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Descriptive review

Implementation of Corporate Governance Principles and Instruments into the healthcare System of Kazakhstan

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Abstract

The Republic of Kazakhstan is constantly moving towards modernization of medical and healthcare services. The industry of healthcare, while being a top priority for the government and a socially sensitive industry, has processes and business operations of any other sector and therefore was a subject of reforms in terms of governing and control. Corporate governance has proven to be an effective tool for large-scale businesses and therefore is chosen as a path to efficient and productive healthcare delivery solutions. This is the first of a series of articles about corporate governance in healthcare in the Republic of Kazakhstan. It contains a brief overview of corporate governance as it is and in healthcare settings and the national healthcare system.

Keywords: Corporate Governance, healthcare reforms, Republic of Kazakhstan.

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Introduction

Corporate Governance (CG) is usually referred to as the collection of mechanisms or the system of guiding principles according to which the companies, organizations, and corporations are controlled and operated. There might be various parties involved in the decision-making process when it comes to an organization's governance. While each party has its own interests and motivations, there is a high possibility of a conflict of interest between various entities in a system. According to Grant [1], corporate governance is related to the interplay between the key actors in a system—shareholders and managers. In other words, the conflict of interest might occur due to the differences in wants between the shareholders, commonly referred to as the «principle» and the upper management or the "agent". Likewise, the diverging views between shareholders are called "principal-agent problems". These conflicts of interest could be resolved through the application of corporate governance principles.

In essence, corporate governance principles set the rights and responsibilities of each legal entity or participant in a system to avoid conflict of interest and make consensual decisions. Consequently, by ensuring the rights of shareholders, reconciling the interests of managers, and maintaining a transparent environment, each entity within a system can contribute to the value creation and growth of the organization [2].

The principles of Corporate Governance

The current discussions of corporate governance usually revolve around the three significant documents released in 1990. These are the Principles of Corporate Governance by the OECD from 1990, 2004, and 2015, the Cadbury Report from the UK in 1992, and the Sarbanes-Oxley Act from the US in 2002. The first two documents, the OECD report and the Cadbury Report, describe the general core principles of which business should operate to be appropriately governed. Although within the scope of these documents, Corporate Governance is discussed extensively, there are four major and universal principles of Corporate Governance:

1. Accountability;
2. Fairness;
3. Transparency;
4. Responsibility.

The governance within the organization is performed through the Corporate Governance Code that holds the board of directors or the «principle» accountable to the organization's shareholders or the governing body.

Corporate Governance in the context of the Healthcare Sector

Before discussing corporate governance in the healthcare sector specifically, it is essential to point out the two types of organizations present in the healthcare industry: profit and non-profit. As described by Brickley et al. [3], the first distinction to be made is that non-profit organizations could be defined as those institutions whose governing entities or the «principal» do not get the residual profits. Because of that, while non-profit organizations might be subjected to the lower levels of conflict of interests between shareholders, the managerial control mechanism arises. It means that the managers or the «agent» might lack the discipline or the motivation to improve their performance due to the absence of financial

It is worth noting that the fundamental mechanisms of corporate governance apply to corporations and any organization where mitigation of conflicts of interests between various stakeholders is necessary.

Even though the healthcare sector did not receive much attention in the discussion of corporate governance, the latter seems to be crucial in meeting the ever-increasing demand for healthcare services and addressing the political and economic challenges. Within the scope of this report, the implications of corporate governance principles in Kazakhstan's healthcare sector will be discussed. The paper begins with a general overview of CG principles outside and within the healthcare sector, outlining the implications of CG integration into the healthcare sector of Kazakhstan. The purpose of this paper is to familiarize readers with some issues of corporate governance in Kazakhstani healthcare settings.

The search strategy included:

- Examination for national legislative documents.
- The Health code.
- State Laws.
- State Health Care Development Programs.
- Selected peer-reviewed publications found on Google scholar to examine the international experience on the matter.

Additionally, the Code defines the guiding principles for the board of directors into the decision-making process within the organization and into the monitoring of the management or the "agent". The following principle, fairness, refers to the idea that the interests and rights of all shareholders must be protected, and each shareholder must be treated equally in respect to others. In case the rights of shareholders are violated, the board of directors or the «principle» are obliged to compensate for the shareholders' losses or, in other words, to redress effectively. Along with the fairness component, Corporate Governance is based on transparency. The organization or the company must disclose all of the necessary information on financial, environmental, or social situations within it, including the evaluation of performance, the ownership structure, and the governance structure. This information must be accessible freely and on time to all stakeholders. The last principle, responsibility, refers to the idea that the organization that adopted the corporate governance seeks cooperation with the individuals or companies for its development and stability.

stimuli. In addition, it is suggested that due to the non-profit nature of the organization, the effectiveness of the donor and customer monitoring mechanisms might be limited.

Moreover, while for-profit boards or «principle» access the performance of their organization based on the quantitative measures as the profit they are making, the non-profit boards have other measures of effectiveness in terms of the quality of the patient care services, social equity, improved access towards health care and so on [4]. The significant difference between for-profit and non-profit organizations arises from ownership and control. The operation of non-profit organizations is

usually initiated by a wide range of stakeholders, such as the government. In contrast, the governance of for-profit organizations is conducted through the accountability of the boards of directors and upper management towards the shareholders.

In general, the governance of the healthcare sector is indeed an important subject that should not be underestimated. The nation's well-being depends upon the efficient governance of the healthcare sector and timely and orderly decision-making within a system, but the healthcare sector is also a substantial part of the current economy [5]. Likewise, according to Boscheck [6], the growth of up to 30% of GDP is expected by the healthcare sector in OECD countries by 2030. The challenges posed towards the healthcare sector in terms of the rising costs, technological changes, complex ethical issues, calls for sustainability, political and economic changes, and escalating service demands add up the burden to the management and operation of the system.

Along with these constraints, some healthcare systems are owned by the government, where the board of directors - "the principle" is appointed by the government itself. As Li and Harrison [7, 12] report, within

the governmentally owned and controlled healthcare systems that are expected to provide non-profit and patient-centered services to the population, it is expected that the board and the management are operating under the influence of "influential bureaucrats". On that occasion, the business objectives and the funding might be vague and unclear, posing another challenge for the boards and management.

Despite the fact that the number of challenges the healthcare sector faces is increasing more than ever, the concept of corporate governance in the healthcare industry did not receive much attention in the literature. Nonetheless, as Eeckloo et al. (2004) [8] suggest, corporate governance principles can serve as a solid frame of reference to which the particular organization can adjust its needs. To put it another way, corporate governance can help find a balance between the changing environmental and organizational factors and configurations of the healthcare organization itself, such as structure, the activity of the governing board, the composition of the organization, etc.

Healthcare system in Kazakhstan overview

Despite its efforts, Kazakhstan still ranks lower than the other CIS countries in the European Region on important health and economic indicators [9]. Kazakhstani healthcare system is represented by the Ministry of Health on the Republican level and through healthcare departments of local authorities in each region. Public healthcare facilities could be described as a network of primary, secondary, and tertiary care facilities owned and operated under the healthcare departments, except large-scale national institutions. Even though the Ministry of Health is at the top of the hierarchy, serving as a major stakeholder, the executive power is mainly performed by the regional healthcare departments that have more or less autonomy. Along with the centralized nature of healthcare in Kazakhstan, the system is facing challenges in terms of the corruption levels that are prevalent in healthcare and the whole country overall. By the Corruption Perception Index that Transparency International published, Kazakhstan occupies 102nd place in the world among the 180 countries covered in 2021 [10].

Almost all of the healthcare services are covered through two major governmental packages. Each citizen

in Kazakhstan can receive medical services through the statutory free-of-charge medical assistance (SFMA), and some services that are not included are covered through the Mandatory Social Health Insurance (MSHI), which was introduced in 2020 [11]. Healthcare in Kazakhstan is financed from several sources: public budget funds (including assets of the social health insurance fund), private financing (voluntary health insurance or VHI), and other sources.

Financing of the healthcare system is proportional to the country's gross-domestic-product (GPD) per capita: the higher the GPD of the country, the higher the spending on the healthcare system. In Kazakhstan, the GDP share indicator was significantly lower than that of developed countries and reached 4% of GPD in 2020, according to the data from the tables of the National health accounts of Kazakhstan [13]. In comparison, the USA spending on healthcare constituted 18% of GPD. This indicator generally shows that the limited expenditure for healthcare, coupled with the corruption crisis in a country and poor management, might create colossal losses for the system.

The Importance of Implementing Corporate Governance in the Healthcare Sector in Kazakhstan

The government of Kazakhstan recognized significant issues. Several attempts are being made to improve the healthcare services in the country through comprehensive reforms, including adaptation for corporate governance in the healthcare structures in Kazakhstan. These principles were not entirely new for the governments, as according to Law On state property [14], Section 1, Chapter 1, Article 6 "Principles of State property management", the management of State property is carried out following the principles quite similar to the corporate governance fundamentals:

- 1) legality;
- 2) accountability;
- 3) publicity;

4) effective use of state property for the benefit of society;

5) creating conditions for competitive environment development.

Moreover, Chapter 10, Article 142, "State-owned enterprises on the right of economic management [governing] bodies", states that the supervisory board and the head of the enterprise are the governing bodies of an organization. In addition, Article 148 says that an authorized body of the relevant industry (local executive body) has a right to initiate a supervisory board that provides general management of the company's activities.

Accordingly, the importance of corporate governance was highlighted in the National Plan of the Republic of Kazakhstan – "100 concrete steps", released

in May 2015 [15]. It was dedicated to the "treatment of systemic diseases", and not smoothing out their "external symptoms". Program formulated five institutional reforms to ensure the country's stable development. Corporate governance and the private sector development in medicine outlined as the solution to increasing the availability and quality of services in Step 81/100 under the 3rd institutional reform, "Industrialization and economic growth". In addition, the National Plan emphasized the introduction of mandatory social health insurance, and national priority for primary health care strengthening, for the prevention and early treatment of diseases in Step 80/100 [15].

These measures were outlined in several major national healthcare development programs, including the latest State Program for healthcare development for 2020 – 2025 [15]. According to the program, healthcare organizations established supervisory boards with independent directors. Additionally, medical organizations were evaluated through rating assessment based on the indicators of management, clinical and scientific activities, and the level of corporate governance introduction. These measures were adopted to increase the transparency of medical organizations' activities, including the remuneration system.

However, by the Decree of the Government of the Republic of Kazakhstan dated 12 Oct 2021 No. 725, State Program for healthcare development for 2020 – 2025 was canceled [15]. The new National project "Healthy Nation" did not emphasize the support for corporate governance development in the healthcare sector, despite the fact that the Ministry of Healthcare coordinates and monitors activities on corporate governance issues in state legal entities in the field of healthcare, according to Article 7 of the National Health Code.

Considering the increasing demands for the Kazakhstani healthcare system, the healthcare sector's organization, governance, and management must be our greatest priority. As it was discussed above, the integration of Corporate Governance is a long-term solution for the challenges Kazakhstan's healthcare system is facing right now.

Literature suggests that incorporation of the Corporate Governance principles into the organizations increases the organization's appeal to the investors because of the transparency and accountability of the system, thus facilitating the organization's financing externally. In turn, an influx of investors to the healthcare system of Kazakhstan might create a more fulfilling

Conclusion

It seems evident that tackling the challenges healthcare systems currently face requires adequate and effective governance and management within the system. While having non-profit and centralized healthcare, Kazakhstan might benefit substantially from the implementation of corporate governance into the healthcare sector. While there might be several adaptations to the CG guidelines into the Kazakhstani

environment for improved management, more effective client service, and technological innovations. Likewise, the system's operational effectiveness increases as the resources are used in favor of the organization's sustainable development. Without a doubt, the implementation of Corporate Governance principles to the Kazakhstani Healthcare sector on the primary, secondary and tertiary care services will serve as a game-changer for the improvement of the quality of healthcare services, rush of investments into the system, increased transparency, and accountability of the system in general.

Clinical governance, one of the performance measures of broader Corporate Governance Practice, has shown tremendous effectiveness in countries like the UK, Canada, and Australia [16-20]. While clinical governance is mainly concerned with the processes occurring within the hospital setting, corporate governance is a broader term that applies to the whole healthcare system. Literature suggests that by adopting effective corporate governance principles within the clinical setting and outside of it, integrated health institutions experienced substantial accountability, transparency, and improvement [20]. Surprisingly, as research indicates, the implementation of corporate governance principles encouraged clinical specialists and patients to be more involved in the governance of the setting, thus facilitating continuous learning and feedback [21].

From the other perspective, the integration of corporate governance into the healthcare system of Kazakhstan might improve the workforce capacity to meet the population's needs. It is no wonder that the institutions that are properly governed have clearly defined responsibilities and roles for each entity in a system [22]. The segregation of duties will help achieve better performance in a workplace both from the perspective of the stakeholders and management.

Likewise, based on the four major principles discussed at the beginning of this report, incorporating corporate governance in the healthcare setting of Kazakhstan will inevitably lead to the implementation of audit, control, and risk management systems. This is based on the «responsibility» principle, meaning that the healthcare system must ensure the prevention and detection of undesired outcomes. In case those outcomes have happened, timely and orderly corrective and preventive actions will be performed regarding the audit and risk management systems.

In this context, the core principles of accountability, fairness, transparency, and responsibility must be sustained. In turn, this would allow the Kazakhstan healthcare system to improve the quality of healthcare services delivered to the population, encourage investments into the system, improve and calibrate the managerial processes within the healthcare setting and facilitate constant improvement and learning.

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Қазақстанның денсаулық сақтау жүйесіне корпоративтік басқару қағидаттары мен құралдарын енгізу

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Түйіндіме

Қазақстан Республикасы медициналық қызметтерді жаңғырту бағытында ілгері дамып келеді. Үкіметтің басты приоритеті әрі әлеуметтік сезімтал сала ретінде денсаулық сақтау жүйесінде кез-келген басқа сала секілді процестер мен бизнес-операциялар жүргізілуде. Бұл сала басқару және бақылау тұрғысынан түрлі реформалардан өтті. Корпоративтік басқару өзін ірі бизнес үшін тиімді құрал ретінде көрсеткендіктен, медициналық көмек көрсету үшін тиімді және нәтижелі шешім ретінде таңдалды. Бұл қолжазба - Қазақстан Республикасындағы денсаулық сақтау саласындағы корпоративтік басқаруға арналған жарияланымдар сериясындағы бірінші мақала. Қолжазбада қазіргі таңдағы денсаулық сақтау мекемелеріндегі корпоративтік басқарудың, сондай-ақ, ұлттық денсаулық сақтау жүйесінің қысқаша шолуы ұсынылған.

Түйін сөздер: корпоративтік басқару, денсаулық сақтау реформалары, Қазақстан Республикасы.

Внедрение принципов и инструментов корпоративного управления в систему здравоохранения Казахстана

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Резюме

Республика Казахстан движется в направлении модернизации медицинских и медицинских услуг. Индустрия здравоохранения, будучи главным приоритетом для правительства и социально чувствительной отраслью, имеет процессы и бизнес-операции любой другой отрасли, и поэтому была предметом реформ с точки зрения управления и контроля. Корпоративное управление зарекомендовало себя как эффективный инструмент для крупного бизнеса, и ввиду этого оно выбрано в качестве пути к эффективному и продуктивному решению для оказания медицинской помощи населению. Это первая статья в серии публикаций, посвященных корпоративному управлению в сфере здравоохранения Республики Казахстан. В данной рукописи содержится краткий обзор корпоративного управления в его нынешнем виде и в учреждениях здравоохранения, а также национальной системы здравоохранения.

Ключевые слова: Корпоративное управление, реформы здравоохранения, Республика Казахстан.