

## **Issues of the Cultivation of Corporate Social Responsibility for Oil and Gas Enterprises in the Republic of Kazakhstan**

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**Abstract:** This study is dedicated to an analysis of the state and cultivation of corporate social responsibility (CSR) for enterprises in Kazakh oil and gas industry in a sociological view. The article looks into the role of CSR for enterprises in the oil and gas industry of the Republic of Kazakhstan. The article demonstrates the link between CSR and social policy for Kazakh oil and gas enterprises. It reveals the current trends in the cultivation of CSR for Kazakh oil and gas enterprises. It presents factors that influence the level of CSR for Kazakh oil and gas enterprises. The article reveals the present state of CSR for Kazakh oil and gas enterprises on the strength of findings obtained through exploring the CSR cultivation practices of the best Kazakh oil and gas corporations. The study presents a comparative analysis of CSR cultivation for Kazakh and foreign oil and gas companies. It adduces statistical data on the state of Kazakh oil and gas corporations. The study assesses the positive and negative aspects of implementing social policy by oil and gas corporations on the strength of findings from an expert survey. The article gives special consideration to the influence of the oil and gas industry on the social development of the regions of Western Kazakhstan and, specifically, changes in the population's standard of living. In addition, the study examines the changes brought about with the arrival of foreign companies. Aims of the study: using a sociological analysis, detect the major problems in the functioning and cultivation of corporate social responsibility (CSR) for Kazakhstan's oil and gas enterprises.

**Key words:** Corporate social responsibility • Oil and gas industry • Social policy

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### **INTRODUCTION**

The problem of corporate social responsibility for Kazakh oil and gas enterprises is a part of exploring oil and gas corporations as constituting a social system and a social institute. In a sociological view, the problem brought up encompasses the issues of corporate relations and corporate governance in industrial enterprises. The study of the specifics of CSR in the Kazakh oil and gas industry is a part of exploring regional sociology. The topicality of the study of the influence of the oil and gas industry on the social development of the western part of Kazakhstan is due to the large role the oil and gas sector plays in Kazakhstan's economy, its big influence on the socio-economic development of the country and its producing regions; the need to reckon with the interests of the interests of regions and oil and gas companies in resolving regional social policy; the need to analyze and assess the various aspects of institutional changes in Kazakhstan's oil and gas sector. Hence, the study of CSR

for oil and gas corporations inclusive of national attributes at macro-, meso- and micro-levels has no theoretical and practical topicality. The study's significance is due to that the level and direction of CSR for oil and gas corporations is an indicator of the effectiveness of the social partnership between the business sector and regional community. The need to explore the specifics of CSR in Kazakhstan's oil and gas industry in a sociological view is about exploring oil and gas companies as a social system, analyzing the motivational structure of the interaction and mutual influence between CSR participants, forming a methodology for the social study of CSR for oil and gas enterprises in conditions of the Kazakh reality. It should be noted that indicators for determining the effectiveness of CSR cultivation for industrial enterprises in the oil and gas industry haven't been found yet. In measuring major CSR indicators, many factors require to be studied more thoroughly, through application of qualitative and quantitative methods of sociological analysis.

Aims of the study: using a sociological analysis, detect the major problems in the functioning and cultivation of corporate social responsibility (CSR) for Kazakh oil and gas enterprises. The study undertakes to assess CSR for Kazakh and gas enterprises from the standpoint of its influence on the region's socio-economic development; detect major positive and negative factors that influence the level of CSR cultivation for Kazakh oil and gas enterprises; analyze the CSR cultivation practices of Kazakhstan's best oil and gas corporations; conduct a comparative analysis of CSR cultivation for Kazakh and foreign oil and gas companies.

The socio-economic processes that formed and developed CSR for oil and gas enterprises of the West, Russia and Kazakhstan have been sufficiently explored in articles and monographic studies. The dynamic development of the CSR concept has gone through certain stages. *Social Responsibilities of the Businessman* by H. Bowen published in 1953 can be considered as the starting point [1]. The work covers the definitions and gist of the concept at issue, as well as the possibility of further, thorough, study of CSR. The major elements of this theory, which came to be known as the theory of corporate egoism, were first presented by Nobel Laureate M. Friedman in an article called *The Social Responsibility of Business is to Increase its Profits*, published in *New York Times* magazine [2]. Currently, the most favored approach to studying the policy of CSR cultivation is regarding it as an extension of stakeholder theory or theory of interested parties. The theory found wide use in the analysis and interpretation of the links between companies and society, after R. Freeman's study was published in 1984. The author defines a stakeholder to be any group or individual that can influence or be influenced by the attainment of goals by an institution [3]. CSR was further explored by K. Davis (1960), J. McGuire (1963), S. Sethi (1975), who concretized the concept and gist of social responsibility [4].

The concept of CSR cultivation was later empirically explored and theoretically expounded in the works of S.Y. Litovchenko, M.I. Korsakov, Y. Chernov, V.V. Yelgin, N.A. Krichevsky, S.F. Golgarov, L.N. Konovalova, V.N. Yakimets, M. Marlen and others [5,6,7,8,9,10].

The author has used statistical collections and other statistical materials published by the Agency for Statistics of the Republic of Kazakhstan on its website, [stat.kz](http://stat.kz) [11]. In particular, the author has used data from regularly published collections such as *The RK Industry*, *The Regions of Kazakhstan*, *The Standard of Living of the*

*Population of Kazakhstan* and others. Additionally, the author has used analytical and statistical data provided by both governmental and non-governmental agencies, such as the Ministry for Oil and Gas, the RFCA Rating Agency and others. and the findings of studies conducted by Kazakh sociological agencies. The author has examined the findings of studies conducted by the CSPR *Strategy* Public Foundation in the western parts of the country. In particular, this study adduces the results of surveys, focus-group discussions and expert interviews conducted in the Mangistau and Atyrau regions. There is a need to expand the study, since the link between the CSR of oil and gas enterprises and regional social policy hasn't been studied well enough in sociology. Studies on corporate social responsibility for Kazakhstan's oil and gas corporations in a sociological view haven't been conducted by anyone yet.

## MATERIALS AND METHODS

The methods of the study are: monographic research, desk research and traditional analysis of documents, semi-structured personal interviews with experts-representatives of senior management at Kazakh oil companies. The study also employs the case-study method. This method is an effective instrument for presenting and analyzing real economic activities and projects. It is often used for various purposes in the oil and gas industry [12].

**The Following Sources Served as the Empirical Base for the Study:** Desk research and traditional analysis of documents. As part of this methodology, documents from secondary sources were analyzed. Based on their type, documents used by the study can be subsumed into three groups:

- statistical collections and other statistical materials published by the Agency for Statistics of the Republic of Kazakhstan on its official website, [stat.kz](http://stat.kz).
- the findings of studies conducted by Kazakh sociological agencies. The study made use of and analyzed the findings of studies conducted by the CSPR *Strategy* Public Foundation in the western parts of the country. This data is open to the public, through the company's official website.
- report documents from oil companies on the implementation of social responsibility in the region.

- Semi-structured personal interviews with experts-representatives of senior management at Kazakh oil companies. Using interviews, initial data was obtained, which is considered as exclusive information with respect to the topic of this study. A special questionnaire (considered below) was put together, which contained both open and closed questions and was filled out using the pen-to-paper (self-completion) method. A total of 28 experts were questionnaired, who represented three large companies engaged in the oil and gas industry.

### Main Part

**The Place of the Oil and Gas Sector in the Structure of the Rk Economy:** The oil sector of the Kazakh economy is the primary and most dynamically developing industry in the economy of the Republic of Kazakhstan. It provides a substantial part of the gross domestic product, budget revenues and foreign currency inflows. Revenues from hydrocarbon sales are very important for the country's economy. Over the years of the country's independence, the oil and gas industry has grown, firmed up and become the driving force of the country's economy. Over this short space of time, the oil and gas sector has experienced all the difficulties of a transitional period and market reforms and lived through the consequences of global economic crises. The industry has seen cardinal structural transformations, radical reforms in the management system.

The key role in the republic's oil production is played by 7 companies which produce nearly 86% of Kazakh oil. Undoubtedly, the biggest of these is *JV Tengizchevroil*, whose production volumes are equatable to the combined volume of the country's three largest joint enterprises *OAO Mangistaumunagaz*, *KazMunaiGas Exploration Production* and *Karachaganak Petroleum Operating B.V.* Apart from the leading "group of seven", *ZAO Turgay Petroleum* and *AO Karazhanbasmunay* produce over 1 million tons of liquid hydrocarbons per year. *JV Kazgermunay* rounds out the Top 10 [13].

The oil and gas industry has a significant effect on the country's socio-economic development. The economic development of Kazakhstan is predicated on the reclamation of natural resources. One of the priority areas for the country's economic reforms is the government's investment policy, which aims for a high growth rate for the country's economy and to ensure a climate for the inflow of investments, specifically into the oil and gas industry. There are 202 oil and gas fields in the territory of

the Republic of Kazakhstan. They are located within 6 of the 14 regions of the country (the Aktobe, Atyrau, West Kazakhstan, Kyzylorda, Karaganda and Mangistau provinces). Production is carried out by 55 oil and gas companies, the major of which are *Tengiz* and *Karachaganak* [14]. There are three major trends in the development of the RK oil and gas complex: firstly, the oil and gas complex is nowadays one of Kazakhstan's strategic components of ensuring the country's actual economic self-sufficiency, its international economic security and internal economic stability. Secondly, the RK is already engaged in broad global economic cooperation and economic integration processes. Oil and gas have long been both a subject of international trade and cooperation and that of competition; i.e. apart from the satisfaction of economic interests of many countries, large-scale political objectives are also pursued on the global market, which oftentimes takes overriding precedence. Thirdly, directly or through tax receipts, the development of oil and gas projects enables the RK to boost the successful realization of socio-economic programs, including the improvement of the environmental health of many of the country's territories [15].

**Review of the Social Policy Practices of Oil and Gas Companies:** The realization of social policy is influenced by: the scale of the business; the effectiveness of the enterprise's operation; the market framework; the state of the labor market; the economic necessity and benefits of sustaining and developing social infrastructure; the conditions of developing and expanding the business; the interests of and pressure from workers of the enterprise; the individual values of senior management and proprietors, their motivation. The objectives of social policy are much broader: from employment guarantees to the realization of young personnel development programs. Porter and Kramer are the leading proponents of the notion that various types of social issues as general social issues, chains of social effects and social aspects of the competitive environment are closely related to the company's major activity [16]. Thus, by its structure, an enterprise's social policy comprises the following elements: its legal obligations, which ensure the social security for its personnel; social services, which are a subject of collective agreements and collective regulation of labor relations; social services which are provided voluntarily, i.e. with no obligations before the law or a collective agreement. In particular, Jêdrzej George Frynas,

in his article *Corporate Social Responsibility and Societal Governance: Lessons from Transparency in the Oil and Gas Sector*, examines the issue of revenue transparency, which he considers to be the primary objective in managing CSR. He believes that resolving CSR management issues depends, to a great degree, on the company's corporate activity. Yet he also notes that current CSR and political initiatives cannot provide all the necessary integrated means of resolving the company's social issues [17]. The major lines of the social policy of Kazakh oil and gas companies are: allocating considerable financial resources aimed at the minimization of the impact of production and economic factors on the environment; carrying out the ecological monitoring of atmospheric air quality, subterranean water (groundwater) and soil quality; carrying out the monitoring of flood-prone and flooded wells with a view to determine the impact on the ecosystem of the Caspian Sea; carrying out work on the eradication of radioactive pollution hotspots; holding the annual republican business social responsibility contest, *Paryz*; financially and economically facilitating the development of smaller cities; creating social jobs; investing in the development of the social infrastructure of the country's regions; providing social assistance to socially vulnerable groups of the country's regions.

According to the data obtained, there are two major factors playing a key role in defining the priorities of social policy for these companies. These are the financial capabilities of companies and existing legislative requirements (68% each).

#### **Expert Assessment of the Social Policy of Oil and Gas Enterprises Based on the Results of the Author's Own Research:**

The oil and gas sector is the core segment of the economy- therefore, it's hard to underestimate the impact it has on the situation in the region, on the whole. The experts interviewed also acknowledge the defining role of the oil and gas sector in the socio-economic development of the western region. Note that both positive and negative aspects of the presence of oil and gas enterprises in the territory of the western regions are pointed out. The experts believe that the major advantages of this presence are: job creation; improving the standard of living for the region's inhabitants; improving the region's infrastructure; attracting investments; developing the industry, new production lines and services; improving the quality of labor resources; enabling the local youth master specific oil

production-related trades; developing the region in relation to internal migration; increasing the number of local companies serving foreign oil and gas companies on the market; implementing social projects with the support of oil and gas companies.

Apart from key advantages, the experts point up some negative effects of the presence of oil and gas companies in the region. Practically all the experts converge in the belief that the major drawback of oil and gas companies' activity is pollution. Such a negative view of the role of oil and gas companies is due to their effect on the health of the region's inhabitants. The experts believe that environmental pollution is resulting in increasingly high morbidity rates in the region. The region's oil and gas specialization also has a negative effect on the economy's real sector, associated with production and processing. Now already, based on expert estimates, there are clear symptoms of the "Dutch disease", when due to increases in export revenues the national currency firms up, the competitiveness of the open sector diminishes and the raw materials and service sectors develop to the detriment of the processing sector. The experts point up a whole number of issues caused due to the oil and gas orientation of the economy. Firstly, it's the growing chasm between the rich and the poor. Secondly, it's the high inflation on the consumer goods and real estate market. Thirdly, it's the division of society into oilers and those who work in other industries. In totality, these issues substantially disimprove the social well-being of the people and drive up tensions in the region. Another system risk the experts point out is inequality in wages for local and foreign workers employed by oil and gas enterprises. The experts believe that such practice infringes on the rights of Kazakh workers and can lead to increased conflict in the workplace.

Based on the results of the expert survey, the oil and gas sector has a major impact on the following aspects of the social situation in the region:

- the population's standard of living (6,75);
- the development level of the small and medium business (6,50);
- the unemployment level in the region (6,44).

The oil and gas industry has a medium impact on:

- the health of the region's inhabitants (5,85)
- the state of social infrastructure on the whole (5,42)

The experts indicate that the weakest link is between the oil and gas industry and the region's crime rate (4,44).

According to the data obtained, there are two major factors playing a key role in defining the priorities of social policy for these companies. These are the financial capabilities of companies and existing legislative requirements (68% each). The social policy of oil and gas companies depends much less on official agreements and contracts- 26%. 16% of the experts believe that this policy is governed by the decisions of senior management at these companies.

Based on the results of the analysis of expert opinions, the study arrives at three groups of opinions on the relationship between the population and oil and gas companies. The first group finds that foreign companies do have lucrative contracts, which lets them ignore the region's social sector. According to the second stance, the responsibility for the social sphere rests on the government and foreign oil and gas companies just have to comply with legislative requirements and pay taxes. The third group of experts totally denies the notion that foreign companies don't do much for the local population. It's asserted that, on the contrary, year by year these companies increase their expenditures for the social sector. The experts hold that large foreign companies are themselves interested in forming a positive image in the minds of local community, for their own bylaws require they engage in these practices.

### **CONCLUSION**

The study breaks out three CSR cultivation models for the oil and gas industry: the government's participation in regulating CSR at all levels of operation of the oil and gas industry; regulating CSR at enterprise, concern level; regulating CSR at government and enterprise level. The sociological analysis revealed there are two major factors that play a key role in defining social policy priorities for the Kazakh oil and gas industry. These are: 1) the financial capabilities of companies and 2) existing legislative requirements (68% each). It turns out that, on the one hand, companies consider their own financial capabilities, while, on the other hand and they try to conform to existing legislative norms and requirements in effectuating their social policy. David Spence's study shows that there are no limits to CSR, such as cultural, racial, etc. – the perils are the same everywhere, namely those coming from giant multinational companies which release annual CSR reports on their

active work in the regions, but what they're doing in reality with respect to the local business is a different story. There are many special considerations for both sides involved in CSR policy [18]. Based on the analysis of expert opinions, there are three groups of opinions on the relationship between the population and oil and gas companies. The first group says that foreign companies have a low CSR level. The second stance places the responsibility for the social sphere on the government and suggests that foreign companies should just comply with legislative requirements and pay taxes. The third expert group totally denies the notion that foreign companies are doing a poor job with respect to the local population. It asserts that, on the contrary, year by year oil and gas companies increase their expenditures for the social sector.

### **RESULTS AND DISCUSSION**

The CSR sphere comprises managing company activity in the areas of organization and planning with respect to the formation and development of human resources, ecology, industrial safety and labor protection, external social activity, company relations with all stakeholder groups.

There are three models for CSR cultivation in the oil and gas industry: the government's participation in regulating CSR at all levels of operation of the oil and gas industry; regulating CSR at enterprise, concern level; regulating CSR at government and enterprise level.

According to the data obtained, on the one hand, companies rely on their own financial capabilities and, on the other, try to conform to existing legislative norms and requirements in effectuating their social policy.

Based on the analysis of expert opinions, there are three groups of opinions on the relationship between the population and oil and gas companies. The first group says that foreign companies have a low CSR level. The second stance places the responsibility for the social sphere on the government and suggests that foreign companies should just comply with legislative requirements and pay taxes. The third expert group totally denies the notion that foreign companies are doing a poor job with respect to the local population. It asserts that, on the contrary, year by year oil and gas companies increase their expenditures for the social sector.

Based on the analysis of statistical data, the major lines of CSR policy for Kazakh oil and gas companies are: job creation; providing workers with an employee benefits

package; construction of social facilities; improving the living environment in towns and townships; funding scientific and educational projects; implementing programs aimed at fighting AIDS, substance abuse, homelessness; improving the transport and communications infrastructure; promoting arts- assisting theaters, galleries, certain arts figures; resolving environmental issues; organizing cultural and sports events.

Consequently, there are three models for CSR cultivation in the oil and gas industry: the government's participation in regulating CSR at all levels of operation of the oil and gas industry; regulating CSR at enterprise, concern level; regulating CSR at government and enterprise level.

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