system as a result of the introduction of corporate governance principles.

IV. Results

According to the results of the expert survey of administration representatives of Kazakhstan universities, a list of basic principles (more than 15 references), on which a model of corporate management of higher education (including pedagogical education) in Kazakhstan should be built (Table I), has been made.

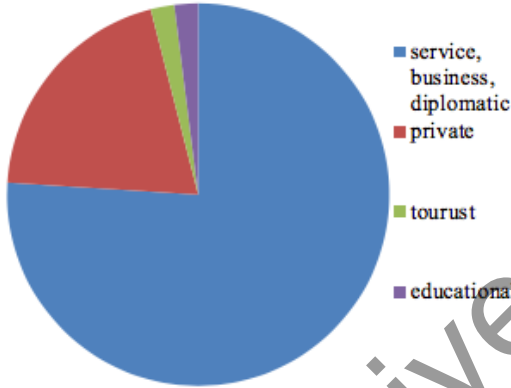
Table I. The list of basic principles, on which a corporate governance model at the university should be built

The principle of corporate governance at the university	Number of references	%	Rank
Separation of powers of corporate governance bodies by defining their competencies, distribution of functions and duties among the strategic management, its representative body (Supervisory Board) and executive management	27	81.8	1
Taking into account the interests of a wide range of stakeholders, which is to recognize their rights at the legislative level and to effectively cooperate in creating public welfare, financial sustainability, and continuous activity	26	78.9	2
Effectiveness, independence, and responsibility of the Supervisory Board, which consist in ensuring strategic management, effective control over the activities of the executive body, as well as the responsibility to the educational organization and stakeholders	23	69.7	3
The balance of impact and interests of participants in corporate relations	21	63.6	4
Publicity and transparency, which consists in ensuring timely and full disclosure of information on all substantive issues	20	60.6	

Source: compiled by the authors on the basis of the expert survey

According to the expert survey results, the experts suppose that the principles of delimiting the powers of corporate governance bodies (71.7% of respondents) and taking into account the interests of a wide range of stakeholders (80.4%) have the greatest significance. Besides, the principles of

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Figure 1 – Breakdown of foreign tourists who visit Russia for various purposes

of activ **measures; in the system of internal control and internal audit (71.7% of respondents);**

□ changes in the corporate culture, which are in the interrelation of remuneration and results of activities, responsibility for the result at all levels of an educational institution, effective communication (71.7% of respondents).

IV. Discussion

An analysis of change in the blocks dealing with preparation for self-learning activity indicated the following At first glance, the principles indicated by the experts seem more natural for the corporate environment where goods are produced, services are provided, and consequently, the value added is generated. However, in the experts' opinion, in nonprofit organizations, which are mainly educational institutions, corporate governance consists in attracting representatives of external stakeholders, not representatives of shareholders, to the administration of an organization, and they are involved not for taking control over profit distribution, but for promoting the effective work of an organization during the production of public goods, at which it is aimed. At the same time, experts suppose that the key mechanism of such attraction in nonprofit organizations, as in business corporations, is the same, namely Supervisory Boards (Wright et al., 2009).

According to one of the experts (Sergey N., 42 years old), the “main “insight” in the concept of changes is the need to distribute powers at a higher education institution”, in particular, the hierarchy of bodies with clearly defined functions of collegial management (Academic Board), the executive body (university administration) and the Supervisory Board. A review of the functions of the Supervisory Board of a higher education institution is a key innovation and a necessary condition for institutional strengthening. In fact, the Supervisory Board is a representative of the founder, represents it and is authorized by it; it should not be perceived as a body restricting the autonomy of a higher education institution.

According to experts, the system of corporate governance bodies of higher education institutions should conceptually represent and ensure as follows:

- an effective, competent strategic and executive governing body;
- a competent, independent Supervisory Board;
- risk management;
- standardized rules and procedures for the implementation and monitoring of key areas of activity;
- an independent and objective function of external and internal audit; transparency in the disclosure process.

This governance model contains a powerful potential for institutional strengthening of universities by establishing an optimal balance of competencies and powers among a representative body, namely the Supervisory Board (with a significant redistribution of its role, competencies and powers), the executive body of a higher education institution (head, university administration, Academic Board) as well as public authorities, which traditionally protect the rights of teachers and students.

Experts point out that recently the expansion of autonomy of educational institutions has become a global trend. The introduction of university autonomy is a significant step in bringing educational management closer to the best international practices through the state’s refusal to interfere in the operational activities of universities and recognition of such principles of university organization as trust, respect, responsibility, and virtue. It also means the transfer of all responsibility for the quality of education and research, together with the necessary organizational and financial instruments, to universities as self-governing institutions (Aguilera et al., 2008). According to experts, the possibility of active participation in ensuring the quality of higher education and university management is implemented through student self-government bodies, which should also be recognized as one of the important elements of a corporate governance model. In the

development of this institution, there are also many obstacles, one of the most important of which is the almost total dependence of student self-governing institutions on the administration of educational institutions.

A separate point must be made about the modernization of control in the higher education system, in particular, a gradual transition to an effective internal audit function. However, not only the functioning but also the awareness of the basics of a risk-based approach, when control focuses precisely on threats to achieve the organization's strategic goals, has not yet happened. The professional environment and organizational framework of the level required by the International Standards for the Professional Practice of Internal Auditing have not been fully developed (Hart, 1995).

Furthermore, the university's corporate governance system, focused on the efficiency of educational activities, is one of the factors for the sustainable development of the university. According to experts, quantitatively expressed internal and external indicators of satisfaction of all participants in educational activities (employers, university management, students, and teachers) should be presented both in the university's strategic development plan and in its financial plan in the form of indicators broken down by period. These statements are confirmed by international experience. For example, in Australia, Canada, Finland, and Sweden, they get estimated results by interviewing consumers of educational services (employers, students, applicants and their parents), during which the number of complaints about the quality and satisfaction of consumers of a particular educational programme is revealed.

Corporate educational organizations integrate financial capital and academic potential in new effective forms of educational activities. Therefore, the boundaries of educational activities of leading universities based on corporate governance strategy are determined by the fact that the university not only provides educational services but also conducts research and development and gives consultations, interacts with employers and financial institutions.

To manage their own funds, universities form special units of professional financiers and investment analysts, create Supervisory Boards that develop investment and risk management policies, determine the composition of the investment portfolio and investment strategies. The management of own funds may also be entrusted to special asset management companies. For example, in 1974, Harvard University formed the Harvard Management Company (HMC) as a structural unit of the university in order

to manage its investment portfolio. The HMC manages only a third of the university funds; the rest is transferred for management to specialized teams of other investment funds, which provides diversification and better vision of market opportunities (Harvard University Endowment Delivers 15.4% Return for Fiscal Year 2017, 2017). Columbia, Princeton, and Massachusetts universities also founded their own investment companies to manage the funds.

When placing funds, managers have two main objectives. The first objective is to generate a fairly high yield for the implementation of their current tasks without using the principal amount of capital. The second one is to preserve the actual cost of capital from inflation, directing part of the income to an increase in the principal amount of capital. Moreover, one's own indicator (Higher Education Price Index (HEPI)), which takes into account the prices of goods and services typical of higher education, is used to measure inflation. It is considered that HEPI usually exceeds the consumer price index for all urban consumers by 1%.

For a long time, universities have invested their own funds exclusively in the domestic market – in securities of national companies and bank deposits. However, in the 1980s, the profitability of such investments turned out to be lower than inflation, i.e. the capital actually depreciated. Therefore, universities have refocused on foreign markets and risky alternative assets, and their portfolio strategy has become diversified and largely risky (Table II).

Table II. Portfolio strategy of leading US universities, % (Azlen & Zermati, 2018)

	Harvard University	Yale University	Stanford University
Investing in the domestic market	11.0	6.0	-
Investing in foreign markets	11.0	13.0	-
Securities of growing markets	11.0	-	-
OTC investments	18.0	31.0	23.0
Exchange investments (in public companies, the securities which are listed on a stock exchange)	-	-	25.0
Total financial assets	51.0	50.0	48.0
Publicly traded goods	-	-	-
Natural resources	11.0	8.0	12.0
Property	12.0	17.0	8.0
Total tangible assets	23.0	25.0	20.0
Absolute yield funds	16.0	20.0	22.0
Fixed-income assets (bonds) and cash	10.0	5.0	10.0
Total	100.0	100.0	100.0

Overall, The concept of corporate organization is based on the corporate structure and corporate governance. The corporate structure covers intracorporate relations, business cooperation with employers and representatives of the external environment (Nikoskelainen & Wright, 2007).

Therefore, intracorporate relations between the university management and teachers (human capital management); between university staff and students/employers (organization of the educational process); between the university management and faculties/departments (management of the educational process) are most important for creating a corporate environment that influences the economic governance mechanism.

In the authors' opinion, the introduction of the concept of corporate governance at a pedagogical university is impossible without the introduction of a corporate center (Tepman, 2009), since universities have a complex structure and depend heavily on the influence of external factors (dynamic changes in labor market requirements, changes in legislation, economic situation, demographic situations, etc.). This work consists of the following steps.

1. Identification of the main tasks of a future corporate center based on an understanding of common tasks of university departments, their role in the process of training specialists, taking into account the labor market requirements.
2. Analysis of possible options and selection of the most acceptable role of a corporate center. This requires the detailed consideration of the degree of interrelations of various faculties, departments, student self-governing bodies and the determination of an appropriate impact on their activities on the part of a corporate center.
3. Study of the functioning of a corporate center and those problems that may be related to its current activities and the general directions of its development.

V. Conclusion

Nowadays, the issues of introducing corporate governance principles into the higher education system by transforming management standards as one of the main levers of organizational development of the state and ensuring the competitiveness of educational institutions in world markets are becoming especially relevant for the higher education system. At higher education institutions, there are virtually no managers of a new quality, i.e. leaders. The change of the "director's" administrative-regulatory mentality in education into a corporate one is a priority task. Since higher education is an important public good, the democratization of governance in higher education is a tool that should lay the mechanisms of corporate responsibility of various stakeholders for the state of higher education in Kazakhstan.

The main changes that should occur in the educational management system

as a result of the introduction of corporate governance principles include the redistribution of the role, competencies, and powers from government bodies to the Supervisory Board and executive bodies in key management issues, as well as changes in corporate culture.

For the successful implementation of these tasks, many more theoretical-methodological issues should be resolved, in particular, an issue of streamlining the conceptual framework, terminological uniformity of the regulatory framework and the preparation of a number of methodological documents that could be used by state-financed institutions, state companies and public administration authorities in the introduction of corporate governance principles in education.

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