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# East Asian Journal of Business Management

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## Comparison of the Importance of Banks' Attributes between Islamic and Conventional Banks' Customers

Hardius Usman\*

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### Abstract

**Purpose** – This paper aims to study the main selection criteria for Islamic banks in Indonesia, and to compare them with those for conventional banks.

**Research Design, Data, and Methodology** – This study employs an exploratory approach and a natural experimental design with Factor Analysis and two independent sample tests as statistical analysis methods. A total of 363 questionnaires were distributed to three groups of bank customers—customers of Islamic and conventional banks individually, and those of both banks together (121 respondents in each group).

**Results** – The research shows that service appears to be the most important factor in selecting Islamic banks, in addition to other emotional and rational factors. However, this service cannot be expressed as the Islamic banks' advantage compared to conventional banks, because the latter's customers also perceived service as the most important factor. The parametric mean of importance of service for both Islamic and conventional banks' customers is insignificantly different.

**Conclusion** – Customers of both conventional and Islamic banks have a similar degree of importance for convenience, price, and service.

**Keywords:** Importance of Bank Attributes, Convenience, Price, Service, Islamic Bank Selection.

**JEL Classifications:** G21, M31, O53.

### 1. Introduction

Islamic bank is a banking system that operates under Islamic law (Haque, Jami & Ahmad, 2007; Hassan, Chachi & Latiff, 2008; Marimuthu, Jing, Gie, Mun & Ping, 2010; Manzoor, Aqeel & Sattar, 2010; Idris, Naziman & Januri, 2011), with the main principle prohibits bank interest in all transactions (Haron, 1997

Haque et al., 2007). In other words, Islamic banks follow the Islamic rules and principles in doing business (Dusuki & Abdullah, 2007). Therefore, it is reasonable to use religiosity as an explanatory factor in the previous study of Islamic banks selection. Religious individual is an individual who has a strong commitment to the teachings of his/her religion, and implement the teachings in daily life (McDaniel & Burnett, 1990). Thus, Muslims who have higher degree of religiosity should prefer Islamic banks than conventional banks.

However, previous studies showed different conclusions about the relationship of religiosity and the selection of Islamic banks. Some researchers (Metawa & Almosawi, 1998; Almosawi, 2001; Othman & Owen 2001; Khoirunissa, 2003; Bley & Kuehn, 2005; Zainuddin, Jahyd & Ramayah, 2004; Okumus, 2005; Dusuki & Abdullah, 2007; Ahmad, Rahman, Ali & Seman, 2008; Haque, Osman, Zaki & Ismail, 2009; Manzoor et al., 2010; Butt, Saleem, Ahmed, Altaf, Jaffer & Mahmood, 2011; Idris et al., 2011) revealed that religiosity is an important criterion for selection of Islamic banks. At the same period, other studies (Erol & El-Bdour, 1989; Erol, Kaynak & El-Bdour, 1990; Haron, Ahmad & Planisek, 1994; Gerrard & Cunningham, 1997; Naser, Jamal & Al-Khatib, 1999; Jalaluddin & Metwally, 1999; Zaher & Hassan, 2001; Awan & Bukhari 2010; Marimuthu et al., 2010) revealed that religiosity is not an important criterion for selection of Islamic banks.

On the other hand, the prohibition of interest should lead to reduce the demand of conventional banks services. In fact it did not happen, particularly in Indonesia. It is of importance to note that in Indonesia, the Islamic banking has also been growing rapidly. Based on the *Indonesian Banking Statistics*, number of accounts in Islamic banks increased significantly, from 1,964,438 accounts in 2006 to 13,430,904 accounts in June 2014. In addition, Third Party Funds (TPF) has experienced a relatively high increase, from 11,862 billion dollars in 2004 to 183,534 billion in 2013 (Bank Indonesia, 2014).

Although Islamic banks in Indonesia have undergone a rapid growth in terms of the number of accounts, from 1,964,438 accounts in 2006 to 13,430,904 accounts in June 2014, and TPF, from 11,862 billion dollars in 2004 to 183,534 billion in 2013, this phenomenon did not bring about a negative impact for conventional banks. In fact, deposits of conventional banks increased from 963,106 billion dollars in 2004 to 3,663,968 billion

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dollars in 2013 (Bank Indonesia, 2014). By comparing the TPF of Islamic banks and conventional banks, it shows that the proportion of TPF of Islamic banks is still relatively small, which is about 5%. Meanwhile, even though the number of accounts in Islamic banks is increasing rapidly, it does not mean a conventional bank customers have switched to Islamic banks. Many banks customers in Indonesia hold multiple accounts. They open accounts in Islamic banks, but still use a conventional bank.

Based on the results of previous research and the reality of the condition of Islamic banks in Indonesia, it can be stated that at least religiosity is not the only cause of a person chooses the Islamic banks. In other words, there are explanatory factors other than submission to religious orders that cause a person to choose the Islamic banks. Therefore, research on rational reasons to explain the selection of Islamic banks needs to get attention.

Shopping Preference Theory (Sheth, 1981) suggest that shopping preferences are determined by shopping motivation and shopping options. Shopping option refers to the availability of outlets to satisfy individual's shopping motivation. That is, consumers will choose an outlet due to what is offered by these outlets according to their shopping motivations.

Fishbein and Ajzen (1980) revealed that the individual's attitude towards the store is a function of: (a) the degree of 'importance' that consumers perceived toward the various attributes of the store; and (b) the consumer's perception of the attributes of a store. Consumers will evaluate whether the relative importance of the attributes of the store in line with their perception. If both of them match, the store will be selected, and otherwise, the store will not be selected (Moye, 2000). Customer patronized Theory (Darden, 1980) explicitly show the importance of attributes is the factors that influence consumer behavior. Thus, in evaluating bank option, customers will consider the attributes of banks to determine their choice.

In a previous study on the selection of Islamic banks, there are three criteria that always considered important by customers of Islamic banks, namely: convenience, price, and service. Convenience which includes hours of operation Automatic Teller Machine (ATM), the location of branch offices, extensive branch network, and the location that is close to home or workplace, are the dominant criteria to choosing the Islamic banks (Haron et al., 1994). These results are supported by Kaynak and Whiteley (1999) and Almosawi (2001) who concluded that convenience is the main motivation of customers in the selection of Islamic banks. Several previous studies (Dusuki & Abdullah, 2006; Mokhlis et al., 2008; Rehman & Ahmed, 2008; Ahmad et al., 2008; Awan & Bukhari, 2011; Butt et al., 2011; Idris et al., 2011; Abduh & Omar, 2012; Selamat & Abdul-Kadir, 2012; Saleh, Rosman & Nani, 2013) also reveal the importance of convenience in the selection of Islamic banks.

Gerrard and Cunningham (1997) revealed that the profit or bank interest is an important reason people keep relations with Islamic banks. The importance of price in the selection of Islamic bank is also revealed in several previous studies (Haron et al., 1994; Hegazy, 1995; Al-Sultan, 1999; Haron & Noraffiah, 2000; Amin, 2008; Hamid, Yaakub, Mujani, Sharizam & Jusoff,

2011; Dusuki & Abdullah, 2006; Ahmad et al., 2008; Rehman & Ahmed, 2008; Mokhlis et al., 2008; Awan & Bukhari, 2011; Idris et al., 2011; Thambia, Eze, Santhapparaj & Arumugam, 2011; Abduh & Omar, 2012; Subhani, Hasan, Rafiq, Nayaz & Osman, 2012; Selamat & Abdul-Kadir, 2012; Saleh et al., 2013).

A bank service is a further criterion, that was identified by several previous studies (Erol & El-Bdour, 1989; Haron et al., 1994; Hegazy, 1995; Metwally, 1996; Gerrard & Cunningham, 1997; Ahmad et al., 2008; Dusuki & Abdullah, 2008; Rehman & Ahmed, 2008; Awan & Bukhari, 2011; Butt et al., 2011; Hedayatnia, 2011; Abduh & Omar, 2012; Hasan et al., 2012; Selamat & Abdul-Kadir, 2012) as an important criterion for customers to choose Islamic banks.

In general, previous studies only examine the role of attribute importance of the Islamic bank customers, and does not compare with conventional bank customers. As a result, the important criteria to selection the Islamic bank is seemingly considered as excellence of Islamic banks. In fact, Holstius and Kaynak (1995) stated that the selection criteria of the Islamic banks and the conventional banks are not really different, because the banking products and services are similar between both kinds of banks. Therefore, it is important to compare between the Islamic and conventional bank customers in studying the importance of attributes.

Based on these problems, this research has two objectives: (1) to study the main criteria for the selection of Islamic banks in Indonesia; and (2) to comparing the main criteria for the selection of Islamic banks and conventional banks.

## 2. Literature Review

### 2.1. Shopping Preference Theory

Shopping Preference Theory (Sheth, 1981) in principle suggests that spending is determined by what the customer wants and what is provided by the store. Consumers will choose a store because of what the store has to offer in accordance with the motivation of consumers shopping. The Five-Stage Model explained that in the evaluation stage, consumers are trying to satisfy a need, and they will pay the most attention to attributes that deliver the sought-after benefits (Kotler & Keller, 2014).

Shopping Preference Theory (Sheth, 1981) describes, there are three type of the process of individuals choose the shopping options, called the choice rule, that is:

1. Sequential calculus: Customers using multiple attributes, which are sorted by importance to eliminate shopping options.
2. Trade-offs calculus: Customers shopping evaluate each option based on attributes simultaneously and forming an average score overall acceptability.
3. Dominant calculus: Customers only use one attribute to establish a preference on a variety of shopping options and evaluate them.

In previous studies, particularly the study of Islamic banking,

the researcher assumes the customer uses the trade-off calculus method as the basis for forming preferences.

## 2.2. Importance of Store Attributes

In an effort to understand how consumers make decisions in choosing a store based on the attributes of the store, researchers have been emphasized how the consumers perceive the 'importance' of an attribute store (Mokhlis, 2006). The purpose of using the variable importance of store image is to obtain what attributes are important to consumers. Dickson & MacLachlan (1990) mentions people building the image to a store through a psychological process that connects between the opinions and attitudes about the tangible and symbolic characteristics. Consciously or unconsciously, people try to answer the questions in his/her mind, that is: Does the store have friendly personnel? Are the prices fair? Is it easy to return merchandise? Do they carry quality products? Are their customers like me? Is the store like me? Consumers will give weight to each of these questions, based on the importance of the attributes.

In a previous study on the selection of Islamic banks, there are three criteria that always considered important by customers of Islamic banks, namely: convenience, price, and service. Convenience which includes hours of operation Automatic Teller Machine (ATM), the location of branch offices, extensive branch network, and the location is close to home or workplace is the dominant criteria become determinant choosing banks (Haron, et al, 1994). Almossawi (2001) also found that convenience as an important factor for students in selecting a bank, such as: the availability of parking near the bank, and the availability and location of ATMs, in addition to reputation, and bank personnel that are friendly. Meanwhile, Khan, Hassan & Shahid (2008) based on a study of 100 customers at five Islamic banks in Dhaka, Bangladesh, namely: Islamic Bank Bangladesh Ltd, Al-Arafah Islami Bank Ltd., Social Investment Bank Ltd., EXIM Bank Ltd., and Shahjalal Islamic Bank Ltd., concluded that the most important criteria in choosing a Islamic bank is a convenient location, family and friends, and yield/profit. Several previous studies (Kader, 1993; Kaynak & Whiteley, 1999; Dusuki & Abdullah, 2006; Mokhlis et al., 2008; Rehman & Ahmed, 2008; Ahmad et al., 2008; Ahmad et al., 2010; Marimuthu et al., 2010; Awan & Bukhari, 2011; Butt et al., 2011; Idris et al., 2011; Abduh & Omar, 2012; Selamat & Abdul-Kadir, 2012; Saleh et al., 2013) also revealed the importance of convenience in the selection of Islamic banks.

Gerrard and Cunningham (1997) showed that the profit is the reason people keep relations with Islamic banks. In Kuwait, Al-Sultan (1999) found that the attitude of a few hundred customers on products and services offered by Islamic banks is driven by interest-free Kuwait Finance House. Similar to Kuwait, Sudan's Islamic bank never give rewards to one's account, but gives them the facility according to the teachings of Islam (Haron & Noraffifah, 2000). Furthermore, Amin (2008) revealed the most important criteria for the selection of Islamic banks are Islamic principles, low monthly payments, the practice of open-

ness, and interest-free practice. Meanwhile, Mokhlis, Hazimah, and Salleh (2008) found that the price and convenience is the main reason for choosing a new bank or change banks. Thambia et al. (2011) revealed that urban residents put the cost of the service as the most important factor, besides safety when taking large amounts of money, high returns on savings or deposits, and mortgages with fixed installments. While Hamid et al. (2011) mentions that the favorable credit, efficient service, and electronic services is the most important factor selection of Islamic banks. Several previous studies (Haron et al, 1994; Hegazy, 1995; Al-Sultan, 1999; Haron & Noraffifah, 2000; Amin, 2008; Hamid, Yaakub, Mujani, Sharizam & Jusoff, 2011; Dusuki & Abdullah, 2006; Ahmad et al., 2008; Rehman & Ahmed, 2008; Mokhlis et al., 2008; Awan & Bukhari, 2011; Idris et al., 2011; Thambia, Eze, Santhapparaj & Arumugam, 2011; Abduh & Omar, 2012; Hassan, et al, 2012; Selamat & Abdul-Kadir, 2012; Saleh et al., 2013) also revealed the importance of price in the selection of Islamic bank.

Erol and El-Bdour (1989) revealed that the effective and efficiency service, reputation and image of the bank, and confidentiality are the main criteria in choosing banks, both Islamic and conventional banks. In subsequent studies, Erol et al. (1990) obtained similar conclusions with previous studies. The slight difference between Islamic and conventional bank customers is interpreting the price policy. Furthermore, Hegazy (1995) found that the Islamic bank customers still put the efficiency of service as one of the most important criteria, while the interest rate offered by banks is an important factor in the selection of conventional banks.

Haron et al. (1994) which examines the preferences of the selection criteria for the dual-banking environment to 301 Muslims and non-Muslims customers in Malaysia, revealed that it is not important to distinguish between Muslims and non-Muslims in the bank selection criteria, which the fast service and high quality are the most important criteria. In Singapore, Gerrard and Cunningham (1997) revealed that the quick and efficiency service and assurance of confidentiality is the primary motivation in choosing a bank. Several previous studies (Erol & El-Bdour, 1989; Haron et al., 1994; Hegazy, 1995; Metwally, 1996; Gerrard & Cunningham, 1997; Ahmad et al., 2008; Dusuki & Abdullah, 2008; Rehman & Ahmed, 2008; Awan & Bukhari, 2011; Butt et al., 2011; Hedayatnia, 2011; Abduh & Omar, 2012; Hasan et al., 2012; Selamat & Abdul-Kadir, 2012) also identified that bank services is a most important criterion.

## 3. Hypothesis

Previous research has revealed that each study provides a different conclusion about the most important criteria in the selection of Islamic banks. Even so, there are three dimensions has always been an important criterion, namely: convenience, price, and service. To study the most important criteria for customers in the selection of Islamic banks in Indonesia, this research proposed a hypothesis:

**<Table 1>** The Main Criteria of Selection Islamic Banks According to Previous Research

Author	Main Criteria
Eroldan El-Bdour (1989)	Services, Reputation, Image, and Confidentiality
Erol et al. (1990)	Services, Reputation, Image, and Confidentiality
Kader (1993)	Services, Reputation, and Convenience
Haron, et al. (1994)	Services
Hegazy (1995)	Services and Return
Metwally (1996)	Services and Price
Gerrardan Cunningham (1997)	Services, and Confidentiality
Metawadan Almoosawi (1998)	Services and Price
Naser et al. (1999)	Reputation, Product, and Services
Al-Sultan (1999)	Services and Price
Kaynakdan Whiteley (1999)	Convenience
Harondan Ahmad (2000)	Profit
Almoosawi (2001)	Services, Reputation, and Convenience
Gerard dan Cunningham (2001)	Confidentiality
Ahmad dan Haron (2002)	Islamic Principles, Services and Knowledge.
Khoirunissa (2003)	Benefit, Profit, Services, and Safety.
Bleydan Kuehn (2004)	Knowledge
Dusukidan Abdullah (2007)	Convenience, Services and Price
Mokhlis, Hazimah, danSalleh (2008)	Convenience and Price
Amin (2008)	Islamic Principles and Price
Haque et al. (2009)	Services
Rashid dan Hassan (2009)	Services and Trust
Manzoor et al. (2010)	Profit
Ahmad et al. (2010)	Convenience
Marimuthu et al. (2010)	Services and Price
Idris et al. (2011)	Convenience, Price and Safety.
Awandan Bukhari (2011)	Product and Price
Hamid et al. (2011)	Services and Technology
Khan et al. (2011)	Convenience and Price

<Hypothesis 1> There are significant differences between the importance of convenience, price, and services, for Islamic banks customers.

Holstius and Kaynak (1995) revealed that the selection criteria of the Islamic banks and the conventional banks are not really different, because the banking products and services are similar between both kinds of banks. Thus, the hypothesis to compare important criteria for the selection of bank between customers of Islamic banks and conventional banks is:

<Hypothesis 2> There are no significant differences the importance of convenience, price, and services, between Islamic banks and conventional banks customers.

#### 4. Research Method

Population of study is Muslim who has bank(s) account. The respondents were conditioned as to be classified into three groups – the Islamic bank customer group, the conventional

bank customer group, and the Islamic and conventional bank customer group.

The sampling technique used in this study was a purposive quota. The first step is to determine the number bank customers in each of the three groups of bank customers that are 121 respondents in each group. The second step is to select the sample with the following criteria: 1) Muslims, and 2) at least the age of 18 years.

Data collection was carried out using a self-administered. Respondents filled out a questionnaire by themselves. However, the data collector accompany them, to help in case of respondents have difficulty filling out the questionnaires.

Importance of Attributes measurements using several items statements, which are adopted on various previous studies (See Table 2). The measurement of statement items is 6-point semantic differencing with a scale of 1 (Not Important At All) to 6 (Very Important).

The method of analysis used in present study is the Two Independent Samples Test. Meanwhile, the data processing use SPSS version 19. For complete information, especially about the phenomena related to Islamic banking, this study also conducted an exploratory study.



**<Table 2>** Indicators and Construct of the Importance of Bank Attributes

<i>Variable/Dimension</i>	<i>Statement Item pernyataan</i>	<i>Sources</i>
<i>Importance of bank attributes</i>		
Convenience	1. Ease of access to branches	Khan et al. (2012); Lee & Morlewe (2003)
	2. Ease of access to ATM	Almossawi (2001); Rao & Sharma (2010)
	3. Wider ATM Network	Almossawi (2001); Rao & Sharma (2010)
	4. 24 Hours ATM Services	Almossawi (2001); Rao & Sharma (2010)
	5. Availability of parking at the branch or ATM	Esso & Dibb (2004); Visser et al. (2006)
	6. Availability of public transport to reach the branch or ATM	Ahmad et al. (2008)
Price	7. High return, which is paid on savings or deposits	Ahmad et al. (2008); Metawa & Almossawi (2001)
	8. Availability of point reward	Ahmad et al. (2008); Metawa & Almossawi (2001)
	9. There is no charge to open an account	Metwally (1996); Marimuthu et al. (2010)
	10. There is no inter-bank transaction fee	Ahmad et al. (2008); Metawa & Almossawi (2001)
	11. There is no cost to replace bankbook	Metwally (1996); Marimuthu et al. (2010)
	12. There is no charge for the use of internet banking	Ahmad et al. (2008);
	13. There is no charge for the use of sms banking	Ahmad et al. (2008);
Services	14. Efficiency in teller services	Haron et al. (2004); Hassan (2009)
	15. Fast resolve the problems which is faced by customers	Haron et al. (2004); Hassan (2009)
	16. Queue using the waiting number	Rao & Sharma (2010)
	17. Easy to ask various things	Abbas et al. (2003); Hamid et al. (2001)
	18. Easy to report problems	Hamid et al. (2011); Rao & Sharma (2010)
	19. Easy to get a variety of information	Hamid et al. (2011); Rao & Sharma (2010)

## 5. Results

The results of data processing shows the average value of the different scores, where Dimensional Services have the highest average score, which is 5.2548, followed by Dimensions Convenience (5.2438) and Dimension Price (4.7001). This condition indicates that Islamic banks customers consider that services more important than other criteria. In addition, statistics show the average score all of the dimensions of the importance of the bank attribute high relatively, considering the maximum score are 6. It can be stated that in selecting the Islamic banks, Muslims not only consider the emotional factors, such as religious orders, but also consider rational factors.

Based on factor analysis, statement items are grouped in four factors, which all items in the statement of service dimension as the first primary factor. These results also indicate that Islamic banks customers consider that services more important than other criteria. The results support previous studies (Errol & El-Bdour, 1989; Erol et al., 1990; Hegazy, 1995; Metwally, 1996; Gerrard & Cunningham, 1997; Ahmad et al., 2008; Dusuki & Abdullah, 2008; Rehman & Ahmed, 2008; Awan and Bukhari, 2011; Butt et al., 2011; Hedayatnia, 2011; Abduh & Omar, 2012; Hasan et al., 2012; Selamat & Abdul-Kadir, 2012), that indicate the importance of the services provided to customers.

Haron et al. (1994) revealed that it is not important to distinguish between Muslims and non-Muslims in the bank se-

lection criteria, which the fast and high quality services banks are the most significant selection factor. For Islamic banks that have sharia as a compass to conduct the business, then quality service, hospitality, professional, and so on, is part of the mandate that must be run, and has been embedded in the values of Islamic banks.

Referring to Shopping Preference Theory (Sheth, 1981), the findings show that the Islamic bank customers judge that the service is the most important attribute in choosing a bank, so that it can be stated that Islamic banks have been able to provide the desired service customers, so customers choose the bank. The question then is, whether the result showed that Islamic banks have advantages in services compared to conventional banking, so that people choose Islamic banks?

This study found that the average score of the importance service and price for conventional banks customer are respectively 5.2658 and 4.7296, slightly higher than Islamic banks customers. Meanwhile, the average score of convenience for Islamic banks customers is 5.1777, higher than conventional banks customers. Although the average score of the importance banks attributes between Islamic banks and conventional banks customers are different, after a hypothesis test to the dimensions of convenience, it was decided to accept  $H_0$  at level of significant 5% (sig. 0.467). It can be stated, the average score of convenience of Islamic banks customer do not differ significantly compared to conventional bank customers. So it can be concluded that the degree of importance of the Islamic

banks customers to convenience are no different than conventional banks customers.

Hypothesis testing results also show that the average score of price dimension of Islamic banks customers and conventional banks do not differ significantly (sig. 0.794). Similarly, the average score of service dimension did not differ significantly (sig. 0.914) between customers of Islamic banks and conventional banks. It can be concluded that the degree of importance to price and service of the Islamic banks customers is no different than a conventional bank customers.

Factor analysis strengthens the conclusions tests of hypotheses above, which shows both conventional bank and Islamic banks customers, the service is the most important dimension in the selection of the bank.

The statistical test showed that customers of Islamic banks and conventional banks have relatively similar importance to convenience, price, and service. These results support the Hypothesis 2 that there was no significant difference in the importance of convenience, price, and service between Islamic banks and conventional banks customers. The results also supports Holstius & Kaynak (1995) which states that the selection criteria for Islamic banks and conventional banks in fact no different, because Islamic banking offers products and services similar to conventional banks, and Haron, et al. (1994) that stated which the fast and high quality services banks are the most significant selection factor.

Referring to Shopping Preference Theory (Sheth, 1981), it can be concluded that the service is not an advantage of Islamic banks compared conventional banks. In other words, both conventional bank and Islamic banks customers consider that the service is the most important attribute. Why do people who have an importance in the same attributes, choose a different bank? It shows that there are other variables that influence selection of the banks. Base on the results, can it be suggested that religiosity is more dominant attribute to influence customers on the selection of Islamic banks? As stated by Metwally (1996) that there were no significant differences between Islamic banks and conventional banks in terms of the benefits and cost of the product, the service bank, and the competence of staff. Thus, the selection of the Islamic banks is due to religious reasons.

Various previous studies (Haron et al., 1994; Hegazy, 1995; Almosawi, 2001; Ahmad et al., 2008; Dusuki & Abdullah, 2008; Rehman & Ahmed, 2008; Abduh & Omar, 2012; Awan & Bukhari, 2011; Butt et al., 2011; Idris et al., 2011; Hassan et al., 2012; Khan et al., 2012; Selamat & Abdul-Kadir, 2012; Saleh et al., 2013) conclude that convenience, price and service are important criteria in the selection of Islamic banks, so that these attributes are considered as Islamic banks advantages compared to conventional banks. This study reveals that these attributes are not only considered important by Islamic bank customers, but also customers of conventional banks. Therefore, the recommendations on the previous research was given to Islamic banks regarding the selection of the main criteria of Islamic banks, particularly about convenience, price and service, are also applicable to conventional banks.

## 6. Discussion, Conclusion and Managerial Implication

The present study concluded that the services is an important criterion in choosing a bank for customers of Islamic banks, and important criteria selection both Islamic banks and conventional bank customers do not differ significantly. The results of this study are similar to study was conducted by Metwally (1996), which finally concluded the selection of the Islamic banks is due to religious reasons.

However, with regard based on the TPF and the number of account of Islamic banks customer in Indonesia, the question arises, is it true that religiosity have very significant role in the selection of the bank? If so, why is the number of Islamic banks customers in Indonesia is still very low?

There is a group of Islamic bank customers in Indonesia, which is only encouraged religious motivation when choosing an Islamic bank, namely 'loyalists' of Islamic bank. All the individuals in the 'loyalists' group certainly have used Islamic bank. Since the number of Islamic banks customers in Indonesia is still low, it can be stated that their number is very limited. It raise the question, are the majority of Indonesia's population is not religious?

Considering that in Indonesia, the Islamic tradition still has a major influence on people's daily lives, then it can be stated, individuals that included in the loyalist can be expected as religious Muslim, but not all religious Muslims included in loyalist group. Perhaps, emotional factors (religious order) encouraging them in choosing a bank, but at the same time, they also consider the rational factor. It is at least shown by degree of importance by bank customers to the convenience, price and service. Thus, to get more customers, Islamic banks should pay more attention to the customers'importance from the rational side.

Wilson (1995) suggested that Islamic banks should not only consider their business just to fulfill religious obligations of the Muslims, but more significantly as a business that is always needed to win customers at the same time retaining existing customers (Dusuki & Abdullah, 2007). A similar statement was also expressed by Ahmad and Haron (2002) that Islamic banks should not rely solely on the religious factor as a strategy to attract more consumers, but should emphasize efficient service, and should look into situational factors that will determine their level of competitiveness in the future. Furthermore, Ashraf and Nurdianawati (2006) mentions that the Islamic banking activities should no longer be regarded as an initiative to carry out a religious obligation, but significantly as the innovation needed to win the competition of customers. This study revealed that trust is one important key for Islamic banks to win the competition against conventional banks.

Islamic Banksin Indonesia are relatively younger than conventional banks, and almost all of them were born by conventional banks. Therefore, it is reasonable that the Islamic banks still have various shortcomings compared to conventional banks. Based on information obtained from an exploratory study, there are at least three important elements that must be answered by Islamic banks related to providing excellent service, that is:

Human Resources (HR), Information Technology (IT), and products.

The weakness of the Islamic banks of Human Resources is limited understanding of the concept of Islamic banking itself. This is due to the limited formal education on Islamic banking in Indonesia. Typically, employees who work in Islamic banks come from various fields of study, which is then received training on Islamic banking. Besides that there is a tendency that the Islamic banks is not the primary choice for job seekers, who are interested to work in a bank, so that qualified workers have been first absorbed in conventional banks.

Infrastructure readiness is one of the main requirements for developing the banking business. In-depth interviews revealed that in fact, many religious Muslims hold two accounts. For save or invest, they use the Islamic banks, and for trading, transaction or payment, they use the conventional banks. This condition is caused by IT in conventional bank is very supportive. Thus, the development of IT in Islamic banks needs to be prioritized.

In-depth interviews also revealed that Islamic banking products are still not following the market demands. How Islamic banks will compete against conventional banks if the Islamic banks offer the products that do not follow customers' needs and desires? Bank Islam does have various restrictions in product innovation, because should adhere to the principles of Islam. However, these restrictions should not be viewed as a weakness, but rather should be seen as an Islamic bank differentiation.

Prohibition of bank interest is a fundamental distinction between Islamic banks and conventional banks (Hassan et al., 2008; Manzoor et al., 2010). However, the bank interest is not the only distinguishing between Islamic and conventional banks, because these differences lead to emergence the others differences.

As a consequence of the prohibition of bank interest, Islamic banks use the concept of 'equity-participation' (Hassan et al., 2008), and the profit and loss sharing system in all business (Haron, 1997; Idris et al., 2011). This concept actually has the objective to involve the participation of the customer to develop the bank. If the Islamic banks get high profit, customers will also get a higher profit. Thus, conceptually, banks and customers will evolve together. Therefore, Islamic banks treat customers as a partner, not a debtor or borrower, as the practice of conventional banks (Marimuthu et al., 2010).

In banking practice, Islamic law also prohibits *gharar* or speculative trading and '*maisir*' or gambling (Idris et al., 2011). Islamic banks are also prohibited from engaging in transactions (payment or acceptance) with business related to illicit (*haram*) products, such as: alcohol and pork trade (Manzoor et al., 2010). Furthermore, Islamic banks are required to run the business and trade activities based on the principles of justice and obtain kosher (*halal*) profit, pay *zakat*, prohibit monopolies, and work for social purposes (Haron, 1997).

Based on the explanation of the characteristics of Islamic banks, it seems that Islamic banks offer systems based on positive values, which is acceptable to all parties. Positive values in

business that is embedded in Islamic banks not only will attractive to Muslims, because the values are not simply a matter of religious belief, but rationally can provide benefits to all customers. Thus, there are opportunities that positive values will also attract non-Muslim groups. As stated by Warde (2000), the western attitude also changed to the bank, as the growth of 'ethical' banking. Currently, the non-Muslim customers refuse to invest in companies that are unethical and have socially harmful activities.

What are the real characteristics of Islamic banks, which distinguishes it from conventional banks, have come to the whole of society? Promotion and education to public are the real challenge of Islamic banks to achieve success in competing against conventional banks, in addition to the standard requirements as banks, such convenience, price, and service.

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[Field Research]

## Features of Corporate Governance in Kazakhstan

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### Abstract

**Purpose** – Following globalization, Kazakh companies are considered to be among the main economic agents of the country. The influence of Limited Liability Partnerships (LLPs) on Kazakhstan's economic development is becoming increasingly pronounced. Therefore, limitations and backwardness of legislation regarding regulation of corporate governance must be overcome at the earliest.

**Research design, data, and methodology** – We considered the basis for legislation of corporate governance in Kazakhstan, and the corporate governance models that better describe the situation of being in the organization.

**Results** – Earlier studies have identified several problems, including "transparency" of issuers and markets, and the consequent lack of (undeveloped) external control of managers of the former state-owned enterprises; lack of traditional corporate ethics and culture; and corruption, and other criminal aspects of the problem. This article describes several proposals to improve corporate governance in Kazakhstan to solve these problems.

**Conclusions** – Domestic reformers acting without consideration of local features is a common occurrence today. They often ignore that these features are recommended for reputable international organizations, and therefore should be used carefully.

**Keywords:** CG (corporate governance), Kazakhstan, control, model legislation, market.

**JEL Classifications:** M100, M110, M120.

### 1. Introduction

Corporate governance is the total branch of knowledge, which translated into Russian terminology covers several disciplines: finance, law, accounting, taxes, etc.

Pivot around which are woven these diverse science, was the question of ensuring internal security is now the company.

That is, if yesterday it was believed that there are dozens of external factors (economic crisis, political instability, etc.) could lead to the immediate collapse of the company, but now the whole world has become no less attention is paid to internal factors. Chief among these internal factors, as shown by international experience, has become the order of management in companies.

Previously it was thought that there are no people more commitment to the company than its officers and directors, but today, these views have changed dramatically. Now, on the contrary, it is considered that there are no people who would need to more carefully control and monitor how managers and company directors. In this sense, it is fully applicable to the proverb which says that if you want to check on the integrity of the person, give him the money and power. Managers and directors of companies - these are the people who provided money and power. And if before the power and money provided almost parole, but today, after a series of major corporate scandals, a new branch of knowledge, "corporate governance", is responsible for implementing and improving self-sufficient, self-controlling mechanisms of management of companies in which the entire leadership, all directors and staff are under constant, cross, mutual control and supervision of the shareholders. Accumulation, analysis, development and implementation of the control system companies best practice in this area, and there is, in fact, work to improve corporate governance. A comprehensive knowledge of the industry that deals with these issues, as already mentioned, referred to as "corporate governance".



<Figure 1> Corporate governance system of Kazakhstan

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## 2. Literature Review

### 2.1. Corporate governance in the life of Kazakhstan companies

Speaking about the relevance of corporate governance, it is gratifying to note that today the question of implementation or the introduction of modern principles of corporate governance is not as acute in front of domestic companies, as it was a few years ago. Most companies is already solved that question for yourself. Today, all major companies understand that it is important and necessary. But there was another problem: how to do it, and most importantly, how to do all of this quickly? In this respect, the enthusiasm of some companies planning to change corporate governance in a few months, you can only envy.

Thus, for many domestic companies need a good, well-established system of corporate governance has become very urgent. However, different companies at the same time guided by different motives. Some want to improve their corporate governance because in the near future plan to go for an IPO. By the way, most of these. Others believe that the improvement of corporate governance can have a positive impact on the effectiveness of the company as a whole. In this article I will try to understand what really are the benefits of good corporate governance. How are the circumstances when the system of corporate governance suffers.

### 2.2. The consequences of poor corporate governance

International experience in corporate practices in the numerous corporate crises shows the following. Company with weak corporate governance poses a serious threat to the interests both directly, investors, society and the state did. The most striking example of the American company Enron became a living proof of this. The collapse of this giant of American industry took place in a matter of days. It happened only because of many errors, abuse and fraud in the performance of managers and directors of the company, which was made possible due to the low quality of corporate governance. Losses unsuspecting shareholders amounted to 60 billion. US \$ 5.6 thousand. Workers lost their jobs, company director were sentenced to lengthy prison terms and compensation of losses of millions. Very much reflect this on the company's contractors. And this is just one of the high-profile episodes consequences of poor corporate governance in the history of corporate scandals in the international arena.

Domestic practice has now totals some sad examples of poor corporate governance.

The consequences of poor corporate governance can be expressed not only in the bankruptcy of the company. Bankruptcy is only one of the most extreme manifestations. This is a good opportunity for raider capture company, this company unattractive for investors, this is an excellent opportunity for unscrupulous managers, and it suits by shareholders to the company.

### 2.3. The benefits of good corporation

It should be noted that the company, which in its activity does not violate any current legislation can not automatically be considered a company with good corporate governance. Compliance with the law is a necessary but not sufficient element. In addition, these companies will sooner or later turn from law-abiding companies in the violators if they do not make an effort to further improve the corporate governance system. Here, everything is interconnected. Therefore confine compliance with legal requirements is not possible, it is only an intermediate stage, which must either bring to the next stage, or roll back to the previous state.

Ideally, a company with a good corporate governance framework should be established in its control system all the institutions best practices, such as:

- Independent Director,
- Committees of the Board of Directors,
- The permit system and the prevention of corporate conflicts,
- A proper system of internal control and risk management,
- Really working internal audit service,
- Corporate Secretary,
- A system of disclosure of conflicts of interest, etc.

But this is only one side of the coin, the so-called "static" good corporate governance, the mere existence or creation of all these institutions nothing. By the way, the company Enron has almost all the specified attributes. It is necessary to build up the interaction between all these institutions, it is the second side of the coin - "dynamics" of corporate governance. All the necessary attributes of good corporate governance can be implemented fairly quickly and without much effort. However, to establish the correct dynamics, they have to build a relationship between these institutions, to make the system work - is quite complicated and time-consuming process. To do this, it will take years. The control system changes along with people. And in order to change people's attitude to the processes, as we know, it takes time. Therefore, the corporate governance of the company can be considered good only when not only implemented all the necessary institutions corporate governance best practices, adapted to the needs of the company, but when all these institutions really work, people involved in them are aware of their role in the dynamics of the whole process, all participants clearly understand their responsibilities, in short, when the company has created not only the static corporate governance, but also enjoys the right speaker.

## 3. Methodology and Summary Statistics

Now that, in fact, can provide properly structured system of corporate governance. It is recognized that the main advantages of good corporate governance are:

- 1) improving the efficiency of the company;
- 2) facilitating access to capital markets;
- 3) the ability to attract financing on more favorable terms;



4) strengthening the company's reputation.

Improving the performance of the company. It is believed that properly structured processes of corporate governance have a positive impact on efficiency. By the way, in Kazakhstan's fairly common practice is complete chaos in the relations within the company. One unit makes a decision that is contrary to the decision of another unit; Committee of the Board of Directors decides not comply with legal requirements; There are no hard, well-developed performance standards of business units, which are suffering from the customers organization, and established mechanisms to identify gaps and clear lines of response do not like the other examples. Therefore, first of all, well embedded in the activities of the company corporate governance principles should significantly optimize all current business processes. This is reflected in the establishment of clear rules and order in the hard work between all departments of the company and within them. This is facilitated properly implement the system of internal control, which allows you to clean in the company "at the cellular level," figuratively speaking. Internal control - a system that allows the board of directors and the executive body through specific verification mechanisms have an idea of what is happening at the bottom of each level and in each unit. Figuratively speaking, internal control makes it possible to "look in the face" of each employee in each room. Furthermore, this system makes it possible not only to obtain relevant information about everything going on in the company, but also to manage this process, correct it, act on it in the right direction.

Secondly, good corporate governance and effective in reducing the risk of all sorts and allows to detect, identify and effectively manage them. This applies to all types of risks. Including the risk of fraud on the part of management that is often overlooked, the risks of the companies involved in the litigation. How good corporate governance contributes to this? To this end, the management structure of the company is organized risk management system that is integrated into the internal control and starts from the top level, and ends with the rank and file employees. In some companies, there are special services for risk management at the departmental level, which take the brunt of the burden of risk management, and board-level committees have been established for risk management. Nevertheless, the whole system is not confined to these structures.

Effectiveness of the company with good corporate governance and enhanced by improving the reporting and monitoring of both managers and board members. Regular monitoring of the activities of managers and board members - useful and very important element in any company - a well-established system of corporate governance will contribute, except the internal control and internal audit service, as well as properly organized system of disclosure in the company.

On the effectiveness of the company with good corporate governance can not but affect and strict standards and rules in each division. Establish such rules contributes to the fact that the whole structure of the organization, each individual unit in the company with embedded and actively apply the principles and institutions of corporate governance best practices, is under

systematic comprehensive monitoring and control. A system of this monitoring and control - an indispensable tool for improving corporate governance practices for domestic companies. And, most importantly, control, monitoring and reporting of the presence of failures and shortcomings in the work going on is not necessarily "top-down" as is commonly believed. Its uniqueness lies in the fact that almost every employee involved in this work as well as the directors and senior management.

Facilitating access to capital markets. Many stock exchanges of the world today is one of the basic requirements for listing set high standards of corporate governance. Thus becomes understandable desire to domestic companies preparing to enter the world's stock exchanges, in a short time to implement all the institutions of corporate governance best practices. At the same time, we are witnessing is not rare and excessive zeal in this matter. It is that the company is creating a board of directors is the large number of individual committees that, firstly, no one in the company, including board members themselves do not understand who and what these committees should be doing, and secondly, that amount does not reflect the No real needs of the company in the committees.

Action background exchanges to tighten requirements for corporate governance is absolutely understandable. Exchange should create conditions to attract investors to their site, which is necessary to take measures to improve the stability of listed companies and increase investor confidence as to the exchange itself with its listing requirements, as well as companies. According to a study conducted by McKinsey & Company in 2002 from 41% to 66% of investors around the world are paying equal attention today as financial performance and corporate governance issues in dealing with investment in the company. This means that corporate governance issues of today are no less important than the tools themselves profitability of the company.

Availability of financing on more favorable terms. Besides the fact that half of all investors in the world have the same emphasis corporate governance, as well as profitability, investors today are willing to pay a premium over the share price in the case of good corporate governance. The less developed a particular market, the greater the premium investors are willing to pay for the shares of companies with a high level of corporate governance in this market. Pattern here is simple: the less stability in the external environment in which the company operates, the more will it cost stability within the company. This internal stability of the company is ensured through the introduction of company management best practice recommendations. So, for the shares of Russian companies in 2002, investors were willing to pay up to 38% above their value. Much less the premium was in the developed markets, such as in the US - 14, Germany - 13%. However, in addition to prizes for the shares of the company with good corporate governance attract funding from various sources on more favorable terms, in contrast to those companies, corporate governance which is lame.

Strengthening the company's reputation. Very often, the level of corporate governance demonstrates the stability and dynamic development that inspires confidence in the company, not only

by investors but also by customers and society. This strengthens the company's reputation in the market and enhances the company's sales.

The acuteness of the problem for the financial sector. Unlike most conventional production companies, which, depending on individual circumstances entitled to ponder the question of whether to implement or not to implement the recommendations of the best corporate governance practices, banks and other financial institutions are forced to do so due to the unique status of these organizations. Acting as intermediaries in the capital market, the majority of financial institutions, because of their status, a priori, must comply with the best practices of corporate governance. This is, firstly, due to the huge, if not decisive, the value of trust from customers and depositors in respect of financial institutions to the business of the latter. Second, banks are the main actors in the monetary system that stresses the importance of stability. For these reasons, banks and other financial institutions are subject to more stringent regulation, including corporate governance. In this connection, in many areas of corporate governance to financial institutions provide less freedom. They are required to constantly improve the confidence of investors and customers, they are required to implement those institutions that are prescribed for them by law. For example, if the company is entitled to the usual or not to create committees of the board of directors, banks are required to do so in accordance with the law; If any other company has the right not to organize an internal audit service, banks and insurance companies are obliged her to do it. Particularly for financial institutions in the area and there are deals affiliated persons, and the requirements for the members of the Board of Directors, and the disclosure, and many other aspects of corporate governance.

Among the important factors that influence the formation of a national model of corporate governance, should be highlighted:

- The structure of ownership of shares in corporations;
- Specifics of the financial system as a whole as a mechanism for the transformation of savings into investments (types and distribution of financial contracts, the state of the financial markets, types of financial institutions, the role of banking institutions);
- The ratio of corporate funding sources; macroeconomic and economic policy in the country;
- The political system (there are a number of studies, conducting direct parallels between the device's political system "voters - Parliament - Government" and a model of corporate governance "Shareholders - Board of Directors - Managers");
- History of development and modern features of the legal system and culture;
- Traditional (historically constituted) national ideology; prevailing business practices;
- Traditions and the degree of state intervention in the economy and its role in the regulation of the legal system.

Efficacy of best practice recommendations for companies existing in Kazakhstan realities, some critics doubt is fair. Indeed, each country has its own national model of corporate gover-

nance, based on the existing basic models with various features that take into account the socio-cultural, economic, historical features of a particular country. As already mentioned, there are a lot of different models of corporate governance. They vary from country to country. Each country produces its own special model of corporate governance. All depends on the features that the system of corporate governance is in a particular country. However, all national systems of corporate governance are based on two main models of corporate governance that exist in the world are:

- 1) Anglo-Saxon model;
- 2) Continental model.

The experience of the first stage of privatization (1991-1992). The second stage in the development of corporate governance in the Republic of Kazakhstan (from 1991 to 1995). In Kazakhstan has shown the limitations of ownership conversion tools developed with a focus on collectivist beginning that it was inevitable time. Adopted in March 1993. "National program of privatization of state property in the Republic of Kazakhstan for 1993-1995" to determine the direction and sequence of the transformation of state property.

During this period, transformed into joint stock companies about 2,000 enterprises.

The third stage in the development of corporate governance in the Republic of Kazakhstan (from 1996 to 1999) of cash privatization. Until the end of 1998, it was privatized in 2615 joint-stock companies and economic partnerships. This represented 51.8% of the total number of established joint-stock companies and economic partnerships.

Corporate governance has been built on the basis of well-established and effective regulations in finance, securities, management, labor relations, contractual obligations, contractual activities, organizational structures, marketing.

Kazakhstan has chosen as the base of the continental model of corporate governance. Creating a two-tier system of governance of companies is mandatory for all public companies. Until recently, there were some exceptions to this effect for companies all the voting shares are owned by the sole shareholder. Legislation allowed in such cases does not create the board of directors. In domestic practice quite common stock companies with a single shareholder. However, changes in the law of 19 February 2007, this rule was revoked. Now the demand for a two-tier management system sounded more categorical, avoiding already in general are no exceptions to this rule. Meanwhile, the validity of such a categorical, I must say a few questionable.

#### 4. Results and Discussion

The problem of modern corporate governance arises with the development of global stock markets and the globalization of economic processes, due to the transition from the "capitalist private property owners" to "capitalism hired professional managers." Separation of activities and responsibilities, executive and control the distribution of functions between shareholders

and management, enterprise-wide search for equilibrium are expressed in the Corporate Governance Code. Currently, in most of the developed world are corporate governance codes developed at the initiative of non-governmental professional associations and widely accepted in the business community on a voluntary basis.

In the early nineties there was a problem most clearly systematic approach to corporate governance. Separation of activities and responsibilities, the distribution of the executive and control functions between shareholders and managers, need to find a corporate balance sheet are expressed in the Code of Corporate Governance.

First code of corporate governance, such as Cadbury Report in the UK, General Motors Board of Directors Guidelines in the United States and Dey Report in Canada served as models for other companies. Later, and international organizations have been paying attention to the principles of corporate governance. Thus, the development of these principles and their improvement as the economy is one of the main activities of the Organization for Economic Cooperation Development (OECD).

OECD Principles of Corporate Governance were updated in 2004. The need to create a unified system of corporate governance and ripened in Kazakhstan. Despite the improvement in the investment climate, local companies still lacks transparency and corporate culture. To create such a system is necessary to solve a number of key issues, from theoretical standards of corporate governance to move to their practical application.

The main types of large corporations in Kazakhstan:

1. National and state-owned companies (15): "KazTransOil"; RGP "Kazakhstan TemirJoly"; JSC "Kazakhtelecom"; JSC "Halyk Savings Bank of Kazakhstan", etc .;
2. Joint-stock company established by the state and privatized on individual projects (40): CBO "Corporation" Kazakhmys "; JSC "Kazzinc", etc .;
3. Private corporations formed by the methods of self-organization of the market (about 10): OAO "Kazkommertsbank"; JSC "Neftekhimbank", etc .;
4. The Kazakhstan branch of TNK (about 45): JSC "Corporation" Kazakhmys "(Samsung); JSC "Coca Cola Almaty Bottlers" (Coca Cola, etc.).

The urgency of DF is defined increasingly complex relationship between the owners and managers of businesses that make up the core of KU. If at the initial stage of market reforms in Kazakhstan are often combined in one person. Now the owners of shares (the owners), as well as throughout the "civilized world", are increasingly forced to hire as control of professional managers. In addition, the complicated relationship between different groups of shareholders in corporations: small and large, controlling and blocking, etc. This whole tangle of relationships and should be regulated by the principles of KU.

Features of the corporate governance system in Kazakhstan. The emerging system in Kazakhstan KU is characterized some features:

- Permanent process of redistribution of ownership in a corporation;
- Specific motivation of many insiders (managers and major

shareholders) associated with the control of financial flows and the "output" of corporate assets;

- Concentration of shares (controlling interest) in the hands of the directors or the Director General;
- Weak or atypical role of traditional "external" corporate governance mechanisms (securities market, bankruptcy, the market for corporate management and control), etc.

Material weaknesses in corporate governance is the absence of equitable representation of members of the corporation. No clearly defined and calibrated system of separation of powers, rights, responsibilities and functions between the different levels of the control system, as well as between the parties to the decision making process. This situation is one of the threats to the economic security of the corporation.

The high degree of centralization of corporate governance leads to a low level of economic independence divisions of the corporation. For such a control system is characterized by rigid subordinated subordination of the lower-level leadership senior managers and indirectly the directors and the Director General, in which they often do not bear the corresponding liability for the results of economic activity. It's pretty much an obstacle to the formation and development of corporate governance.

It should be emphasized that the concept of "KU" makes sense only if there is a separation of ownership from management and finance department, at least, certain sources of finance, from the management of the corporation. That division of the owner and manager defines the essence of the modern corporation and necessitates the introduction of KU.

Based on the foregoing, it can be concluded that in countries with transitional economies and domestic conditions formed a kind of model of KU. We call it the CG model of the transition period. In this model, there are also the owners, and hired managers, but their powers in the company are not strictly separated.

In this model the transition does not occur immediately the separation of ownership and management of the property. On the contrary, there is a powerful line: Owner - Board of Directors - Management, part of which forms the core of management, the company performs as a business function and control. One of the main drawbacks of this model is that the administrative core is a kind of internal joint-stock company, a substitute for all the formal corporate governance mechanisms. Interests of those who did not get into the core of management, with no protection. In these circumstances, there is inevitably a continuous struggle for the interception of the entrepreneurial function, which, in turn, allows you to effectively manage the company even highly professional management and create a sustainable competitive advantage.

In Kazakhstan, in my opinion the current stage of business development should take place under the banner of corporate development and full-scale development of corporate governance principles at all levels of government. To implement this concept, it is necessary:

1. The shift from the KU transition to a modern model based on international principles of its construction. The proposed model assumes that KU effective securities market and

such important and disciplining management indicators as the market value of the company and the market KU and control;

2. Prepare and adopt a law "On Corporations", which determines the complex principles and norms of its activity as a holistic socio-economic business entity economy. It is necessary to exclude the possibility of hostile takeovers of companies, based on different interpretations of the law, through bankruptcy, cheating partners, violation of the rights of employees and shareholders, ie raiding and better secure the rights and responsibilities of all stakeholders KU and corporate business as a whole, its organizational forms.

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Institutional and integration trends in the process of market reforms in Kazakhstan led to the formation of the corporate sector, including large industrial, industrial and commercial joint-stock companies, financial-industrial groups, holding and multinational companies that increasingly define the leading role in the economic growth of the country.

Hallmarks of the corporate governance system in Kazakhstan are now as follows:

- The relatively high compared with international practice the proportion of managers in large enterprises;
- Fairly low proportion of banks and other financial institutional investors;
- In fact, there is no such a national group of institutional investors such as pension funds, equity funds, which are the most important subjects of the market in developed market economies;
- Undeveloped securities market provides low liquidity of most businesses and the inability to attract investments from small businesses;
- On the other hand, the lack of developed securities market reduces the relevance of software for enterprises decent reputation in the market and transparency of information;
- In many cases, the relationship with the creditors or shareholders are more important for managers than the relationship with the owners;
- The most important feature is "opacity" property relations: the nature of privatization and post-privatization period led to what is virtually impossible to draw a clear line between the real and the nominal owner.

Certain conservatism is typical for any model of corporate governance, and the formation of its specific mechanisms due

to the historical process in the country. This means in particular that we should not expect rapid changes in corporate governance model after any radical legal changes.

It is necessary to emphasize the fact that the Republic of Kazakhstan and other countries with market economies are now characterized by only forming the intermediate model of corporate governance. For them, the typical bitter struggle for control of the corporation, lack of protection for shareholders (investors), and underdeveloped legal and government regulation.

Among the most important specific issues inherent in most emerging market economies, and creates additional difficulties in forming models of corporate governance and control should be highlighted:

- Relatively unstable macroeconomic and political situation;
- The adverse financial condition of a large number of newly established corporations;
- Insufficient development and relatively contradictory legislation as a whole;
- The dominance of the economy of large corporations and the problem of monopoly;
- In many cases, a large initial "dispersal" of share ownership;
- The problem of "transparency" of issuers and markets, and as a consequence - the lack of (undeveloped) external control of the managers of the former state-owned enterprises;
- Weak internal and fears of many additional risks foreign investors;
- Lack of traditions of corporate ethics and culture;
- Corruption and other criminal aspects of the problem.

In this - one of the fundamental differences between "classical" models prevailing in countries with developed market economies, which are relatively stable and have more than a century.

Experts in the field of corporate law are three main models of corporate governance countries with developed market relations: Anglo-American, Japanese and German. Each of these models was formed in the country for a long period of historically and reflects primarily the specific national conditions of socio-economic development, traditions and ideology.

Direct and automatic transfer of foreign models on the Kazakh economy is not only pointless, but dangerous for further reform.

In Kazakhstan conditions contradiction in corporate relations traditionally most acute. As a result of the mass privatization in the Republic of Kazakhstan has developed a peculiar structure of the capital stock companies, based on the distribution of small blocks of shares among a large circle of small shareholders, as well as on the presence of "exclusive" relationship between major shareholders and the management of such companies. Therefore, quite often there is a paradoxical situation where major shareholders issuers are interested not so much in improving the profitability of the company, as in the preservation of their unique relationship with the companies (eg, monitoring of financial flows and export-import operations).

In this regard, the basic principle of state policy on corporate securities market should be to improve the regulatory role of the

state, which should provide:

- protect investors from the risks of the stock market;
- Create conditions to attract capital into the country;
- Establishment of stable rules, which will operate the market;
- Enforcement of these rules by all participants in the securities market.

In 2000, the Concept of state property management and privatization, the implementation of which adopted three programs to improve the efficiency of state property management and privatization.

In order to strengthen state control over strategic sectors of the economy in 2003, the Law of the Republic of Kazakhstan "On state property monitoring in the economic sectors of strategic importance."

During the period from 1991 to the present time been privatized more than 39 thousand objects of state property.

Legislation, any, including in the area of corporate governance should "listen" to the needs of actual practice. As is known, the source of law are the objective material conditions for the development of society. They are a measure and the measure of all innovations. There should be no laws, divorced from the real needs of society and existing conditions. And if such laws are still accepted, the provisions contained in them are known to be "stillborn". There will always be some ways to simulate compliance with such laws or ways to such requirements are not met.

Prior to the introduction of the above changes to the law on joint stock companies, not all companies with a sole shareholder created a Board of Directors. Moreover, many public companies had more than one shareholder, created a board of directors formally. In such companies, the board of directors has not played absolutely no role. In many companies, boards of directors and today is nothing more than a sham. This is absolutely imitation of what is prescribed by the legislation on joint stock companies. It is an imitation. There is nothing surprising in this. It is said in the law that should form the board of directors, that create the company board of directors. The author of these lines had the honor to ask questions to the owners of a number of large domestic companies about what they want the board of directors, which actually is not. Many openly said that if there were no legal requirements for mandatory establishment of a control system of a joint stock company at the same time two parts: the Board of Directors and executive body - it is unlikely that they would certainly create both bodies. Again, the majority of domestic companies board of directors created only to comply with the requirements of the legislation. Management issues in such company decides a pleasure executive body alone or shareholders. Shareholders are, as a rule, either directly descend to the executive body, bypassing the board of directors, or they themselves are represented in the executive body, allowing you to make decisions directly. In the other, no less common cases, the main shareholders of the companies themselves are part of the Board of Directors and all decisions on day to day activities of the company are made by the Board of Directors. Executive authority is actually atrophies, it turns into a nominal body which can not take any decision on their

own. Meanwhile, shareholders, board members, every day coming into the company as a job, replace the executive body.

The problems described above have been rightly reflected as deficiencies in the assessment of the state of corporate governance in emerging markets, one of the agencies.

## 5. Conclusion

Choosing the basic model of corporate governance in Kazakhstan, can hardly be considered reasonable categorical in favor of a particular model. At least at this stage. The above management practices in domestic companies shows that a two-tier continental model of corporate governance can not and should not be at this stage of development the only possible. It is impossible to impose the company now. After all, previous experience in this regard is almost there. A current practice shows that in many companies the board of directors and the board operate in a single board of directors, similar to what exists in one linked system. In other words, it is not paradoxical, but some institutions the Anglo-Saxon system, after all, are more comfortable today for our companies, rather than imposed, but closer in spirit to continental. Needless to say that many institutions corporate governance best practices borrowed from the Anglo-Saxon continental system. But the most important thing is that one linked model in some cases, is more practical. And it is unlikely the problem of our board of directors is only ignorance of members of the Board of Directors regarding the best practices of corporate governance. Though, and it largely takes place. There are other reasons that the owners of the companies are constantly, so to speak, "at the helm." This is explained by the high concentration of shares in the hands of the controlling shareholders, and complete trust management, and the fact that many companies intentions to share control, attracting the money directly in the stock market. At this stage, when the previous experience of civilized corporate governance actually is not, and the current model does not fully meet the needs of local companies, we believe it would be right not to impose the companies that do not correspond to the reality, and provide an alternative use one linked model of corporate governance, or a two-tier. The fact is that, as we have shown above, actually one linked model of corporate governance in a hidden form exists and is fairly common. From the fact that the legislation is not provided, the substance does not change, moreover, we get a few perverted picture, trying to implement best practices articulated management system, where actually acts one linked.

In light of the great interest in the experience of France, which provided an opportunity for domestic companies, including the listing, choose between one- and two-tier systems management. Moreover, given the freedom and the possibility of differentiation or combination of positions Chairman of the Board and Chairman of the Board of Directors of their choice. This approach allows companies to choose for themselves a more acceptable management model, guided by the individual character-

istics of the company. This flexibility allows, on the one hand, to take into account the specifics of the company, on the other - to set certain limits dictated by the best practices of corporate governance. The example of the Japanese model also shows a certain freedom for domestic companies to choose between one of the two, albeit somewhat different from the traditional models of governance. And in fact, in both cases, we are seeing some concern, manifested in the need to adapt the proposed changes, the recommendations of best practice under real conditions.

In conclusion, it should be noted that a fairly common today is a situation where domestic reformers, act without any consideration of local features. They often hide behind the fact that it is recommended reputable international organizations. But we should not forget that this is just a recommendation of no more than recommendations, they do not oblige anyone to implement everything, taking a fully accountable for the results. Recommendations should be used carefully, with all the features that local reformers need to be more familiar with.

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[Field Research]

## Development of Quality Management in the Republic of Kazakhstan

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### Abstract

**Purpose** – This theoretical study develops practical recommendations for implementing a quality management system (QMS) in Kazakh organizations to ensure the effectiveness and safety of products and services. We discuss the improvement of Kazakhstan's quality standards based on the requirements of ISO 9000.

**Research design, data, and methodology** – We provide methods for improving the quality standards system, ranging from research and development to the sale of products. We also propose to establish a special quality systems award to motivate enterprises toward product quality improvement. The study's methodological basis included Kazakhstan's legislative and regulatory Acts, and international and national standards defining QMS requirements for scientists worldwide to develop and implement a QMS for enterprises.

**Results** – Aligning the QMS reduces Kazakh companies' costs for the detection and correction of defects, and the external and internal loss caused by the defects. Effective QMS also reduces management costs.

**Conclusion** – This article can help increase the transparency of organizations for their leaders and (if necessary) the external environment, and improve the accuracy, quality, and timeliness of decision-making.

**Keywords:** International Standards, Standards of RK, Product Quality.

**JEL Classifications:** L15, L23, M20.

### 1. Introduction

In a market economy, a lot of attention is paid to quality problems. Competition, both at the national and international

markets has led to the need to improve quality. In research and in practice, it became necessary to develop objective indicators for assessing the ability of firms to produce products with the desired quality characteristics. These characteristics are confirmed by a certificate of conformity for products. However, over time, to maintain its competitive status of the organization has been insufficient evidence that organized their production process is able to provide a specified level of quality. This was facilitated by further tightening competition, the direction of which was largely predetermined by the new methodology of quality management products and services.

The current stage of development of the methodology of quality encompasses not only the problem of quality products and services, but also the quality of governance, which is directly responsible for the formation of an appropriate level of quality.

### 2. Background

#### 2.1. Quality Management

Quality management is actively developing a theoretical discipline and management extremely relevant practice areas.

The consequence of this is to get wide distribution of quality management system (QMS), which tend to become the controlling subsystem of any production, covering all phases of the business. Some international standards ISO 9000 have the status of a formalized methodology concentration of total quality management (TQM). Development of ISO 9000 takes place quite rapidly. Due to this methodological terminology TQM enriched categories, applications and research previously carried out practically under this methodology. One of these categories is the efficiency and effectiveness of the QMS. The latest version of ISO 9000, on which the majority of certified QMS in the world, a major tool to improve the organization's activities in the field of quality is to measure the efficiency and effectiveness of existing QMS (Evans and Dean, 1999).

Management system- is a system of methods, resources and activities that directed to establishment, providing and maintaining the required level of quality.

The need for a systematic approach to managing the quality of products derived from the diversity and interdependence of

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internal and external factors and conditions that affect the quality of the continuity of the formation and support throughout the entire life cycle, from participation in this process all the elements of the sphere of production and use or consumption. Total Quality Management is a modern form of management - enterprise management system in the market, focused on achieving commercial success through the production of the desired level of quality.

Conventionally, two groups of the main objectives of the system of quality control.

The first group includes tasks that are directly related to the main purpose of the system:

- Development and implementation of a target date of new products corresponding to the highest world achievements;
- An increase in production of high quality products;
- Timely removed from production, modernization or replacement of obsolete products; bringing the level of quality products to the economically optimal, providing cost reduction, economical and rational use of manpower, material and financial resources;
- Expanding the range of products that are in high demand by the consumer;
- Improving the competitiveness of products in the domestic and foreign markets.

The second group of problems includes tasks - means to improve the quality of the processes of creation and production of products, improvement of organizational and economic methods of quality management:

- Creation and implementation of programs to improve the quality and competitiveness of products;
- Improving the quality of manufacturing products, increasing production and technological discipline, compliance with the technical documentation;
- Improving the organizational and technical level of production, to ensure the widespread introduction of advanced technology;
- Mobilization of labor collectives in the implementation of plans and programs to improve the quality;
- Improvement of metrological provision of production, working test units, services standardization and technical control, methodological and information support of quality management;
- Improving the accounting, evaluation and analysis of the level of product quality, development of economic methods of quality management and the system as a whole;
- Compilation and dissemination of best practices in improving the quality of products (Knowles, 2009).

## 2.2. Quality Control

To control the quality of products and its increasing need to evaluate the level of quality. Assessing the level of product quality is the basis for generating the necessary control actions in the system of quality control.

The purpose of evaluation is due: what quality indicators should be selected for consideration, the methods and the accu-

racy with which to determine their value, which means it will require, as a process and in what form to submit results of the evaluation.

Product properties can be characterized quantitatively and qualitatively. There are also such things as *qualitology* - the science of quality and *qualimetry* - is a quantitative characteristic of one or more properties of the product, its quality components, considered in relation to certain conditions of its creation and use or consumption, called the index of the quality of products.

In a competitive environment businesses will thrive, introducing a system of quality control. Currently, the growing demands to improve the quality of products - one of the characteristics of the global market.

General (total) quality control (TQC), carried out by firms in Western Europe, the US and Japan suggests three required conditions.

1. Quality as the main strategic goal of the recognized top management firms. In this case, set targets and allocate resources to address them. Since the requirements for the quality determines the consumer cannot exist such thing as a constant level of quality. Quality should continue to grow, because the quality is a constantly changing target.
2. Measures to improve quality should address all units without exception. Experience has shown that 80-90% of the events are not controlled by the departments of quality and reliability. Particular attention is paid to improving the quality of such steps as R & D, which is due to a sharp reduction in the period of creation of new products.
3. Do not stop the learning process (focused on certain jobs) and increase motivation (Tague, 2005).

Modern development of a quality management system has received as a result of the transition from total quality control (TQC) to total quality management (TQM).

If TQC - this quality management to meet the requirements, the TQM - even by the management objectives and requirements. In TQM also includes quality assurance, which is treated as a system of measures, causing consumer confidence in the quality of products.

## 2.3. Total Quality Management

Model Total Quality (Total Quality Management) was proposed by Armand Feigenbaum in the early 50s.

Under total quality control Feigenbaum realized a system that allows us to solve the problem of product quality, and its price depending on the benefit of consumers, producers and distributors. Feigenbaum proposed to consider the quality is not the end result of the production of the product, and at each stage of its creation. Created a system of universal Feigenbaum quality control was introduced into the practice of Japanese enterprises W. Edwards Deming.

Thanks to a living legend Edward W. Deming, one of the creators of "Japanese economic miracle", the theory of quality management has been further developed. It is believed that the activities of the Deming has greatly contributed to the emer-



gence of high-quality and inexpensive Japanese goods (Juran, 1988).

What is the basic meaning of the concept of Total Quality Management? Total Quality Management - is a fundamentally new approach to the management of any organization, focus on quality, based on the participation of all its members (staff in all departments and at all levels of the organization) and aimed at achieving long-term success through customer requirements and benefits for employees organizations and society as a whole.

TQM system is a complex system, focused on continuous improvement of quality, minimize production costs and delivery on time. The main ideology is based on the principle of TQM - improvement there is no limit. Regarding the quality of the Trust installation - the desire to "0 defects" to "0 overhead" to supply just in time. At the same time realize that to achieve these limits is not possible, but you must constantly strive for this and not dwell on the results achieved. This ideology has a special term - "continuous quality improvement" (quality improvement).

The system uses TQM quality management, adequate objectives. One of the key features of the system are the use of collective forms and methods of searching, analyzing and solving problems, constant participation in improving the quality of the entire team.

The most important elements of TQM are:

The involvement of senior management: a strategy for quality in the company (organization) must provide a constant, continuous and personal involvement of senior management (director) of the company in matters related to quality. This is one of the basic and mandatory conditions for the successful implementation of TQM, which is key to the success of the company in quality assurance (Crosby, 1981).

The emphasis on the consumer: all the activities of the company focus on the needs and wishes of both external and internal customers.

Universal participation in the work: to provide opportunities for real participation of everyone in the process of achieving the main goal - to meet customer needs.

Attention processes: focus on processes, treating them as an optimal system to achieve the main goal - maximizing the value of the product to the consumer and to minimize its cost for both the consumer and the producer.

Continuous improvement: constantly and continuously improve product quality.

Basing decisions on facts: to base all decisions of the company only on facts rather than on intuition or experience of its employees.

Quality management is implemented using a quality management system that is an integral part of quality management.

Quality Management System - a system created in the company for a permanent policy and quality objectives, as well as to achieve these goals in order to continuously improve the quality of products or services.

QMS is designed to ensure the quality of products or services of the enterprise and "tune" is the quality expectations of consumers (customers). While its main task - not to control each unit of production, and to make sure that there were no

errors in the work, which could lead to marriage (poor quality of products or services).

QMS is part of the organization's management system, designed to meet the needs, expectations and requirements of stakeholders to deliver results in accordance with the quality objectives. The quality objectives complement other objectives of the organization related to the development, funding, profitability, the environment, health and safety. Different parts of the organization's management system can be integrated with the quality management system into a single management system using common elements. This can facilitate planning, allocation of resources, definition of complementary objectives and evaluation of the overall effectiveness of the organization (Gunasekaran and McGaughey, 2003).

### 3. Research method

#### 3.1. Category of product quality control

For efficient organization of quality control requires that not only was clearly highlighted object management, but also to clearly identified by management categories, ie the phenomenon to better understand and organize the entire process.

With regard to quality control should provide at least the following categories:

Object management - quality products. Sometimes as the object occurs competitiveness, technical level or some other indicator characteristic. As an object of control can be either all the properties of the product or any part of their group or individual property.

The purpose of management - is the level and condition of the product quality, taking into account the economic interests of producers and consumers, as well as safety and product stewardship. It's about what kind of a set of properties and what level of quality should set, and then reach be out and to ensure that this population and this level appropriate to the nature needs. This raises questions about the effectiveness of production and consumption, affordable prices for the consumer, the level of cost and profitability of products for its designer and manufacturer. Nor can we overlook the timing of product development, production and deployment of its communication to the consumer, which is directly related to competitiveness.

The subject of management - is the governing bodies of all levels and individuals to ensure the achievement and maintenance of planned state and level of product quality.

Methods and means of control - the ways in which governments act on the elements of the production process, ensuring the achievement and maintenance of planned state and level of product quality. Quality Management uses the following four types of methods:

- 1) Economic methods to ensure the creation of economic conditions that encourage groups of companies, design, technological and other organizations to study the needs of consumers, create, manufacture and maintain products that

meet these needs and requests. Among the economic methods include pricing rules, credit conditions, economic sanctions for non-compliance standards and technical regulations, rules, compensation of economic damage to the consumer for the implementation of his defective products;

- 2) Methods of material incentives, providing, on the one hand, encouraging employees for the creation and production of high-quality products (among these methods include: the creation of systems quality award, the establishment of wage supplements), and on the other - the recovery of damages from it is not of good quality;
- 3) Organizational - administrative methods implemented through binding directives, orders, directives leaders. Among the administrative organizational methods of quality control are also regulatory requirements;
- 4) Educational methods that affect the mind and mood of the production process, encourage them to high-quality work and strict compliance with the special functions of quality control. These include: the moral encouragement for high quality products and raise pride in honor of the factory brand.

The choice of methods of quality control and the search for their most effective combination - one of the most creative moments in the establishment of management systems, as they have a direct impact on the people involved in the development and manufacture of products, that is to mobilize the human factor.

### 3.2. QM Tools

Management Tools - include office equipment (including computers), communications equipment, in short, everything that used the bodies and persons that control specific functions in quality management systems of the means of quality control are also included:

- Bank of normative documents regulating the indicators of the quality of products and organizing specific functions of quality management;
- Metrology tools, including (depending on the system) national standards of physical quantities, model and / or working measuring instruments;
- State system for ensuring the uniformity of measurements (ICG);
- Public service of standard reference data on the properties of substances and materials (GDSN).

### 3.3. QMS relations

Management relations, i.e. is the relations of subordination (subordination) and coordination (cooperation).

The relationship of subordination is usually characterized by vertical links from the head to subordinates. The content of these relations is determined by the degree of centralization and decentralization of functions and tasks of quality control. At the enterprise level relationship of subordination quality management

determined by the production structure of the company and the structure of the existing quality management system. Management relations are based on a combination of one-man management, collegiality, and the activity of members of the workforce, on the economic, moral and material incentives (Rebrin, 2004).

Relations are characterized by horizontal coordination bonds between individual workers and organizations interact for the sake of providing a certain level of product quality or improve it.

When determining the bodies of quality management must proceed from the fact that the quality management - an organic part of the overall production management, one of its branches, one of its functions. For this reason, it cannot resist it. Therefore, as a rule, quality management is developed and implemented under the current management staff and is a clear and well-organized efforts to identify needs, create, manufacture and maintenance of products.

At the enterprise level, combining quality management organized in one of two ways. The first is a clear division of roles and tasks of quality control among existing units and employees, periodic review of both the functions and tasks and their distribution for performance enhancement. It does not create a specialized body - the Quality Management Department.

The second involves, in addition to the first embodiment of the allocation of the overall function of coordination and creation of a special body - the Quality Management Department. This department and assigned many special features of quality control.

Each of these two options has advantages and disadvantages. Thus, the advantages of the first embodiment are that all the participants of the production process are responsible for quality. There is no feeling that someone behind them carries this responsibility and must resolve all issues related to quality. The disadvantage is a fact that a number of coordinating functions nobody does, nobody conducts organizational and methodological questions of a general nature.

The second option is deprived of this drawback, but the employees of the enterprise is often a feeling that there is a specially selected people in the company who are responsible for the quality, therefore, they have to solve all the problems related to quality.

In any case the general management of the quality management system should be headed by the head of the company responsible for all activities of the company and the economic results that in a market economy cannot be high in poor quality.

Analysis of the development of forms and methods of organization of work on quality, identifying possible applications to work on the principles of total quality management theory, development schemes of the mechanism of quality management, the definition of requirements, the state of the market situation as a source control product quality, a critical examination of the definitions of basic terms suggests the following:

1. Modern organization of work on quality theoretically acceptable and practicable and effective to build than the general global control, and on the principles of the general theory of control schemes based on mechanisms of quality control;

2. Current product quality control should be directly guided by the nature of the needs of their structure and dynamics; capacity and market conditions; incentives due to economic and technological competition, characteristic of market relations;
3. Modern quality management in the enterprise, regardless of ownership and scale of industrial activity should optimally combine steps, methods and tools to ensure, on the one hand, the production of products that meet the current demands and needs of the market, and on the other - the development of new products, capable of meeting the future needs and future needs of the market;
4. Schematic diagram of the control mechanism as organic interacts with marketing research and includes in its membership the block development of the quality policy (Kruglov & Sergeev, 1997).

## 4. Findings

### 4.1. International Standardization

One of the most important conditions for entry into the global economic system is stable transition to international standards quality firms in all economic sectors. State management of standardization in the Republic of Kazakhstan, according to the Law "About Standardization", carries Gosstandard Kazakhstan, which forms the state policy in the field of standardization, and state control over compliance with the mandatory requirements of state standards, participates in the work of international standardization. International standardization - is the work of standardization, with the participation of several (two or more) of sovereign states. The results of international standardization are international standards or recommendations for the standardization used to become a member as national standards, or create (revised) national standards. International standardization can be carried out on the basis of bilateral agreements between the two countries, as well as on the basis of multilateral agreements related to a specific region or combined mutual economic relations. The widest in scope is international standardization carried out by international organizations, first and foremost is the International Organization for Standardization.

The world market today is organized so that access to it with products that do not meet the requirements of internationally recognized standards is almost impossible. Therefore, large foreign companies are actively involved in the work of ISO technical bodies, which allows them to have information on international standards of first-hand and tell about their achievements, fix them and achieve recognition, and thus gain a competitive advantage. Recently, the work of ISO technical bodies have begun to participate and Kazakhstani companies. In May 2001, Kazakhstan joined the International Organization for Standardization.

To conduct economic activities and compete successfully in the market sales of industrial products, works and services,

businesses and suppliers need to apply effective and efficient management of its activities. The use of such systems should to ensure continuous improvement of product quality, meet the needs of customers and other stakeholders of the enterprise (internal customers, subcontractors, etc.), as well as society as a whole. Customer requirements are usually included in the standards and specifications for products, but it is not a guarantee that they can be truly satisfied if in the organizational system of the company, including marketing, supply of products, its after-sales service, innovation in quality, there are serious flaws and inconsistencies. Therefore, the company should be involved mechanism of guaranteed quality of customer requirements, which could provide tangible results. The list and sequence of such action should have been clearly identified and their necessity and sufficiency should be clear as to employees of the enterprise and consumers alike.

To go out today to the world market and to be quite competitive is possible only by implementing a quality management system to meet global requirements. The leaders of many of the largest industrial enterprises in Kazakhstan, including JSC National Holding Company "Almatykyrylys" have realized this need, and some even went to the implementation of a quality management system and its certification to ISO 9000. It should be noted that in recent years Kazakhstan stepping up work on the transition to international quality standards ISO 9000, which are recognized in many countries around the world and provide a high level of reliability and firm performance. At present, of the 500 largest industrial enterprises produce only 30 meets this standard. In 2010, more than 100 domestic manufacturers have applied for international quality certificate. The Government of Kazakhstan supports this policy, as improving the competitiveness of domestic products by improving their quality to international standards - one of the main conditions for entry to the WTO. This work successfully carried out in the framework of the republican program "Quality". This program is approved by the Government of Kazakhstan on May 2, 2001 №590. The program "Quality" determines the main directions of activity of state and local government agencies and other organizations and enterprises to improve the quality and competitiveness of domestic goods and services. The main aims and objectives are: a) improving the enforcement of state administration in the field of quality products and services; b) improve the forms and methods of management; c) the introduction of scientific and technological progress to improve the competitiveness of domestic products; d) normative and informational support in the field of competitiveness and quality of products, works and services; e) the transition from the certification of goods, works and services for the certification of quality systems; f) training in the field of standardization, metrology and certification; g) the organization of events and promotion in the field of quality improvement (Hawkins, 2001).

### 4.2. QMS issues

Addressing issues of transition to international quality standards, it is necessary to take into account that the Kazakh enter-

prises have general and specific development problems that hinder the process. In particular, they are macroeconomic, regional, sectorial, economic and financial character, and decreased consumption of products in the domestic and foreign markets. Continue to deteriorate technical level and structure of the productive apparatus, increasing depreciation of fixed assets, increased production costs. The country has accumulated a lot of problems that hinder the transition of enterprises to international quality standards. This and the low purchasing power, brain drain, a high degree of risk of the manufacturing sector, the imbalance in the structure of industrial production to the predominance of extractive industries in comparison with the processing, low product quality and extremely rare update its nomenclature. To solve these problems it is necessary to state management in the field of quality was based on a rational combination of regulatory and legal, economic, organizational and administrative methods, which is particularly important for social and economic development of the country. Legal forms of government in the field of quality in the country are carried out through the establishment of the legislation of the Republic in this area and monitor their implementation. Thus, it was decided to develop a program "Quality", the Law "On Protection of Consumers' Rights Law" On Standardization ". However, most of the Legislative Work is under discussion or development. In our opinion, should streamline the system of state regulation of licensing consulting firms that provide services in the field of quality improvement (ASGR, 2001).

In addition, the company should specialize by industry, as the consulting company owned by insufficient specificity of the industry, and therefore not able to pull on a desired level of quality management. Such activities on the part of Government of the Republic of Kazakhstan will allow domestic organizations to implement international quality standards, be confident in the professionalism of consulting firms, providing them with qualified personnel in improving management quality system in a particular industry. And also lead to a decrease in the level of mistakes in the preparation of the quality certification system, and thus reduce the additional cost of their operation. To provide and regulate the activities of Kazakh producers and suppliers of goods and services in the field of quality is not developed legal framework. Therefore, this issue should be given a lot of attention on the part of the Government. Economic forms of governance in the field of quality should be carried out by encouraging business entities to improve the quality of products and services, improve the economic responsibility of manufacturers and sellers of the production and sale of substandard products.

In the Government proposal was made on the amendments and additions to the Rules for the development and implementation of the Public Investment Program (PIP) on the priority included in the PIP investment projects proposed by business entities that have implemented a quality management system conforming to international standards ISO 9000. However, a significant role in addressing quality play and consumers, since the external openness of the domestic market levels of their queries, in essence, the same level as the requirements for goods and services in the markets of the developed countries

of the world.

Organizational and administrative forms should ensure the participation of public administration in accordance with their authority in carrying out works to improve the quality and competitiveness of products, increase public awareness of the quality and the quality of goods, services and works. In our opinion this requires:

- develop and publish accessible and clarifying tutorials in the field of standardization and quality control;
- create a system of training in the field of quality, including basic knowledge about the quality;
- carry out scientific research in the field of quality;
- provide training for independent expert auditors quality system certification, and management development in the field of quality.

At present, this work is carried out in the country, but insufficient rates and volumes.

We believe that good governance in the field of quality will provide:

- widespread adoption of modern management techniques and quality assurance based on international standards;
- improvement of technical and economic performance of the industrial complex of the republic;
- increasing the competitiveness of domestic goods, works and services; g) release of a wider range of quality goods;
- the development of exports;
- the creation of new jobs;
- Protection of the population and the state of the market of substandard and unsafe goods works and services.

It should be noted that the Government of the Republic of Kazakhstan in a focused way policies to attract foreign investment, to implement the program "Quality", but much depends on the willingness of Kazakh partners to a successful business. You can analyze some construction companies that have already received quality certifications in accordance with the requirements of ISO. JSC National Holding Company "Almatykylyys." In general, construction and installation work increased from half a billion tenge in 1995 to 16.4 billion tenge in 2013. Average annual growth rates over the past five years more than 32 times. Build and production volumes are with 210 million tenge up to 20 billion tenge. The volume of services increased from "221 million KZT 6 billion tenge. The company's revenue from work performed and services rendered increased from 3.7 billion to 15 billion tenge in 2013 year. The company strives to develop the company and now. This was made possible by the fact that almost all of the objects are made of "turnkey". An important argument was the fact that the majority of works, services and manufactured products the company complies with ISO 9000, ISO 9001. "Munaigazkurylyys" is also one of the first construction organizations in Kazakhstan, to prove their compliance with international quality standards. The company operates Mangyshlak since 1964. Main line of action of "Munaigazkurylyys" –is the construction of oil and gas sector. Apart From addition, the company provides services in transportation, engineering, performs technical development and design work. The main customers of the company are

"Mangistau-Munaygas", JSC "Karazhanbasmunay", "KazTransOil", "TeksakoNorsBuzachi Inc.", "Partex Corporation", "Karachaganak Petroleum Operating", "Tasbulat Oil Corporation", "Agip KCO" and others. In recent years, JSC "Munaigazkurylys" implements a number of projects for the rehabilitation and replacement of storage tanks for oil storage in Mangistau and Atyrau regions, as well as develop new fields of Mangistau region - Dunga, North Buzachi. All this is possible thanks to international quality standards. At the moment of "Munaigazkurylys" is the flagship among construction companies in Western Kazakhstan, proven ability to quickly develop international standards and operate in accordance with them. JSC "Imstalkom" - builder. Over the years, participated in the construction of the largest sites of the Republic of Kazakhstan for ferrous and non-ferrous metallurgy, chemical and engineering industries were built unique civilian objects, including bridges, towers, masts in the cities of Astana, Almaty, Karaganda, Pavlodar, Ust-Kamenogorsk and et al. in recent years has increased the volume of construction works in the oil industry. The organization considers its main objectives: to improve the quality of services, increasing the competitiveness of manufactured metal structures, improving the technology of construction and installation work, raising total culture production deadlines of the work.

## 5. Conclusion

In conclusion, it should be noted that the current market demands, the possibility of free choice of goods and services, fierce competition, which involves not only domestic but also foreign companies affect the producers, forcing them to send priority efforts on quality. Kazakh enterprises, including AO National Holding Company "Almatykurylys", realize that quality - this is

the only way to survive in a market economy, are implementing the international quality system standards ISO 9000, and at the moment many have already received a return on invested in the quality of effort and money.

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[Field Research]

# A Development of Staff Mobility in the System of Strategic Human Resource Management

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## Abstract

**Purpose** – This work aims to study the existing management process and methods of statistical evaluation of personnel mobility management, and propose improvement measures. This is particularly relevant in today's market economy because proper organization of personnel movement affects the availability and effective utilization of human resources in enterprises. Hence, it influences the volume, timely execution of work, equipment efficiency, and consequently the volume of production, its cost, profit, and other economic indicators.

**Research design, data, and methodology** – We investigate the indicators that measure staff mobility, and their dependent consequences. Further, it analyses the factors influencing high staff turnover, which is a main indicator of staff mobility.

**Results** – Measures for staff mobility development and prevention of turnover are proposed. Micom Systems is a sample case that has developed special programs to reduce staff turnover.

**Conclusions** – Staff mobility leads to additional costs, significant loss of working time, and increase in defects. However, the advantages of staff mobility outweigh these negative factors. The role of staff mobility in a market economy cannot be overestimated.

**Keywords:** Mobility, Staff mobility, Management, Personnel, Turnover.

**JEL Classifications:** J60, J63, M12, M54.

## 1. Introduction

Employees, who are engaged in the enterprise, ensure the success of its work. It is therefore necessary to make the devel-

opment and analysis of employment conditions and the organization of labor, mechanization of labor productivity, the use of fund of working hours, salary level, distribution of workers by age, sex, level of education.

Giving to employees opportunities for career growth, change the scope of activities could help to realize the wishes of employees, improve interpersonal relationships in the team, which ultimately helps to reduce the number of dismissals and violations of labor discipline.

The role of labor mobility in the society has two main functions. The economic function is to facilitate the provision of labor economics and efficiency of production. The social function realized through the improvement of the social structure better meet the needs of employees in the workplace, creating the conditions for self-realization and development of the individual of employee.

The need for mobility exists in almost every organization and task of management is to combine the desire of employees with the interests of production as efficient as possible.

## 2. Literature Review

### 2.1. The concept of strategic human resource management.

The development of the concept of human resource management followed the path of overcoming the technocratic approach to staff as a machine, connect it motivational resources, socio-psychological factors of growth of labor productivity and production efficiency, greater account of the interests of the employee as a person. In the literature, one can find examples of the different interpretations of the concept of "human resource management". Some authors operate in determining the purpose and methods by which to achieve this goal, i.e., focus on the organizational side of the control. Others focus on determining the content, which reflects the functional aspect of management. A typical example of the first approach is the definition given by Galenko (1994): "Human Resource Management is a set of interrelated economic, organizational and socio-psychological methods to ensure the effectiveness of employment and the competitiveness of enterprises". Another approach suggested by

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Kibanov (2002) is reflected in the definition of Personnel Management, adopted at the German School of Management: "Personnel Management is a field of activity, the most important elements that are specific staffing requirements, recruitment of staff, the involvement in work release, development, supervision of staff, as well as the structuring of work, politics remuneration and social services, the policy of participation in the success of cost management to staff and management staff".

The objectives of personnel management defining in work of Golin (2000) are improving the competitiveness of companies in a market economy improving the efficiency of production and labor, in particular the achievement of maximum profit provision of high social efficiency of the collective.

Dubenko (2002) gives the content of human resources management as:

- the definition of staffing requirements taking into account the company's development strategy, the volume of products and services
- the formation of numerical and qualitative composition of the staff;
- personnel policy (the relationship with the external and internal labor market, the release, redistribution and re-training);
- system of general and professional training;
- adaptation of workers in the enterprise;
- remuneration and incentive system material and moral interest
- performance assessment and certification of personnel, its orientation to the promotion and advancement of employees as a result of labor and the value of the employee for the enterprise;
- system of personnel development (training and retraining, increase the flexibility of use in the workplace, ensuring professional qualification growth through planning professional career);
- interpersonal relationships between employees, management and public organizations;
- activities of multi functional HR as the body responsible for ensuring that the company workforce and reliable social protection of workers.

The basic methods of personnel management include administrative, economic and socio-psychological (Egorshin 2001).

Administrative management techniques based on the principles of unity of command, discipline and responsibility, take the form of organizational and administrative impacts. Organizational impact directed to the organization of the production process and management, including organizational regulation, institutional regulation and organizational and methodical instruction. Regulatory impact expressed in the form of orders, instructions or directions that are non-normative legal acts of nature. Regulatory impact more than organizational requires monitoring and verification of performance to be clearly organized. To this end, it establishes a common procedure for accounting, registration and enforcement of orders, directives and instructions.

Economic management methods ensure the progressive development of the organization. The most important economic

methods of management personnel are a feasibility plan, which synthesizes all the economic management practices. For example, a manager should take care of that profit growth ensured by reducing the cost of production. Therefore, it is necessary to apply a clear system of material incentives for finding reserves to reduce the cost of production itself and the real results in this direction. Thus, Egorshin (2001) concludes that the role of economic methods is to mobilize the workforce to achieve the results.

Socio-psychological methods of personnel management based on the use of social control mechanism (relations system in the collective social needs, etc.). The specificity of these methods is to use a large dose of informal factors interests of the individual, group, team in the management of personnel. Conventionally, they can be divided into psychological and sociological methods. Sociological methods allow setting an appointment and placing employees in a team, identifying leaders and providing them with support, motivating people to associate with the results of production, ensure effective communication and conflict resolution in the team. Psychological methods directed to a specific person worker or employee, and as a rule, strictly personalized and unique. Their main feature is the appeal to the inner world of employee, his personality, intelligence, imagery and behavior in order to direct the internal capacity of the person to solve specific problems of the organization.

Thus, we concluded that the personnel management is a system, systematically organized with the help of the impact of interrelated organizational, economic and social measures in the process of formation, distribution, redistribution of labor at the enterprise level, to create conditions for the use of labor qualities of the worker (working force) to ensure the effective functioning of the enterprise and all-round development of employed workers on it.

## 2.2. The essence and form of staff mobility.

The effectiveness of human resource management, the most complete realization of its goals, largely depend on the choice of options for building the personnel management system of the enterprise, the choice of the most appropriate technologies and methods of work with people, the implementation of which lies with the personnel department of the enterprise.

At the enterprise level, the greatest interest in the management of staff is professional mobility. Different forms of manifestation of mobility, and the challenge is to use the most rationally organized of them in relation to the specific conditions of production.

By definition of Zotkina (2001), mobility is the ability and willingness of an employee to professional and territorial movements. It is a change of profession often accompanied by a permutation (rotation) frames, reallocation of labor within the enterprise between different types of work and organizational units in accordance with the requirements of production. Occupational mobility is associated with the presence of additional workers profession, their degree of development, good basic theoretical training (as condition for the rapid development of



a new profession), motivation aimed at changing employment.

Staff mobility is the establishment of the number of employees with different professional qualification characteristics for the achievement of maximum correspondence between the structure of work, employment and personnel; ensuring an optimal degree of loading of employees in order to make full use of their labor potential; optimize the structure of workers with different functional content of labor. Shekshnya (2013) writes that staff mobility aims at the rational use of personnel, for the most effective realization of creative, qualified, physical and intellectual potential workers. The rational organization of labor supposes away to connect all the elements of the labor process into a single, coherent system, which will be used when the least amount of resources, i.e., labor, objects of labor and means of production. Combination of professions and functions contributes to the rational use of labor resources as well as the basic production assets. This is possible when the contractor not provided by a full load of the main job during the working day. The combination of professions (positions) allows you to perform during the working day, along with other basic work, additional work on other professions(positions) and allowed with the consent of the employee and should not lead to lower quality and reduce the volume of the basic work.

The most important criterion for the classification of labor mobility is its content, the essential features.

On the content of labor mobility, it divides into the following types: -Vocational qualification - Territorial -Sectorial (intersectional) -Intra organizational(in-plant).

Various types of labor mobility closely related to each other and practically do not occur in pure form.

Summarizing the domestic and foreign experience of rational use of the workforce in the enterprise, Maslov (2001)suggests the following classification of occupational mobility: 1. For reasons of career change: on a scheduled basis, on their own initiative. 2. In terms of organic (genetic) communication old and new professions: related; remote; very distant. 3. Organizational forms of manifestation: the filling of vacancies; promotion (career planning); labor organization (interchangeability). 4. Employment of workers involved in mobility: employed at the workplace; released. 5. The level of complexity of a new profession in comparison with the same: equal complexity; less complex; more complex. To ensure the planning principle in achieving workforce flexibility, workforce development, not only from the standpoint of the interests of the workers, but also the interests of production(rapid appreciation of the needs of the labor force, the formation of a skilled workforce, ensuring better use of time, etc.) should accordingly be made to build the training of workers and the second related professions, retraining.

The movement of labor influenced by certain factors(causes), which divides into four groups:

- Providing the urgency of changes in the mobility of the labor force (the current position, the possibilities of improving working conditions, life, investments made);
- Reflecting the desirability of mobility for a variety of socio-economic circumstances (the position of the employee at the new place, the possibility of promotion to a new lo-

cation, saving investments)

- To assess the ease of mobility through the system characteristics that may contribute to or hinder it(objective and subjective characteristics, the degree of change, the cost of moving)

-Reflecting the awareness of human about mobility options, which is extremely important in the formation and development of market relations(the availability of information about job vacancies, cost information, the accuracy of the information).

In addition, it is necessary to allocate a special economic impact on the social structure of subsystem labor mobility. No matter how self-sufficient person in making his decision about the change of residence, work, he should reckon with the surrounding economic reality. Therefore, real employment opportunities in a particular locality largely determined by the economic situation and investment climate in the city or area. These factors can be influenced by the federal government, local authorities (Mironov, 2011).

Availability of flexible labor in their use enables agile manufacturing, product updates until you change the industrial specialization. Since the success of the economic development of the enterprise in the conditions of the market economy largely depends on the mobility of production, Ford (1989) suggests that there is adequate to its mobile and flexible in its use of labor.

### 3. Methodology and Summary Statistics

#### 3.1. Methods of calculating the staff mobility

The economic losses as sociated with the mobility of staff, are determined based on current data reporting and special surveys. They consist of loss of stability violation of the collective labor discipline, increased losses from defects, and the direct loss of working time. On a method of calculating their values will be discussed below.

Statistics describes the movement of personnel by relative and absolute measures of turnover and staff turnover. Absolute measures of movement of personnel turnover are receiving turnover and retirement turnover.

Receiving turnover is a number of persons enrolled in a job after graduation, in order to transfer from other organizations to distribute, in the direction of employment, at the invitation of the organization, as well as undergoing practical training. Number of people who have left the organization during this period, grouped because of dismissal, characterize retirement turnover. Depending on these reasons, it could be necessary or unnecessary. Last, otherwise is a staff turnover according to Whistlers(2002).

Required retirement turnover has objective reasons: legal requirements(such as military service), natural circumstances(health status, age), and therefore inevitable. It is possible to predict, and even predict accurately calculated(leaving the army or retired). The adverse effects of such turnover weakened by the fact that people often do not break ties with the organization and have it as far as possible help and assistance. Staff turn-

over as associated with subjective reasons (for voluntary resignation, dismissal for violation of labor discipline). Usually it is typical for young employees and after three years of operation, it significantly reduced. It's believed that the normal turnover rates of up to 5% per year.

It is advisable to additionally determine the following absolute indicators of staff: a) the number of shift workers, representing the lesser of the number of receiving and discharged b) the number of worked the entire period as the difference between payroll number at the beginning of the period and the number of retired during the period. This indicator shows the constancy of the team for a certain period.

In publication of Starobinskii (1995) the relative turnover of staff can be characterized by a number of indicators; - intensity turnover reception - number of the period - average number of employees during the period - turnover rate of disposal - the number of quitting for the period from all causes - the coefficient of constancy - number of employees in the list of organizations throughout the period - turnover ratio - excessive turnover. - coefficient of tightness - the number of persons with a certain experience of leaving the organization.

Based on the information obtained through questionnaires to workers, we can determine potential turnover rate as the ratio of the number of employees who want to leave to the number of respondents. The movement of personnel reflected in the balance sheet, which includes information about the number and structure of personnel. Balance is in the organizations for the monthly, quarterly and annual periods, including in certain specialties, professions category. They contain data on the number of employees at the beginning and end of the period, the number of received and disposed of during the period. In doing so, they made decoding of where people arrived (for educational institutions, other organizations in order to transfer, with the labor exchanges, etc.) and for what reasons they are gone (transfer to other organizations, the termination of the contract, leaving to study, to call military service, retirement and other reasons).

### 3.2. Turnover and its Reasons

A detailed study of employee turnover made by means of special surveys in two directions:

- 1) to create a common portrait of retiring (based on information on sex, age, marital status, number of children, general and vocational education, work experience, wage categories, disability, wages paid in the last few months);
- 2) to study the causes of care, who may be non-use of the specialty, job dissatisfaction, conditions and mode of work, wages, inability to learn, bad relations with the administration and with colleagues, birth, lack of child care places, long trips (Akimov, 2001).

In large organizations, data flow should be analyzed by occupation, departments, positions, reasons, age group retired. In-depth analysis can be carried out once a year, and a quantitative assessment by department- monthly. This allows you to specify the reasons why and provide timely actions to secure the frame.

As far as people often do not always know exactly the rea-

sons for leaving, confuse them with a reason or do not want to call for a thorough analysis of the flow is better to use special forms and questionnaires to analyze the motivation to work, out of which you can also learn a lot. Information received from them, the study complemented by the situation on the ground, were revealed most dissatisfied. In particular, we are talking about wages, its forms and systems, moral and psychological climate, working conditions, working environment, providing people with housing.

Factors causing the movement of personnel have different sources, the strength of their influence is different, changeable and often difficult to quantify.

Avdeev (2014) divides it into three groups: 1) factors arising within the enterprise (the value of wages paid, labor conditions, the level of automation of work, career prospects, etc.) 2) personal factors (age of employees, their level of education, work experience, etc.) 3) factors external to the company (the economic situation in the region, family circumstances, the emergence of new enterprises, etc.).

In turn, each of these groups can identify other factors than the strength and nature of their influence on the mobility of workers. Circumstances that contribute to employee turnover can be fully controlled (living and working conditions), partially controlled (collective satisfaction, relationships, forms of motivation) and unmanaged (climatic factors).

The latter circumstance is due to both the age factor, and the problems of adaptation. In addition, the important is that the applicant has the employee may have unreasonable expectations with respect to future work. This can be explained and low awareness of the candidate, and the fact that the employer, seeking profitable submit your company can inflate the positive aspects and underestimate the difficulties of working in the company. The occurrence of unreasonable expectations in hiring leads to an increase of work dissatisfaction and therefore to future layoffs in the future place. Therefore, it is advisable to implement in enterprises realistic programs dating candidates with their future work.

The basis of control of personnel movement is to establish regularities of turnover. Knowledge of these laws makes it possible to determine the most effective management actions.

The intensity of the turnover of the socio-demographic characteristics is so significant that it cannot be neglected. Knowledge of the laws of the influence of personal characteristics of the employee to his penchant for moving allows, first, to predict the number of redundancies and, secondly, to find ways to mitigate the negative impact of these factors. It is known, for example, the experience of determining the future level of staff turnover, depending on the residence time employees in the company.

## 4. Results and Discussion

### 4.1. Measures for prevention of turnover

It is possible to reduce significantly staff turnover. For this

purpose, there are various measures: technical (improvement of techniques and technologies that improve the working conditions); organizational (finding for each employee the most appropriate place, because, for example, the feeling of lack of demand and congestion fluidity increases); socio-psychological (extra benefits and guarantees, improving the indoor climate); cultural and community (improving health services).

For example, Serbinovsky (1999) describes the company Micom Systems, engaged in the production of equipment for data transmission that faced difficulties in retaining good employees. Leadership has developed a program of benefits and competitive wages. Some parts of the program: immediate medical insurance, dental and eyecare, gifts for Christmas, trips to the recreation center, aerobics classes, guitar and English to Vietnamese and Spanish workers.

The company has also implemented a number of measures for the organization of communication in the team. Two internal periodicals for employees also contribute to the unity of the people. Management reached his goal: turnover fell from 14 to 3%.

It is noted that the preliminary instruction reduces employee turnover, and a sense of lack of demand or increases leads to its congestion. Confidence that employee can influence the production processes reduces turnover. Employees in good faith and with a great inner desire to perform a particular job, if they will be fully responsible for it, will be able to see it. Satisfaction brings freedom to choose the pace and sequencing of the job, the possibility of making in the process of something new.

Process management turnover is crucial to collect and analyze information about them. Considered appropriate in the first place to gather information about the total number of separations retired women persons in the age groups under 18 years, 19-30 years, over 50 years workers with low and high skills with less than 3 and more than 10 years professional, higher and secondary special education. Research has shown that the desire to move from one organization to another is inversely proportional to age. Peak transition ends in 24-25 years. Change jobs more often low-skilled workers who have no prospects, family, earn less, living far away. It is significantly different intensity of turnover in groups of workers with different experience in the enterprise. After three years of work in the enterprise, there is a sharp decrease in the intensity of staff turnover.

#### 4.2. Solutions for improvement of staff mobility.

The development of profession of employee and building his professional flexibility occur in different ways. Here are the main:

1. Fixing for employee one - three operations and more than a certain period, often very significant in terms of duration. In a deep operational division, a development by employee of adjacent or second work sometimes results in the development of just another specific operation. This way helps provide a full load of frames, their interchangeability, to reduce monotony and fatigue of labor, increase productivity.
2. Development of manifold works of varying complexity. Mastering

the work relating to the different specialties with in the profession, the employee takes possession of all the subtleties of his profession(working-wagon).

3. Development related professions, i.e. occupations directly related to the core. Often it is in the nature of development of the functions of auxiliary workers(working generalists).
4. Development other professions not having a close relationship with the main(or the same), in order to ensure interchangeability of permutations for vacant jobs.

Thus, the extension of profile, both with in their own profession, and in the combination of professions, the development by workers of other professions and even activities involves increasing the mobility of workers, allow the opportunity of the new arrangement in accordance with the requirements of production on account of the labor pool for scarce professions and specialties, increase motivation(Maslov, 2001).

We should not forget that mobility could be horizontal or vertical. The vertical mobility, in turn, can be the uplink and down link. In the case of vertical downward mobility is told about the loss of professional status, with upward - to raise the status, which is characterized by high adaptability of the individual and a fuller realization of his professional capabilities. Horizontal mobility reflects the movement of the individual without raising or lowering of its status (as in the case of shift work, but the preservation of the post).

Shifting work is quite a complex operation. The reaction of workers on the probability of a change of work is not based on a simple calculation of "cost - profit", but in hopes of promotion and personal well-being. The nature of the work, the level and type of training, social worker mobility actually determine its propensity to change jobs and the likelihood of success in this change. For this reason, in dealing with labor mobility the personnel policy of the enterprise, the situation of workers in the company, the level of quality of working life have a big role.

Actually, the company due to the desire for the highest productivity is interested in a stable team and takes the position of the subject taking vigorous measures to limit the number of layoffs because of economic reasons.

In the mobile teamwork, efficiency is lower than in the stable, due to the lack of established standards, the need for mutual demands, unpredictable reactions to managerial action. By Ladanov (1997), there is a direct link between employees in the organization and the results of their work, since there is a large time they know better the subtleties of work, and therefore show higher performance. In addition, as a rule, there is a decrease in labor productivity in the group of employees who are going to leave the company due to changes in their orientation. Labor productivity in the group of workers recently came to the company, is also lower than the average for the company, due to a temporary inability to adjust to a new work situation and in connection with the problems of social adaptation. High turnover of staff reduces the cost effectiveness of staff training, as in the case of dismissal the effect of training appears either outside the enterprise investing its money, or do not occur if the dismissal is connected with a change of profession.

That is mobility and dynamism are the most striking charac-

teristics of the adaptive abilities of the individual.

## 5. Conclusion

The problem of rational allocation of labor resources is currently one of the most relevant for the economy, since its solution determines the path of further development of the country, sets the pace and the limits of economic growth. In this regard, it is relevant to determine the effect of innovation on labor mobility of staff of enterprises, organizations, firms. Innovation can be seen as a process of knowledge creation, the pace and direction of formation which reflect the organizational setup of the company as well as its investment in research and development activities and training of employees.

At present, more and more sectors of the economy are open to attracting gaining momentum innovation. Moreover, this applies to both the production sector innovation and innovation in services. Consequently, the economic potential of dissemination of methods, competent in terms of the formation and development of partnership mechanisms and management personnel of the companies is growing. This potential is reflected in the company strategy and public policy, thereby helping to promote innovation and development of new knowledge.

The role of staff mobility in a market economy cannot be overestimated. On the one hand, it eliminates the quantitative and qualitative mismatch between labor demand and supply, thus providing enterprise employees the necessary qualifications. On the other hand, labor mobility as a strategy employed individual behavior leads to the advancement of the employee, because it opens up new possibilities, prospects for higher wages, better working conditions compared to the current place of work.

For the organization staff mobility makes it easier to get rid of outsiders, makes it possible to attract people with new views, rejuvenate the structure of employees, encourage change, increasing internal activity and flexibility, but gives rise to additional costs (related to recruitment and temporary replacement of personnel, training, breakdown in communication), large loss of working time, the decline of discipline, the growth of defects and underproduction. Increased turnover of staff, which would cause by any reasons, reduces staffing jobs performers, distracts highly skilled professionals who have to help beginners, impairs morale, reduces productivity of those who are going to leave that as a result this causes economic losses. All that described above, can be applied only to a situation of "hiring-dismissal". The intra-movement of workers -only positive phenomenon. Clear prospects of such movements, including promotions, increase the interest of workers strengthen their attachment to the company. If employees believe in the existence of the dependence of their promotion on the efficiency of labor, they are working with the best results. However, the complete replacement of receiving workers from outside by intra-movements can lead to stagnation, lack of fresh ideas.

You cannot consider the problems associated with a change in place of employment, only in a negative sense. Changing jobs can lead to increased labor efficiency because the new work is more consistent with the interests and abilities of the employee. In addition, the change of labor reduces its monotony, and changes in the composition of the workforce can improve the social and psychological climate.

Thus, the mobility of staff acts as a means of improving the organization of work, rational use of labor as an alternative to layoffs, while reducing the need for it as a tool targeted policies related to planning a business career, meet the needs of employees in more meaningful work, professional growth, increase earnings and for other purposes.

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## Appendix

# Guide for Authors The East Asian Journal of Business Management (EAJBM)

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### 1. Introduction

The East Asian Journal of Business Management (EAJBM) is an official and public journal published by the KODISA. The EAJBM is an international peer-reviewed journal, which is devoted to Business economics and Business management, and interdisciplinary topics. The journal is published four issues per year quarterly in full English. The mission of EAJBM is to bring together the latest theoretical and empirical Business economics and management research in international markets. The journal audience includes: business school academics and researchers, economists, social scientists, international business persons, and policy makers, as well as managers from both for profit and not for profit corporations.

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Authors are requested to submit their papers electronically by e-mail attachments to Editorial office: [kodisa\\_eajbm@daum.net](mailto:kodisa_eajbm@daum.net). The attached files should be in MS Word, WordPerfect or RTF format. Any supplemental files should also be in Microsoft Word, RTF, WordPerfect, or Excel format. PDFs are not acceptable. Authors are requested to submit the text, tables, and artwork in electronic form to this address. The Publisher and Editor regret that they are not able to consider submissions that do not follow these procedures. All correspondence, including notification of the Editor's decision and requests for revision, takes place by e-mail.

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Submission of an article implies that the work described has not been published previously (except in the form of an abstract or as part of a published seminar, lecture or academic thesis), that it is not under consideration for publication elsewhere, that its publication is approved by all authors and tacitly or explicitly by the responsible authorities where the work was carried out, and that, if accepted, it will not be published elsewhere including electronically in the same form, in English or in any other language, without the written consent of the copyright-holder. Each submission must contain "Submission Declaration Statement" in its cover letter as follows: "We hereby confirm

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#### 1.3. Conflict of interest

All authors are requested to disclose any actual or potential conflict of interest including any financial, personal or other relationships with other people or organizations within three years of beginning the submitted work that could inappropriately influence, or be perceived to influence, their work.

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(COPE) the journal will help support the ethical imperative in promoting publication ethics and providing advice for editors and publishers (<http://publicationethics.org/resources/guidelines>).

## 2. The preparation of manuscripts(main document)

### 2.1. Language

Please write your text in good English (American or British usage is accepted, but not a mixture of these).

### 2.2. Word count

While no maximum length for manuscripts is prescribed, authors are encouraged to write concisely. As a guide, articles should be between 5,000 and 7,000 words in length.

### 2.3. Style of presentation

- 1) Use A4 sheet size.
- 2) Margins should be one inch (2.5cm) at the top, bottom, and sides of the page.
- 3) Font type should be 12-point Times Roman throughout the document.
- 4) Double-space all body text, including abstract, references, endnotes and appendices.
- 5) Number all pages in your manuscript, starting with the Abstract Page.
- 6) Manuscript text should be left-aligned.

### 2.4. Use of word processing software

It is important that the file be saved in the native format of the word processor used. The text should be in single-column format. Keep the layout of the text as simple as possible. Most formatting codes will be removed and replaced on processing the article. Do not embed "graphically designed" equations or tables, but prepare these using the word processor's facility. Do not import the figures into the text file but, instead, indicate their approximate locations directly in the electronic text and on the manuscript. To avoid unnecessary errors you are strongly advised to use the "spell-check" and "grammar-check" functions of your word processor.

## 3. The presentation of manuscripts

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Divide your article into clearly defined and numbered sections. Subsections should be numbered 1.1. (then 1.1.1., 1.1.2., ...), 1.2., etc. (the abstract is not included in section numbering). Use this numbering also for internal cross-referencing: do not just refer to "the text". Any subsection may be given a brief heading. Each heading should appear on its own separate line.

### 3.1.1. Introduction

State the objectives of the work and provide an adequate background, avoiding a detailed literature survey or a summary of the results.

### 3.1.2. Literature review

Provide an adequate background with detailed literature survey or a summary of the results of previous studies.

### 3.1.3. Methodology

Provide sufficient detail to allow the work to be reproduced. Methods already published should be indicated by a reference: only relevant modifications should be described.

### 3.1.4. Results

Provide sufficient detail to allow the results to be meaningful and informative.

### 3.1.5. Discussion

This should explore the significance of the results of the work, not repeat them. A combined Results and Discussion section is often appropriate. Avoid extensive citations and discussion of published literature.

### 3.1.6. Conclusions

The main conclusions of the study may be presented in a short Conclusions section, which may stand alone or form a subsection of a Discussion or Results and Discussion section.

### 3.1.7. Appendices

If there is more than one appendix, they should be identified as A, B, etc. Formulae and equations in appendices should be given separate numbering: Eq. (A.1), Eq. (A.2), etc.; in a subsequent appendix, Eq. (B.1) and so on. Similarly for tables and figures: Table A.1; Fig. A.1, etc.

## 3.2. Tables, Figures, and Artwork

### 3.2.1. Abbreviations

Define abbreviations that are not standard in this field in a footnote to be placed on the first page of the article. Such abbreviations that are unavoidable in the abstract must be defined at their first mention there, as well as in the footnote. Ensure consistency of abbreviations throughout the article.

### 3.2.2. Mathematical formulae

Present simple formulae in the line of normal text where possible. In principle, variables are to be presented in italics. Use the solidus (/) instead of a horizontal line, (e.g.,  $X p / Y m$ ). Powers of e are often more conveniently denoted by exp. Number consecutively any equations that have to be displayed separate from the text (if referred to explicitly in the text).

### 3.2.3. Other symbols

Greek letters and unusual symbols should be identified in the margin. Distinction should be made between capital and lower

case letters; between the letter O and zero; between the letter l, the number one and prime; between kappa and k. The numbers identifying mathematical expressions should be placed in parentheses.

### 3.2.4. Footnotes

Footnotes should be used sparingly. Number them consecutively throughout the article, using superscript Arabic numbers. Many word processors build footnotes into the text, and this feature may be used. Should this not be the case, indicate the position of footnotes in the text and present the footnotes themselves separately at the end of the article. Do not include footnotes in the Reference list.

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Indicate each footnote in a table with a superscript lowercase letter.

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- 1) Make sure you use uniform lettering and sizing of your original artwork.
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- 7) Submit each figure as a separate file. Please do not:
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- 9) Supply files that are optimized for screen use (like GIF, BMP, PICT, WPG);
- 10) Supply files that are too low in resolution;
- 11) Submit graphics that are disproportionately large for the content.

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Please make sure that artwork files are in an acceptable format (TIFF, EPS or MS Office files) and with the correct resolution. If, together with your accepted article, you submit usable color figures then the Publisher will ensure that these figures will appear in color in the printed version. For color reproduction in print, you will receive information regarding the costs from the Publisher after receipt of your accepted article. Please note: Because of technical complications which can arise by converting color figures to "gray scale" (for the printed version should you not opt for color in print) please submit in addition usable black and white versions of all the color illustrations.

### 3.2.8. Figure captions

Ensure that each illustration has a caption. Supply captions separately, not attached to the figure. A caption should comprise a brief title (not on the figure itself) and a description of the illustration. Keep text in the illustrations themselves to a

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Number tables consecutively in accordance with their appearance in the text. Place footnotes to tables below the table body and indicate them with superscript lowercase letters. Avoid vertical rules. Be sparing in the use of tables and ensure that the data presented in tables do not duplicate results described elsewhere in the article.

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As a minimum, the full URL should be given and the date when the reference was last accessed. Any further information, if known (DOI, author names, dates, reference to a source publication, etc.), should also be given. Web references can be listed separately (e.g., after the reference list) under a different heading if desired, or can be included in the reference list.

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Please ensure that every reference cited in the text is also present in the reference list (and vice versa). Any references cited in the abstract must be given in full. Unpublished results and personal communications are not recommended in the reference list, but may be mentioned in the text. If these references are included in the reference list they should follow the standard reference style of the journal.

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- Single author: the author's name (without initials, unless there is ambiguity) and the year of publication;
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When citing a list of references in the text, put the list in alphabetical order and separate authors by semicolons; for example, "Several studies (Kim & Lee, 2008; Lee & Cormier, 2009a, 2009b; Youn & Kim, 2003) support this conclusion."

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Lee, Jung-Wan, & Cormier, James F. (2010). Effects of consumers' demographic profile on mobile commerce adoption. *Journal of Distribution Science*, 8(1), 5-11.

Youn, Myoung-Kil, Kim, Yoo-Oh, Lee, Min-Kweon, & Namkung, Suk (2006). Domestic restrictions on the opening of retail stores. *Journal of Distribution Science*, 6(2), 121-160.

#### Reference to a book (ISBN):

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Youn, Myoung-Kil (2010). *Principles of Distribution*. Seoul, Korea: Doonam Publishing.

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#### For published conference proceedings:

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Youn, Myoung-Kil (2010, July). Distribution science in medical industry. *Medical Distribution Today*, 39(4), 86-93.

#### For newspaper articles:

Kim, Young-Eui (2011). New challenges and opportunities for traditional markets. *Korea Distribution News*, 21 January, Section

3-4. Seoul, Korea.

#### For newspaper articles (non-authored):

Korea Distribution News (2011). Future of traditional markets. *Korea Distribution News*, 21 January, Section 3-4. Seoul, Korea.

#### For Internet resources:

Kim, Dong-Ho, & Youn, Myoung-Kil (2012). *Distribution Knowledge, Research, and Journal*. Proceeding of 2012 Summer International Conference of KODISA, Seoul, Korea (pp.73-78). Retrieved August 30, 2012, from [http://kodisa.org/index.php?mid=Conferences&document\\_srl=8862](http://kodisa.org/index.php?mid=Conferences&document_srl=8862)

China National Petroleum Corporation (2009). *2009 Annual Reports. Beijing, China: CNPC*. Retrieved September 30, 2010, from <http://www.cnpc.com.cn/resource/english/images1/2009.pdf>

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Where the family name may be ambiguous (e.g., a double name), please indicate this clearly. Present the authors' affiliation addresses (where the actual work was done) below the names. Indicate all affiliations with a lower-case letter immediately after the author's name and in front of the appropriate address. Provide the full postal address of each affiliation, including the country name, and, the e-mail address of each author. Note: This information should be provided on a separate sheet and authors should not be identified anywhere else in the manuscript.

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A concise, factual and structured abstract is required. 150 – 200 words in total are recommended. The abstract should state briefly 1) the purpose of the research, 2) research design and methodology, 3) the principal results, and 4) major conclusions. An abstract is often presented separately from the article, so it must be able to stand alone. For this reason, non-standard or uncommon abbreviations should be avoided, but if essential they must be defined at their first mention in the abstract itself.



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Immediately after the abstract, provide a maximum of 5 keywords. These keywords will be used for indexing purposes.

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Collate acknowledgements in a separate section at the end of the title page and do not, therefore, include them on the main document (manuscripts) or otherwise. List here those individuals who provided help during the research (e.g., providing language help, writing assistance or proof reading the article, etc.).

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The text of the paper, including abstract, text, references and notes, tables, figure captions, figures, but without the names of authors, or any acknowledgements. Check that you have removed all author identification (names and affiliations) and any acknowledgements from the main document that you are going to submit. Please make sure that authors' names are not included in the document/file properties.

Further considerations

- 1) All information about all figure captions and all tables (including title, description, footnotes) has been provided
- 2) Manuscript has been "spellchecked" and "grammar-checked"
- 3) References are in the correct format for this journal
- 4) All references mentioned in the Reference list are cited in the text, and vice versa

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