

Committed to Excellence

KIMEP UNIVERSITY



**12th KIMEP International Research
Conference (KIRC) 2015**

Bang College of Business

Almaty, Kazakhstan

April 3-4, 2015

**Conference Theme: Global Competitiveness and Economic Growth
in the 21st Century: Challenges and Opportunities**

CONFERENCE PROCEEDINGS

Almaty 2015

Committed to Excellence

KIMEP UNIVERSITY



KIRC 2015 Program Outline

Friday 3rd April, 2015	
13:00 - 14:00	Registration & Reception
14:00 – 15:00	Inaugural Ceremony & Keynote Speech
15: 00 – 15:15	TEA BREAK
15:15 – 16:15	Concurrent Research Group Presentations
16:20- 17: 30	PANEL DISCUSSION- Research, Knowledge Creation and Teaching Effectiveness
17:30 – 17:45	TEA BREAK
17:45 – 19:00	Concurrent Research Group Presentations
Saturday 4th April, 2015	
09:30 – 10:30	Plenary Session- BCB Alumni/Industry Participants
10: 30 – 10:45	TEA BREAK
10:45 – 11:45	Concurrent Research Group Presentations
11: 45 – 12:00	Closing Ceremony and Best Papers Awards
11:45 – 12:30	TEA REFRESHMENT

KIRC 2015 Organizing Committee

Dr. Ha Jin Hwang, Dean, Bang College of Business

Dr. Monowar Mahmood, Associate Professor of Management

Dr. Vassiliy Voinov, Professor of Operation Management

Dr. Razzaque Bhatti, Professor of Finance

Dr. Mujibul Haque, Associate Professor of Finance

Dr. Sholpan Gaisina, Associate Professor of Economics

Dr. Bulent Dumlupinar, Assistant Professor of Marketing

Dr. Keun Jung Lee, Assistant Professor of Finance

Dr. Sang Hoon Lee, Professor Finance

Dr. Carolyn Erdener, Professor of Management

Dr. Gavin Kretzschmar, Professor of Accounting

КИМЭП Университеті
Университет КИМЭП
KIMEP University



21 ғасырдағы Ғаламдық бәсекеге қабілеттілік және экономикалық өсу: Қиындықтар және
Мүмкіндіктер
XII-шы Халықаралық ғылыми-зерттеу конференциясы (KIRC-2015, 3-4 сәуір 2015 ж.)

Конференцияның материалдары

XII-ая Международная научно-исследовательская конференция (KIRC-2015, 3-4 апреля
2015 г.)

Глобальная конкурентноспособность и экономический рост в 21 веке: Трудности и
Возможности

Материалы конференции

**XIIth KIMEP International Research Conference (KIRC-2015, April 3-4, 2015)
Global Competitiveness and Economic Growth in the 21st Century: Challenges and
Opportunities**

Conference Proceedings

Алматы 2015
Almaty 2015

УДК 330(063)

ББК 65.011

Ж66

Ж66 21 ғасырдағы Ғаламдық бәсекеге қабілеттілік және экономикалық өсу: Қиындықтар және Мүмкіндіктер: Конференцияның материалдары(3-4 сәуір 2015 ж.) = **Глобальная конкурентноспособность и экономический рост в 21 веке: Трудности и Возможности:** Материалы конференции (3-4 апреля 2015г.) = **Global Competitiveness and Economic Growth in the 21st Century: Challenges and Opportunities:** Conference Proceedings (April 3-4, 2015) Жалпы ред. басқ. М. Махмуд,- Алматы-Астана: Академпресс, 2015.-162б.-Қазақша, орысша, ағылшынша

ISBN 9965-9047-8-2

Бұл кітап 2015 жылдың 3-4-ші сәуірінде КИМЭП университеті (Алматы, Қазақстан) өткізген халықаралық ғылыми-зерттеу конференциясының материалдарын ұсынады. Конференцияда «21 ғасырдағы Ғаламдық бәсекеге қабілеттілік және экономикалық өсу: Қиындықтар және Мүмкіндіктер» тақырыбы бойынша ғылыми баяндамалар, презентациялар және сарапшы пікірі ұсынылды.

Данная книга содержит материалы международной научно-исследовательской конференции (KIRC- 2015), проведенной Университетом КИМЭП (Алматы, Казахстан) 3-4 апреля, 2015 г. На конференции были представлены научные доклады, презентации и мнения экспертов на тему: «Глобальная конкурентноспособность и экономический рост в 21 веке: Проблемы и Возможности».

This book represents the Official Proceedings of the KIMEP International Research Conference (KIRC- 2015) held 3-4 April 2015 at KIMEP University in Almaty, Kazakhstan. This KIRC featured scientific papers, professional presentations and expert panel discussions on topics related to the theme of “Competitiveness and Economic Growth in the 21st Century: Challenges and Opportunities”.

УДК 330(063)

ББК 65.011

ISBN 9965-9047-8-2

КИМЭП Университеті, 2015

TABLE OF CONTENTS

Author	Title	Page
Anna Krupina	The Role of the State's Tax System in the Recovery of Economy in Post-crisis Period	9
Chynara Erkulova	Impact of Taxation on Global Competitiveness and Economic Growth of Eurasian Economic Union (EEU) Region	11
Daulet Mustafin	Problems of Taxation on Vehicles Imported from Russian Federation to Republic of Kazakhstan	21
Tyutyuryukov N.N., Ternopolskaya G.B.	EEU's Economic Development and the Tax Legislation	22
Vladimir Tyutyuryukov	Directions of Development of EEU Member States Tax Systems – How to Achieve Proposed Harmonization?	23
Olga Tyutyuryukova	Harmonization of Accounting Rules in EEU Member States	24
Zhanat Syzdykov Nazigul Arstambekova	Accounting Disclosures and Company's Performance: Implications for Oil and Gas Industry	26
Zhanat Syzdykov	Is Ethical Standards Enforceable in Accounting profession in Kazakhstan	27
Jiri Melich	Political Economy of Reforms in Kazakhstan: The Constraints to Overcome	27
Dilara Orynassarova	Tracking Industry Labor Force Capacity to Support Industrialization Processes in Emerging Markets: Evidence from Kazakhstan Data	28
K.P. Kurylev, D.V. Stanis	The Impact of Socio-Economic Situation in Ukraine on Internal Political Instability	30
Jan Rezac	Question of the Defined Contribution Pensions: The Czech Republic Case	31
Yevgeni V. Savkovich	Perspectives of Russia and Central Asian States within China New Silk Road Project	41
Sholpan GAISINA	Determinants of Borrowing Behavior of Rural Households in Kazakhstan	42
Razzaque H Bhatti	Some Implications of Covered Interest Parity for Short-Terming Financing The Case of Three Kazakh Tenge Exchange Rates	72
Sang H. Lee	Financial Literacy and Retirement Planning in Kazakhstan	74
Keun Jung Lee, Baiken Askar	Oil and Gas Company and Business Value Estimation in Kazakhstan	89
Maya Katenova	The Issue of Asymmetric Information in the Financial Industry of Kazakhstan	90

Assel Seitenova Olga Pak	How Do Firm-Specific Characteristics Affect Firms' Financing Decisions of Debt vs. Equity? Some Evidence from Kazakhstan	91
Olga Pak Gavin Kretzschmar	Specific Determinants of Bank Capital in Kazakhstan	91
Oleg Vlasov	3D Printing: New Business Opportunities for the XXI Century.	92
Oleg Vlasov	Accounting Information Systems for SMEs in Kazakhstan	93
Oleg Vlasov	Cyber Weapon: Threats and Challenges of a New Millennium.	94
Oleg Vlasov, Dana Baizyldayeva	Emerging Information Technologies: A Way of Sustaining Competitive Advantage in Business	95
Yevgeinya Kim	Improving performance of Supply Chain management in Kazakhstan by the adoption of RFID	97
Oleg Vlasov	The Impact of Computerization on the Labor Market of Kazakhstan.	98
Uldana B. Baizyldayeva Nadezhda Y.Fidirko	The Role of Technology in Operations: Enterprise Resource Planning – ERP Systems & Cloud Based ERP.	99
Smagulova Almas Agibaykyzy	Media/PR Executives Demand Internships	107
Yerzhan Avelbayev, Liza Rybina, Alexander Ostrovsky	A Comparison of Attitudes towards Mobile Advertising between Youth and Adults in Kazakhstan	108
Alina Y. Desyatnikova	The Development of an International Marketing Strategy: the Case of an IT Company	109
Elmira Bogoviyeva, Ph.D.	The Chess and Marketing: Use of Metaphor in Learning Marketing and Marketing Career	124
Elmira Bogoviyeva, Ph.D.	The Influence of Temporal Orientation on Travelling Preferences	126
Elmira Bogoviyeva, Ph.D.	Levels of Marketing Strategies: When Strategies and Tactics Coincide	130
Elmira Bogoviyeva, Ph.D.	Motives for Selecting Major to Study at University	131
Daniyar Makhkambayev, Liza Rybina, Alexander Ostrovsky	University Marketing and Consumer Preferences of University Selection Criteria in Kazakhstan	133

Nurzhanova Sharipa Syzdykovna, Abai Saduakasov Mukanova G.K	The Role of Marketing in the Promotion of National Culture	134
Liza Rybina	Impact of Individual Characteristics on Global Consumption Orientation of Consumers in Kazakhstan	139
Bulent Dumlupinar Elmira Kerimbayeva	Development of Congress Tourism in Kazakhstan	140
Bakhytnur Otarbayeva	Is There a Partnership Between Profit and Non-profit Organizations in Kazakhstan?	142
Carolyn Erdener, Vladimir Garkavenko	Basic Human Values of Students at KIMEP University, Kazakhstan	143
Carolyn Erdener	An Updated View of Cultural Frictions and Transaction Costs	145
Yuliya Frolova	What Job Will Bring Satisfaction for Young People in Developed Economy with Individualistic Culture and in Developing Economy with Collectivistic Culture? An Exploratory Comparative Analysis	147
Monowar Mahmood Nurlan Orazalin, M.A.,	Corporate governance in Kazakhstan: Current scenario and future challenges	163

The Role of the State's Tax System in the Recovery of Economy in Post-crisis Period

Anna Krupina
Bang College of Business, KIMEP University

In the light of the on-going process of economic integration, that is actively taking place nowadays among certain countries and actually have led to the creation of Eurasian Economic Union (EEU), who are also members of Commonwealth of Independent States (CIS), it is quite important to point out that this actively flowing process of economic integration and current endeavors to create unified economic zone, by trying to reconstruct the degree of tightness of economic relationships that existed between group of countries before the demise of the former Soviet Union and reshaping them according to the requirements of modern political, economic and legal environment, may bring not only economic benefits in the form of more compatible economic and perhaps legal conformation, absence of serious constraints towards the flow of economic resources and labor, relative ease of opening up a new business on the territory of any country, who participates in that economic agreement and ability to use simplified legislation regimes for business purposes, but also obtaining a member status of that Eurasian Economic Union' member implies certain challenges for the candidate country, which it will need to overcome by adjusting its economic and legal policies towards those ones, that will be enacted by official documents, approved by the highest authoritative bodies of that Union. This in turn will require much effort and time from the candidate country. Also additional hidden costs in the form of incurring certain expenditures on harmonizing economic and legal base, placing restrictions on some type of activities that previously were common for the business environment of that state, flows of particular types of goods and services and so on must be considered by the

government of the state, expressing a desire to become the member of unified economic community.

Taking into account the aforementioned information, it will be quite logical to suppose that tax system of every country, which is already a member of Eurasian Economic Union or just prepares to become it, will definitely undergo certain changes. Moreover, being a member of any particular economic Union implies even more economic interdependence of the members on economic development of each other. And participation in such economic formations, unfortunately, doesn't give a guarantee to the member that economic crisis will not happen in the future and will not affect the pace of overall economy development and its main indicators in particular. That's why one serious issue that I would like investigate deeply in my article for the KIMEP Research Conference (KIRC) is the role of the state's tax system in the recovery of economy in post-crisis period. It is evident that the world economy cannot be named "predictable and stable" anymore, financial and economic circumstances are switching quite rapidly, especially this is not far from true if to pay attention to the fact that in the light of the last events, that occurred in the economic and political life of certain countries of the Commonwealth, the economic situation and development prospects of the key players of Commonwealth, as well as the newly created Eurasian Economic Union, have changed also.

For the reasons mentioned above it is important to consider the role that the tax system may play and what benefits it may bring along in complicated time periods when structured correctly during the phase when rapidly happening and unexpected economic events and circumstances doesn't allow to act as it was intended previously. I'm going to investigate

that issue by finding and analyzing information presented in various articles, that were previously written on the same theme, in order to look at how exactly governments of different countries used their fiscal instruments in order to overcome difficulties, faced by them in the post-crisis period, and return to the previous, before-crisis pace of the development of respective economies. Then I'm going to choose those measures that will seem to be the most appropriate for the present realities of the CIS countries and that may be used to tackle the same problem if it arises in the future.

Impact of Taxation on Global Competitiveness and Economic Growth of Eurasian Economic Union (EEU) Region

Chynara Erkulova

Bang College of Business, KIMEP University, Kazakhstan

Abstract: This paper analyzes what role taxation could play in the process of creation of common market of goods, capital and labor within the EEU region, and how it could, eventually, help remove the trade barriers. The paper first looks at the classic example of the integration and creation of single economic space in the European Union (EU) and consequently, draws some implications for EEU.

Keywords: taxation, EU, Eurasian Economic Union, integration, competitiveness.

Background:

Eurasian Economic Union was initially established by Russia, Belarus and Kazakhstan (with Armenia and Kyrgyzstan joining later) with a purpose of creation of single economic space, i.e. single market for goods and services among members. Besides the removal of internal tariffs and

a common external tariffs on goods imported from outside the Union, creation of single economic space largely depends on a thorough integration/harmonization of national policies of Member States (MS). To illustrate, harmonization of energy and transport policies has already begun in a full swing. As for the harmonization of tax policies, which is considered to be one of the most important elements of integration of markets, there is still a lot of discussion and doubts. The harmonization of tax systems is undoubtedly considered to be an essential step towards creating a functioning single market. But in the case of EEU Member States, among the major questions is: How feasible it is to harmonize tax systems of all member states, which, despite the fact that they share a similar history, culture, and language, are so different when it comes to the level of economic development, territorial size, and population, inter alia? To tackle this question, we will first analyze how other economic unions, despite such differences, managed to do it, and then we will draw some implications for EEU.

Harmonization of Tax systems in EU

When the European Economic Community (EEC) was first created, its goal was similar to the one EEU has today - to create a single, integrated market. To achieve this, physical barriers to trade in the form of border controls, had to be removed. This required harmonization of indirect taxes (such as value-added tax (VAT), which are the first thing that usually come to mind when dealing with cross-border transactions, and direct taxes, such as corporate income taxes, that greatly influence free movement of capital. However, the original idea of EEC as a single fiscal territory achieved by means of full tax harmonization was soon abandoned as completely unrealistic (Lénártová, 2010). According to Lénártova (2010), the main barriers to complete full harmonization, i.e. to create identical national tax systems in EU, primarily were:

- political barriers that arose from the unwillingness of EU Member States to surrender a part of their tax and fiscal sovereignty to the European Union,
- economic obstacles that appeared due to different levels of economic development and performance of EU Member States' economies, as well as the historically arisen differences in national tax systems resulting from different traditions in the field of production and consumption, fiscal reasons and the need for a certain degree of tax competition,
- social reasons that arose from different national social systems and policies in the Member States. The different hierarchy of individual states' social preferences was also seen as a difference in their tax policies.

These obstacles led the European Commission to focus on appropriate level of tax harmonization, not on creation of one uniform tax system in EU. That appropriate level of harmonization was now seen as *coordination*, or, in other words, *approximation* of tax systems (Lénártová, 2010). The appropriate level *harmonization* started with indirect taxes (VAT and excise duties) and later on, on direct taxes (recent example would be CCCTB – Common Corporate Consolidated Tax Base). The reason why *harmonization* of indirect taxes was prioritized is because for a *Single Market* to function, elimination of discriminatory or protective internal taxation of imported goods to create *completely impartial* conditions for competition was crucial. Article 90 of the EC Treaty constitutes the basis for the prohibition of tax discrimination. It states that:

(1) No Member State shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products (discriminatory internal taxation);

(2) Furthermore, no Member State shall impose on the products of other Member States any internal taxation of such a nature as to afford indirect protection of other products (protective internal taxation).

A famous judgment of the European Court of Justice (ECJ) in the case *Commission vs France 168/78* is a great illustration of indirect discrimination. In this case, France had a substantially higher excise tax on strong alcohol derived from grain (whisky, rum, vodka, gin) than on those derived from wine of fruit (cognac, armagnac, calvados). France produced negligible quantities of grain-based alcohol, but substantial quantities of fruit-based alcohol (cognac). The commission challenged this tax structure in the proceeding against France as violation of Article 90. In order to prevent such discrimination, a destination principle was introduced in the system of indirect taxes as one of the basic rules. This destination principle means that products subject to excise duty/VAT shall be taxed in the country for which they are intended for final consumption. In order for the destination principle and the principle of the free movement of goods within the EU to be fulfilled, a special tax regime for excise duties was introduced – a duty suspension regime with tax warehouses. (Tyc, 2008) The operator of a tax warehouse was now obliged to pay a deposit relating to the transport, production, processing and storing of goods subject to excise duties. The setting of the amount of deposit was in the legislative competence of Member States. A tax registration number was assigned to tax warehouses, the number being registered in a tax base. Member States exchanged these databases by means of the System of Exchange of Excise Data. As for the VAT, the first step was its structural *harmonization* (subject of taxable activities), and the second step represented the *harmonization* of tax rates (recommended only two reduced rates in the amount of at minimum 5% and basic rate in the amount of at minimum 15%).

Despite the economic and social barriers that appeared when trying to *harmonize* VAT and excise duties, the political willingness was mainly what helped to overcome these barriers. European Community was strongly interested in *VAT harmonization* because it would be able to take a percentage share of the VAT collected by each Member State, which, in turn, would constitute an important part of the income of the EC budget (Tyc, 2008). As time has shown, *harmonization of indirect taxes* have significantly helped a single market within the 28 Member States to function. In fact, tax harmonization not only leads to the promotion of free trade and the single market, but it also had the economic and political effect of “creating an ever closer union among the people of Europe”.

It is worth noting that there were a lot of tax problems, especially very complicated tax administration and a high level of a compliance costs. In addition, a mechanism of VAT is considered to have caused a huge amount of tax evasions, tax avoidance and tax frauds. But on a more positive note, the same VAT mechanism fostered efficient international cooperation in the combat of tax frauds and tax evasions in the EU. As for the harmonization of direct taxes, such as corporate and personal income taxes, it turned out to be even more difficult for member states to agree on, due to the differences in the tax base construction, level and number of tax rates, interactions between accounting and tax systems, etc. Nevertheless, EC hasn't completely abandoned this idea of direct taxes harmonization, and until today, it is still working on creating such conditions for businesses and individuals, where it almost makes no difference where you set up your business and work within the EU region.

Implications for EEU

If we consider it, main barriers for harmonization of tax systems in the EEU would actually turn out to be very similar to the barriers once faced by the EU, such as:

- Political barriers. In terms of foreign economic policy, Russia's embargo on some of the Western products was to automatically affect all the other EEU Member states. Some of the states, like Kazakhstan and Belarus did not agree and are said to not be able to afford to follow Russia's embargo and other punitive economic policies. Hence, disunity and differences in priorities within the group are certainly a challenge for further creation of a single economic space.

- Economic obstacles. Russia's big weight in the Union, as it accounts for 87 percent of the Union's total GDP and 83 percent of its population, whereas the EU's largest economy, Germany, represents about 15.8 percent of its GDP and just six percent of its population, is to imply that Russia is to have a bigger economic weight when it comes to making the decisions as well. (Barbashin, 2015). Similarly with the EU, the economies of countries like Kyrgyzstan and Armenia are at a significant disparity with Russian and Kazakhstani economies, which may also make it difficult for the 'smaller' countries to integrate their markets and be at least no worse than they were prior to joining the Union.

- Legal barriers. According to Barbashin (2015), EEU is considered to lack any institutions that could help it realize its economic potential. "None of the EEU's structures, including the Eurasian Economic Commission (the union's regulatory body) and a common court", says Barbashin, "has the power to shape policy or influence decisions." In contrast to the EU's governing bodies, whose decisions must be respected

by all members, the EEU's institutions have only recommendatory powers and lack the political mandate to enforce their decisions, notes Barbashin (2015). EEU might even come to resemble the CIS, where formal regulatory bodies exist but remain completely inactive.

Among the possible ways to tackle the obstacles stated above could be designating some of the members as less developed countries (LDCs), and making them eligible for "special and differential treatment", similar to what Caribbean Economic Union did. Similar to EU, 'elimination of discriminatory or protective internal taxation of imported goods to create *completely impartial* conditions for competition', which is an essential part of creating a single market, was addressed by EEU, in its Article 71-73, Section XVII on "Taxes and taxation" of EEU Treaty, with a specific focus on indirect taxation as well as on the taxation of individuals. In particular, Art. 71 of the EEU Treaty define the principle of nondiscrimination when it comes to mutual trade. Similar to the article 95 of the Treaty of Rome, Member states may not use internal taxes to discriminate against products coming from other Member States.

Art. 72 encompasses that indirect taxes on mutual trade shall be levied according to the principle of the country of destination for the goods and services, and should be subject to 0% VAT and/or excise tax exemption if the goods are being exported. The procedure of imposing indirect taxes and controlling mechanism over the payment of such taxes on export and import of goods is described in the Appendix 18 of EEU Treaty. Art. 73 acknowledge the rights of citizens of member states for non-discriminatory taxation of their income when employed in any of the member states. Realization of this article is to facilitate free movement of labor force. As for the tax harmonization, main implication for the EEU is that it should not aim to fully harmonize the tax systems of the member states, because that has proven to be impossible and troublesome by

EU. But what has been proven to be feasible is the *coordination* of tax systems, with a particular focus on indirect taxes, which are most crucial for the removal of trade barriers within the Union.

EEU and Global Competitiveness of the Region

With the evolution of Eurasian Economic Union and the potential establishment of single customs territory, home market capacity can significantly increase. To illustrate, the total market size of the Customs Union was about \$2 trillion, human resources capacity - 170 mln people, territory - 20 mln squared km, total manufacturing capacity - \$600 bln. Such a huge market size is surely more attractive for investors and is more favorable for FDI inflow. One clear example would be a collective production of lorries, motor vans in Kokshetau as part of the Kazakhstan-Russia project as JSC "Kamaz - Engineering" premises. Another example would be Kazakhstan-Belarus collective production of tractors "Belarus" at JSC "SemAz" site in Semipalatinsk and combine harvesters "Esil" at JSC "Agromash Holding" site. The trade flow between the member states is expected to increase significantly. Before the establishment of the EEU the trade flows between Belarus and Kazakhstan were very weak or almost non-existent. It was considered that there was not a real common ground on which to build an economic community, due to the imbalances in size and trade flows between the members of the EEU.

Furthermore, the most important similarity between the Russian and the Kazakh markets, i.e. the export of energy resources (oil and gas), has been downplayed, because this is one of the exceptions to the internal liberalization. As for the Russian and Belarusian markets, they were fairly integrated even before the establishment of the EEU, mainly because of the Russian subsidies to the economy of Belarus: Russia accounts for 75% of foreign direct investments (FDI) into Belarus. Also the external tariffs of these two countries were very similar. However,

this was not the case for Kazakhstan: even today, Belarus and Russia account for less than 5% of FDI into Kazakhstan, which leaves a lot of room for further improvement of collaboration between the member states.

Conclusion

Fortunately, EEU member states recognize the essential role that taxation plays in the process of creating a common market of goods and services. Not only does it help to remove the economic and legal barriers for trade among the countries, but, as EU experience has shown, it can also help ‘to create an ever closer union among the people of EEU’. As taxation is said to play a multi-dimensional role for the success of EEU, harmonization of tax policies of the member states is regarded to be one of the most important tasks, especially at the dawn of the Union. Yet, the feasibility and implementation of this task was what many people couldn’t agree on and still debate about. This is why it could be very useful to look at best practices and, where applicable, use some of those practices. And historical development of the common space in EU is, undoubtedly, something other unions can learn from. Based on EU experience, EEU member states can draw some implications that, in turn, could help them to get closer to their objective of creating single economic space. Among such implications, which this paper addressed, are:

- Ensure ‘sustainable’ non-discrimination of the goods, services, labor force and capital coming into one of the countries of the EEU;
- Focus on *coordination* of tax systems, and not the full harmonization;
- Prioritize indirect taxes’ *harmonization* above the direct taxes;
- Give more power to the EEU regulatory bodies to ‘shape policies and influence decisions’;

- Do not forget to provide special treatment (besides mere financial aid) for less developed member states like Kyrgyzstan and Armenia, especially in the beginning, as their economies are not as prepared to function within the framework of the new union;
- Provide incentives for the EEU Council and other regulatory bodies to work harder at coordinating the tax systems.

Of course there can be other implications as well that this paper may not have identified, but for now, the implications stated above are considered to be crucial for the successful establishment of single economic space within EEU.

References

A.Barbashin (2015).The Eurasian Illusion.*Foreign Affairs: Council on Foreign Relations.*

Retrieved from <http://www.foreignaffairs.com/articles/142781/anton-barbashin/the-eurasian-illusion>

G. Lénártová (2010). "Tax Harmonization in the European Union", *University of Economics in Bratislava*. Retrieved from

http://spek.hu/anyagok/Gizela_Lenartova_Tax_harmonization_in_the_EU.pdf

V. Tyc (2008)."Harmonization of indirect taxes in the European Union", *International Journal of Law and Management, Vol. 50 (Issue 2) pp. 87 - 92.*

Problems of Taxation on Vehicles Imported from Russian Federation to Republic of Kazakhstan

Daulet Mustafin
MBA Student, KIMEP University

Abstract: Undoubtedly Eurasian Economic Treaty has been viewed as “heaven” for people with the financial capabilities and intention to buy vehicle from countries – partners of the Treaty. Putting pink shades away it may be observed that a potential buyer is faced with so many challenges, that the question might arise, is it worth to waste so much time, energy and money just to get a new car from Russia or wait till Kyrgyzstan will join the Treaty, and the possibility of getting a cheaper used car or just drive own car or do not buy the car at all. The most part of the research will be designated to challenges arisen when the car is imported from Russian Federation (further RF).

EEU’s Economic Development and the Tax Legislation

Tyutyuryukov N.N., Dr.Sc.,
Financial University under the Government of the Russian Federation

&

Ternopolskaya G.B., C.Sc., Financial University under the Government of the Russian
Federation

Abstract: Currently at the Eurasian Economic Union (EEU) there happens an ongoing intensive development of the legal acts with the intention to harmonize the economic processes in EEU. However, the economic mechanisms primarily remain domestic. The Russian business structures evaluate the potential of CIS market as very high: in 2007 the CIS produced 3.1% of world gross

domestic product (at the current rate of the national currencies to US dollar), while the total export of goods from CIS Member States was 3.6% of the world total. Geographically Russia is tied to CIS countries, primarily EEU Member States; however, they account for only 20% of Russian external trade. A share of mutual trade in total EEU turnover is insufficient when compared to other economic communities (see. Fig.1).

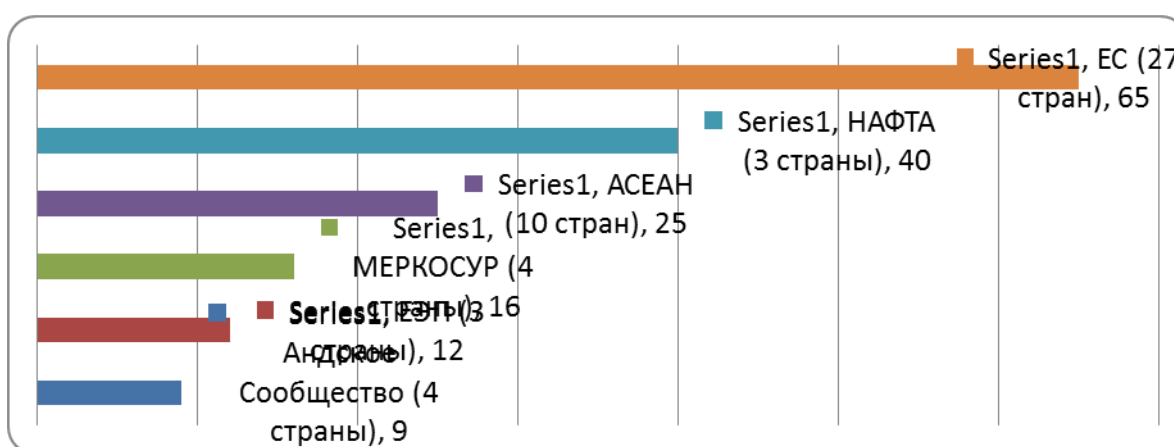


Figure 1 - Share of mutual trade in total turnover of economic communities

Obviously, this happened partially due to poorly coordinated tax policy. A remedy to that could be based on CIS Model Tax Code (CIS MTC), which was recently edited. It played a positive role serving as a basis for a number of existing domestic tax codes. According to the authors' opinion, it is crucial moment to develop the EEU Tax Code. This should happen in three steps. This initiative allows enhancing the integration basis of EEU.

1st step. The development of common General part of the Tax Code.

2nd step. The development of common Third part of the Tax Code (dealing with the tax administration).

3rd step. The development of common rules for calculation of major taxes.

Directions of Development of EEU Member States Tax Systems – How to Achieve Proposed Harmonization?

Vladimir Tyutyuryukov, C.Sc.

Bang College of Business, KIMEP University

Abstract: Armenia, Belarus, Kazakhstan and Russia from 1 January 2015 are united in a Eurasian Economic Union (EEU). Among EEU goals are development and convergence of the economies, non-harmful competition and common sustainable economic growth. Within EEU framework the countries also agreed to pursue coordinated, harmonized or unified policy in certain areas (taxation being one of them). At the same time all countries normally compete for mobile factors of production, such as capital and qualified labor, often using tax measures to achieve the competitiveness. The issue is that competition and harmonization of the tax systems are opposite processes. This paper considers the tax systems of EEU Member States and reviews their relationship with the intent to identify the features they exert – whether there is tax harmonization, tax competition or any other relation.

This research is based on taxation of investment income (dividends, interest and royalties) and cross-border operations in four EEU Member States, these two areas being the most common for cross-border business to encounter. The preliminary research shows significant discrepancies in tax treatment of both income (where the rates differ significantly among the countries) and operations (where the applicable rates of VAT distort common market and differences in transfer pricing control create significant obstacles for intra-EEU trade). So the aim of this paper is to develop the policy recommendations to overcome such discrepancies.

Harmonization of Accounting Rules in EEU Member States

Olga Tyutyuryukova, MA
Almaty Management University

The Eurasian Economic Union (EEU) is a wide scale project, which aims at the free movement of goods, services, capital and labor between Armenia, Belarus, Kazakhstan and Russia (and Kyrgyzstan in perspective). The purpose of this integration project is to strengthen the economic potential of EEU Member States. This project works to a certain extent: there is no customs control over intra-union trade, citizens of these countries do not need work permits, there are over 5,000 companies with Russian capital registered in Kazakhstan, and approximately 400 companies with Belarusian capital have been set up in Russia. At the same time, the accounting rules in all four countries are based on IFRS, although with some discrepancies.

Armenia used its own accountant standards up to 2010, and transited to IFRS in 2010-2011. Belarus adopted IFRS as the national standards in 2013 with the adoption of new law “On accounting and financial reporting” No. 57-3. Under it the requirement to prepare and publish financial statements in accordance with IFRS for all organizations of public interest becomes mandatory from 2016. Kazakhstan has been applying IFRS as national standards since 2007 (Law “On accounting and financial reporting” No. 234); at the same time there exist the national accountant standards used by small businesses. In Russia the accounting had been based on national Russian accounting standards (RAS) since 1994, when the Ministry of Finance adopted the accounting pronouncements “Accounting policy of an enterprise” (RAS 1/94) and “Accounting for capital construction contracts” (RAS 2/94). RAS had not always corresponded to IFRS. However, from 2011 Russia started to apply IFRS, but only for the consolidated financial statements.

A common feature of EEU Member States is that each of them has a national standard-setting authority (as a rule, Ministry of Finance), which adopts an amended or new IFRS as a mandatory one. The role of these standards is, however, different: for instance, in Kazakhstan the Tax Code explicitly refers to IFRS when establishing rules for classification, recognition and measurement of assets, liabilities, income and expenses. In Russia, on the contrary, three types of accounting coexist: RAS-based, which is mandatory for all companies, IFRS-based, which is obligatory for the preparation of the consolidated financial statements (or for the transformation of the accountant data from RAS to IFRS), and the tax accounting. Belarus is so far on the stage of IFRS experience accumulation. As a consequence, the accounting costs of multinational companies are increasing, which hardly contributes to the investment attractiveness of EEU as a single market.

There already is experience of the harmonization of accounting practices. European Union (EU) for thirty years unifies the domestic regulations of its Member States. Ten years ago the supra-national European Commission adopted IFRS as generally accepted accounting standards, because they are tools recognized as effective on worldwide scale. In this paper the author is considering the practice of IFRS use in EEU Member States and potential model of accounting harmonization on EEU level.

Accounting Disclosures and Company's Performance: Implications for Oil and Gas Industry

Zhanat Syzdykov,
Bang College of Business, KIMEP University, Kazakhstan
&
Nazigul Arstambekova,
MBA Students, Baker Tilly Public Accounting Firm

Abstract: The accounting disclosure literature suggests that both economic consequences and seeking social legitimacy are motives that exist behind managers' decision to include certain information in the financial reports. The purpose of this study is to describe the dependence of company's size and level of financial disclosure, comparing different size oil and gas companies in Kazakhstan and foreign companies. The main question of this research is how important is the influence of companies size on level of disclosure of different companies information and consequently on companies performance. This research will examine the quality and quantity of disclosure of financial statements in oil and gas companies, comparing Kazakhstan's oil and gas companies' disclosure and worldwide oil and gas companies. A total 30 annual reports of Kazakhstan oil and gas companies for last 5 years and 30 annual reports of worldwide oil and gas companies for last 5 years were included in this study.

Keywords: oil and gas accounting; petroleum industry; financial disclosures; company's performance

Is Ethical Standards Enforceable in Accounting profession in Kazakhstan

Zhanat Syzdykov,
Bang College of Business, KIMEP University, Kazakhstan

Abstract: Ethics is one the most fundamental principles in accounting and in profession overall. This concept became on the acute and widely discussed in light of recent decades financial scandals with like of Enron, WorldCom, Kazakhstan Kagazy, etc. The paper constructs the basis for ethics notion discussion and application of the term in Kazakhstan environment: concepts of profession due care and competence, confidentiality and professional behavior in envisaged by various professional organizations are discussed in the beginning. Further the paper will discuss the concepts and several ethical theories applicable to accounting profession, and implications of ethical standards in Kazakhstan and business environment. The paper progresses with the discussion on findings and conclusions in relation to implications. Key conclusions, limitations of the research and further potential are discussed in the final part of this paper.

Keywords: ethics, accounting profession, professional behavior

Political Economy of Reforms in Kazakhstan: The Constraints to Overcome

Jiri Melich
KIMEP University

Abstract: Experimental approach to economic development and territorial economic innovation have been increasingly becoming popular with politicians, macroeconomists, and policymakers with an eye on accelerating local and national economic performance. Reforms and policy experiments, origination from a local/regional focus points may allow the building of connections across boundaries by linking new ideas and people in an innovative way - this

approach allows spatially, sectorally, and temporally limited policy trials that reduce the risks and costs of introducing major reform schemes to the national polity, economy and society (cf. Termeer et al. 2011). This paper explores some aspects of this process in relation to opportunities provided by limited policy experimentation and by constraints on policy outcomes posed by specific setup of political decision-making in Kazakhstan. In the country-specific analysis, it makes comparative links between the cases of economic reforms in China and Kazakhstan. A tentative conclusion concerning the difference between China and Kazakhstan in introducing successful economic reforms suggests that the status of the economic elites in Kazakhstan may be even more peculiar than that in China, namely due to the hijacking of the national economic interests in a murky system of patronage regional governments, the difference in the leadership party hegemony, as well as the lack of an effective assessment and decision-making mechanism as well as readiness of key actors, both in politics and business, to sanction /endorse and facilitate spread of innovations and solutions which have proved to work on a limited scale. These constraints occur despite the fact that Kazakhstan has received a high-quality advice from domestic and international experts, and despite the existence of political will at the highest level to introduce effective and successful reforms.

Tracking Industry Labor Force Capacity to Support Industrialization Processes in Emerging Markets: Evidence from Kazakhstan Data

Dilara Orynassarova
College of Social Sciences, KIMEP University

Abstract: Industrialisation is considered as main engine of growth in economic development of most emerging markets. This is especially true for transitional countries as Kazakhstan, the largest economy in Central Asia, having achieved goal of entering top 50 most competitive

countries in the world. For enhancing country's further competitiveness potential, Kazakhstan National Program for 2010-2014 timeline aimed to accelerate industrial and innovative development in country. Program objectives included stimulation of economic performance and generation of employment opportunities. While many different papers published about importance of industrialization activities in Kazakhstan, few have focused on examining current industry labor market capacity to support industrialization process in country. Main aim of this qualitative study was to find out how an industrial expansion in Kazakhstan affected labor demand and whether required skilled labor is sufficiently supplied. This paper based on Kazakhstan example and comprehensive survey of Kazakhstani sources will contribute to an understanding of industry manpower capacity to support industrialization of an emerging market that is not extensively covered in international literature. As qualitative analysis reveals, on one hand expanding industry of Kazakhstan is increasing demand for technically skilled manpower, on the other current industry labor market is experiencing sharp deficit of technically skilled labor, which is especially true for engineers in various fields. Outsourcing international skilled labor is worked out by government as a current short term way out to support rapidly expanding industrialization in country. Weak higher educational system, poor planning and cooperation between education and businesses institutes are identified as main factors challenging effective use of local labor force.

Keywords: Kazakhstan, emerging markets, industrialization, labor market

The Impact of Socio-Economic Situation in Ukraine on Internal Political Instability

K.P. Kurylev

Peoples' Friendship University of Russia
Moscow, Russia

&

D.V. Stanis

Peoples' Friendship University of Russia
Moscow, Russia

Abstract: The article describes socio-economic development of the modern Ukrainian State. It concludes that the undeveloped economy in progress is one of the main reasons to lead Ukraine to its domestic political crises. The economic weakness in addition to ethnic disunity, social stratification and oligarchic groups' preponderance stimulates organization of the active protesting movement that takes radical and extremist shapes in Ukraine. Relevance of the topic is determined by the scientific necessity to comprehend the specific conditions of escalating internal political turbulence in Ukraine. Such situation spreads negative impact around: on Ukrainian State itself by undermining its foundations, on its neighbors and encourages the growth of international tensions by involving the leading international actors into Ukrainian domestic political processes. Purpose of the article is to reveal the relationship between exacerbating economic underdevelopment and increasing internal political instability in Ukraine. Researches tasks are to show that economic weakness in forced by regions mutual exclusion both provoke the destructive processes in the country that cause the real threat to the Ukrainian national interests. The research is based on the latest resources and gives the scientific arguments.

Question of the Defined Contribution Pensions: The Czech Republic Case

Jan Rezac

Masaryk university, Faculty of Economics and Administration, Czech Republic

Abstract: Many countries face the problem of an aging population and will struggle to provide adequate means for people who retire. This paper looks at the experience gained from the efforts of the Czech Republic to introduce a defined contribution system with privately managed individual pension accounts. Demographic trends and economic indicators were used among comparisons to other countries of the Visegrad group to assess the performance of the Czech pensions, and what tools known from behavioral economics can offer a solution for a sustainable pension system.

Keywords: *Public Policy, Pensions, Defined Contribution*

1. Introduction

Up to 2013 the efforts to reform the Czech pensions system were aimed at creating the defined contribution system with privately managed individual pension accounts in the form of the second pillar (also called second tier). Several events, both political and financial, led to sequential retreat from the plans to concentrate the savings of the majority of the population in the second pillar, and the current center-left government seeks to find a different way to manage future pensions. Czech policy makers in committees for pension's reform are again getting the task of squaring the circle. Desired pensions system should not place too much strain on the current fiscal situation (as the Czech budget is in chronic, albeit mild deficit). It is morally and politically obliged to provide sufficient replacement rate for every participant, as one goal political parties can agree on is to keep rates of elderly poverty low. It needs to provide high

earners with sufficiently high pensions which correspond with their contributions into the system, as per ruling of the Constitutional court (Case 8/07, 2010). And the projected system needs to withstand the looming demographic crisis.

This paper is divided into three sections. First section examines the development of the Czech pensions system in the last five years. The focus is on the reasons that led policy makers first to introduce the second pillar, and also on the reasons which might induce them to step back on this decision. Section two studies the situation in the neighboring countries. The last section aims to examine the reform scenarios, assess likelihood of their implementation, and evaluate their outcomes.

2. Road to the second pillar

Main reason why all stakeholders consider the current pensions system unsustainable is unfavorable demographic situation. According to the European Commission, the old-age dependency ratio, defined as a population aged 65 and above as a share of the population aged 15–64, will go from 20 percent to 61 percent in 2060. Elderly population will by that time account for 33 percent of the population compared with 14 percent in 2007 (European Commission, 2009). This ratio is unlikely to change in the near future, as the number of children per woman is stagnating below 1.5.

In the short term, the deficit of the Social Insurance Fund (the last year in which it run a surplus was 2008) is for now kept in check by the parametric changes which begun to take effect in 2010. Those reforms include:

- gradual raise of statutory retirement age (to 65 in 2030)
- lengthening of required insurance period (to 35 years of contribution by 2019)
- removal of the possibility to count study period into years of contribution

- tightening of conditions for the disability pensions
- further reduction of pensions in case of early retirement

But these changes seem to be the acceptable limit for the lowering of expenditures on pensions, and there is also a case and possibly the political will to roll at least some of the changes back. Parametrical changes of 2008 for example postpone retirement age each year by two months, reaching 75 in the year 2100. It is also highly unlikely it will be possible to increase the flow of money coming in for the pensions. The current social security contribution rate is at 34 percent, higher than the OECD average of 29 percent (IMF 2010). Another calculation of the European Commission predicts spending on pensions to go from 7.8 percent in 2007 to 11 percent GDP in 2060. In the long term, even with the mentioned parametric reforms reducing the expenditures of the pension scheme will likely not provide the same replacement rates to the generation born after the 1960' as the generation which is in retirement now. Policy makers realized the need to reform since 1990', and the first committee in 2005 concluded "FDC pillar helps to lower intergenerational injustice of the pension system. It might also partially increase the diversification of the pension system financing."(p. 85). The recommendations to create the (DC) second pillar were also put forth by institutions such as World Bank (Chlon-Dominczak, Mora, 2005), OECD (2011) or IMF (Laursen, 2000). The center-right coalition, ruling since 2006 to 2013 also preferred introduction of the second pillar.

The coalition however was in its first years unable to proceed with the reform, as the government was from the beginning in almost constant turmoil. The financial crisis of 2008 put the Czech economy under considerable pressure, and increased the volatility of variables necessary to compute parameters of the second pillar, such as the Czech economy output. The coalition, even

in its second term, was short on political capital and did not include the suggestions of the opposition in the plans for reform. Hence the reform introduced in 2011, which announced the start of the second pillar in 2013, was off to a rough start.

Major change the reform offered was the ability to funnel part (3 percent) of the employee salary, which are by default contribution to the PAYG system, into the DC system. Participants who choose for this opt-out also have to add 2 percent of their own salary into the DC system. The whole 5 percent then goes into the fund of participant's choosing. The one undisputable fact about the start of the reform is that the majority of the Czech population did not want to enter the second pillar. By April 2014 only 80.000 people enrolled in one of the companies servicing the second pillar (MPSV, 2014), despite official expectations in the range of 500.000 people (MPSV, 2013). There is also a lack of the official statistics concerning the socioeconomic situation and demographics of the participants, so it is hard to even answer a question whether those involved in the second pillar will actually benefit from it.

There are at least three main explanations for the lack of interest of the Czech savers in the second pillar. The first is concerned with the political situation. Social democracy was a likely winner before elections in 2013, and it publicly and repeatedly announced that its priority will be a cancellation of the second pillar (ČSSD, 2013). Even Czech savers who would welcome a chance to diversify their pension's portfolio might have felt deterred by the threat to their savings account in the second pillar by a future government hostile to it.

The second explanation blames the failure on the poor execution of the reform and its non-beneficial settings. When Slovakia undertook introduction of the second pillar, it conducted a

large scale population survey about attitudes towards future pensions. Polish government changed several features of the proposed reform according to suggestions of the tripartite commission where sat members of trade unions and employers (Jahoda et al, 2008). Czech government did not encourage such a deep discussion. There were many aspects of the second pillar that were disputable, and decided without proper consideration. An example is a central clearing house known from the Swedish pension model. The central clearing house would likely reduce advertising and administrative costs of the second pillar, and most probable reason why it was not utilized is lobbying (Vostatek, 2012).

The third explanation considers the fundamental structure of the second pillar to be inappropriate for the Czech situation. The second pillar is advantageous in a scenario when savings (with added interest) can be converted in real goods at the time the saver deems beneficial. This notion has been repeatedly challenged. The possibility of changing the finance method might reduce the burden connected with aging is disproved by authors like Stiglitz (1999), or even authors from the same institutions recommending the second pillar such as the World Bank. For example, Holzmann and Palacios wrote this (2001) about the differences and lack of thereof, between DC and PAYG DB schemes:

“In the end, both schemes require a subsequent generation to fulfill a generational contract, either in the form of current contributions (in unfunded schemes) or through the purchase of accumulated savings (in funded schemes). Money put aside for a retirement alone does not change this fact...”

The same aging which increases the ratio of the elderly to the productive population changes the ratio on the financial market between prospective sellers and prospective buyers. According to

Fultz (2012), retiring workers who sell their second tier investment to purchase an annuity will receive less than they expected. Barr and Diamond went as far as to claim that the notion of funding resolving adverse demographics is one of the pension myths (2006). In summary, the situation of the Czech pension system after the 2013 reform can be taken as an uncomfortable coexistence of two schemes: a public pension scheme and a mandatory funded private scheme with limited, but voluntary entry. The public pension scheme currently has a basic element and an earnings-related part calculated according to a progressive formula. The funded scheme allows its participants to retain part of their contribution in state regulated funds.

3. Pension schemes in Poland and Hungary

The Czech pensions system remained relatively stable between the years 1996-2013, with most changes being parametric, such as extension of retirement age. Visegrad countries with similar history and economic situation – Hungary, Poland and Slovakia - underwent much earlier and more fundamental transformation. This transformation in all cases involved introduction of some sort of DC scheme in early years. In later years, after financial crisis of 2008, governments restricted either the possibility of participants to opt out of the PAYG DB system, or the maneuver room for the ability of funds to get the best return on their assets. The results of this transformation in Hungarian and Polish case are subjects of this section.

Hungary implemented privately managed retirement accounts in 1998, Poland in 1999. The percentage of covered earnings diverted to second tier was 8 percent for Hungary, and 7.3 percent for Poland. Fultz (2012) compiles three main issues which appeared with the introduction of the second tier:

- Neither law specified the source of revenues to be used to cover the full transition costs of moving from PAYG pension financing to capitalized investments.

- The laws left important details of the second-tier benefit packages undefined, as was the case in Poland, or defined in ways that satisfied public expectations but could not be easily implemented in private markets, as in Hungary.
- The laws left largely to market forces (i.e. unregulated) the fees that private funds could charge workers for managing their investments.

The biggest drawback was the shortfall in public pension finance. The size of a shortfall was bigger than public in the reforming countries expected. Simonovits (2011) characterized the understanding of a transaction costs possibility in Hungary as grossly underestimated or ignored. Calculations made a few years after the reform offer a grim picture of a massive shortfall lasting several decades. Money gained from privatization of assets could not be expected to cover the costs, even in Poland with the biggest share of government in economy.

Country	Pension contributions diverted	Resulting annual shortfall to public pension system	Duration of shortfall
Hungary	6% out of 28%, rising to 8%	0.8%-1.4% of GDP	43 years
Poland	7.3% out of 36.59%	1.48%-2.2% of GDP	Over 50 years

Table 1. Source: Fultz (2012)

Even before 2008 governments of Hungary and Poland did some parametrical changes aimed at reducing the shortfall. But it was the financial crisis what opened a way to retrenchment. According to OECD (2009), aggregate values in second tier went down by 21 percent in Hungary, and 17.7 percent in Poland. Such a loss might have had a massive impact on employees, who would retire in the years of the crisis and who could not wait for the stock market to bounce back. Hungarian lawmakers announced in 2008 that workers were allowed to return into the public pension scheme and get a standard pension (Gal, 2010). After several earlier restrictions on pension funds, parliament also approved a law recouping employees account

balances. The employees could opt to continue with the second pillar, but they would have to contribute fully into the pensions system. Only 3 percent (100,000 people) exercised this option to do so. Poland was not affected by recession, but was running stark deficits which brought the country close to the constitutional ceiling on debts. After two year long discussion, the diverted pension contributions went down from 7.3 percent to 2.3 percent. The 5 percent difference is being allocated into temporary account administered by the Polish state. The money in the temporary account remains in the possession of the worker, it can be inherited, and is indexes according to the average of the GDP growth (Fultz, 2012). Thus retrenchment in Poland could be considered less drastic than steps which Hungarian government undertook. It remains an open question whether retrenchment will remain. Partial restoration is still possible, especially in Poland. However, shaken confidence of financial markets, increased caution of the private pension fund providers and lowered trust of Polish and Hungarian citizens all form an undesired consequence of the pension scheme reform.

4. Conclusion

The main issues countries mentioned in the previous sections dealt with were poorly planned period of transition and resulting strain on the public finance. The Czech second pension system will probably not get into such troubles, as only a small fraction of the population enrolled. This lack of participants however limits the possibility of to achieve economies of scale, makes administrative costs unbearable and does not allow private fund managers to find the best assets to buy with the money of their clients. An increased number of clients might result into the same shortfall which led governments of Hungary and Poland into retrenchment. New Czech government will seek some sort of renegotiation and readjusting of the second pillar scheme. It

will have to acknowledge that yields on global markets might not be as high as optimistic predictions hoped. Inker and Tarlie (2014) show how misleading statistical predictions of future yields are. They used historical simulation to show that even when average payoffs were high, median payoffs are not, as few winners skew the distribution.

Government might aim to strengthen the regulatory role of the state in pension scheme, for example by emulating the standards of the Swedish model. These changes might make the second pillar more viable. One example of a noticeable feature of the Swedish NDC system is the 'balance ratio'. This ratio is defined as the value necessary to keep assets and liabilities in inter-temporal balance in the current year. Whenever its value fell below 1, the system had to draw on its buffer funds to meet its obligations, reducing the indexation of pensions in payment (Natali, Stamati, 2013). There is also an option to roll back the second tier entirely. This possibility was mentioned in election promises and is favored by some researchers (Vostatek, 2012). It is legally risky, but doable, as the Polish experience shows. Money on the private accounts might be transferred back into the public fund scheme, and role of the first and third pillar might be altered to fill the void created such reform. Whatever the new course will be, the Visegrad countries experience shows that reforms rarely goes according to the plan.

5. References

1. Barr, N., & Diamond, P. (2006). The economics of pensions. *Oxford Review of Economic Policy*, 22(1), 15-39.
2. Chlon-Dominczak, Agnieszka, and Marek Mora. "The NDC Reform in the Czech Republic." *Pension Reform (2006)*: 551.
3. ČSSD (2013). Druhý pilíř Nečasovy penzijní reformy zrušíme! Available at:

<http://www.cssd.cz/aktualne/aktuality/2-pilir-1/>

4. European Commission (2009), “2009 Ageing Report: Economic and Budgetary Projections for the EU-27 Member States (2008–2060),” *European Economy* 2 (provisional), Available at http://ec.europa.eu/economy_finance/publications/publication_summary14911_en.htm.
5. Fultz, Elaine, *The Retrenchment of Second-Tier Pensions in Hungary and Poland: A Precautionary Tale* (July-September 2012). *International Social Security Review*, Vol. 65, Issue 3, pp. 1-25, 2012. Available at SSRN:<http://ssrn.com/abstract=2100245>
6. Gál, R. (2010). *Pensions, health, and long-term care: Hungary* (ASPIP Annual national report, 2010). Brussels, European Commission—Analytical Support on the Socio-Economic Impact of Social Protection Reforms.
7. Jahoda, R., Křivánek, M., Špalek, J. Wildmannová, M. Možnost zavedení „opt out“ – vyvázání se ze základního povinného důchodového pojištění. Závěrečná zpráva projektu MPSV HR 164/07. Brno : Masarykova univerzita, 2008. 96 str.
8. Laursen, Thomas. *Pension System Viability and Reform Alternatives in the Czech Republic*. International Monetary Fund, 2000.
9. Inker, B., Tarlie, M., (2014). *Investing for Retirement: The Defined Contribution Challenge*. GMO White Paper
10. MPSV (2013). *Důchodové spoření už mají stovky lidí*. Available at <http://www.mpsv.cz/cs/14267>
11. MPSV (2014). *Ministryně: Druhý pilíř státu nic neušetřil*. Available at <http://www.mpsv.cz/cs/17811>
12. Natali, D., & Stamati, F. (2013). *Reforming pensions in Europe: a comparative country*

analysis.

13. OECD (2009), Pensions at a Glance 2009: Retirement-Income Systems in OECD Countries, OECD Publishing.
14. OECD (2011). Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries, Paris: OECD Publishing. Available at:
http://dx.doi.org/10.1787/pension_glance-2011-en
15. Simonovits, A. (2011). The mandatory private pension pillar in Hungary: An obituary. *International Social Security Review*, 64(3), 81-98.

Perspectives of Russia and Central Asian States within China New Silk Road Project

Yevgeni V. Savkovich
Tomsk State University, Russia

Abstract: In an effort to attract the new vitality into infrastructure projects in Eurasia, China supposed a New Silk Road Project that seems to be the most comprehensive in recent years. For Russia and Central Asian states it indicates the new era of transportation within the whole Eurasia and also threatening previously established trade routes such as Trans-Siberian Railway. In 2013, under Chinese governance special Asian Infrastructure Investment Bank (AIIB) was established. The AIIB is often associated with the main goal of the PRC – to change the global role of China. Our study concerns different challenges for bordering countries within cooperation framework with PRC. The new routes mainly attract minor countries and those to expand export opportunities, but not in the question of security. Many studies have raised a problem – how to connect the AIIB establishing with Chinese global strategies, such as New Silk Road. Kazakhstan and Uzbekistan have already signed the bill of AIIB and expected to use

financial and other resources of it. Russia still doesn't sign it, but in A. Dvorkovich's speech in Krasnoyarsk considering to extend the Chinese participation in cooperation projects.

The survey shows:

- Regional situation will change by the “revolution in standards” (for ex., track gauge).
- China will face a new situation in getting access to the territory of Near East.
- China will serve as a performer of New Silk Road for their own development reason.
- Establishing of AIIB was a reaction on slowing down a number of Central Asia's initiatives.

Keywords: *Russia, China, Central Asia, New Silk Road*

Determinants of Borrowing Behavior of Rural Households in Kazakhstan

Sholpan GAISINA
BCB, KIMEP University, Kazakhstan

Abstract: Despite agriculture in Kazakhstan forms about 5% of GDP, the sector is a main source of income for 23% of the population, while 44% of the population lives in rural areas and directly or indirectly depends on agricultural production. The rural financial market in Kazakhstan is largely underdeveloped and practically all formal financial institutions are located in urban areas, leaving the majority of the agricultural producers and rural population with very limited access to financial services. Access to ready and available credit is an important factor in the economic well-being of a rural household. This paper assesses the determinants of rural household borrowing behavior using data from Kazakhstan. To find the impacts of household characteristics on credit demand from formal financial institutions, we estimate a probit model. We find that demand for credit is affected significantly by the level of income, but negatively. In

addition, the demand is strongly influenced by existing financial experience of households, availability of animal stock, age, and the family size. It was not observed that a gender plays a role and affect the ability to apply for credit. Education is not an important factor in demand for credit in the rural areas. Rural borrowers can use animal stock as collateral to secure loans, it was expected that this factor would significantly and positively affect demand for credit. Regulations on rural credit partnership operations in Kazakhstan should provide rural households with access to services of these rural financial institutions.

Key words: borrowing; behavior; rural; population; transition; Kazakhstan

1. Introduction

Credit is an important source of sustainable development of agricultural production. The type of credit services in many cases are conditioned by the type and level of development of financial institutions (FIs). Until recently, the influences of finance and FIs on state and perspectives of agriculture in transition economies were not considered as an important condition of agricultural development. Most economists believed that financial markets played largely passive role in economic development (Long, 1983); in particular, institutional issues were ignored for a long time. The literature on agricultural economics just recently recognized the finance as a factor affecting not only the movement of economy over the business cycle but also economic growth (Long, 1983). There are several very important works concerning the rural FIs and their roles in agriculture. A list of references might include McKinnon(1973), Von Pischke et al. (1999), Swinnen and Gow (1999), Zeller et al. (1997), Meyer and Nagarajan (2000), Csaki and Lerman (2001), Pederson and Pyle (2004).

In rural areas, potential borrowers may find themselves excluded or dissuaded from the formal financial sector (Nguyen, 2007). It is well known that different types of borrowers have different levels of access to certain types of loans and certain types of credit institutions (Hoff and Stiglitz, 1990). The problem of limited access to credit by the rural population is crucial for most developing and transition economies. Formal FIs in these economies tend to restrict access to formal institutional credit for marginal borrowers (in most cases small-scale farmers) and a proportion of these borrowers are increasing (Gonzalez-Vega, 1982). It is estimated that on the average, no more than 5% of the farmers in Africa and only about 15% of the farmers in Asia and Latin America, have access to institutional credit and, usually fewer than 20% of the total borrowers of the formal financial sector have received 80% of the total amounts of agricultural credit disbursed (Mpuga, 2008).

In the absence of a well-developed branch network of commercial banks in rural areas of Kazakhstan, as well as the low interest of banks to deal with the rural population and subsidiary small households (SSHs), the only reasonable way to solve a problem of underprovided financial services for rural dwellers is the development of special rural FIs as credit cooperatives and micro-credit organizations. The Kazakhstani government recognized agricultural producers having problems in gaining access to credit and initiated FIs that could coexist both with state financial programs and with the private sector. In other words, the government tried to find such a form that could resolve what was seen to be market failures and operate on a more commercial rather than a government basis.

This paper analyzes what determines the extent of rural households' demand for formal credit markets in Kazakhstan. The analysis is based on a data set collected in a survey of 704

households in 38 villages in eight rural districts of Pavlodar region conducted in 2011. The plan of the paper is as follows. Section II provides literature review. Section III describes crediting of rural households in Kazakhstan Kazakhstan. Section IV provides the description of the survey, methodology and data on which the study is based. In section V discusses the estimation of the model and the results from estimation. Section VI looks at some recommendations and provides conclusions.

2. Literature Review

In market economies, the financial market is responsible for both capital allocation and capital using; Levine (1997) argues that the development of financial market and institutions is a critical part of the growth process. In the absence of well-developed financial markets, the potential savers would be reluctant to concentrate their financial resources in risky projects where good information is lacking. High information and transaction costs cause an immobilization of savings, restraining of investments, hampering the technological innovations, and at last dampening the rates of economic growth (Barry and Robinson, 2001). Hence, “financial markets can be thought of as the ‘brain’ of the entire economic system, the general locus of decision making: if they fail, not only will the sector’s profits be lower than they would have been otherwise, but the performance of the entire economic system may be impaired” (Stiglitz, 1994). As it was mentioned by Kaufman (1992): “The efficiency and productivity of the financial market do not arise primarily from large stocks of physical capital; most FIs own only their office buildings and equipment (mainly computers and service equipment) the primarily source of the productivity is human capital or brain power”. Human capital uses ingenuity and creativity to produce new financial instruments, institutions, and markets for better serving borrowers and lenders.

Thus, the financial market could be defined as an important part of the market economy affecting the intermediation between savers and borrowers, channeling funds from savers to productive uses, in particular investments. Being a market place of stocks of wealth the financial sector's preeminent importance lies in the fact that its crisis can lead to a general decline in production and output both in the separated sectors of the economy and also in the economic system as a whole (Gabrisch and Hoelscher, 2006). A stable and efficient financial sector is important to support the high-growth strategies of transition economies and other emerging markets (Bloomstein, 19987) and is vital for a successful restructuring of the enterprise sector. It plays a coordinating role that is a necessary complement to the decentralization of economic decisions.

The development of financial market, improvement of financial services and the introduction of more effective FIs can accelerate income growth in agriculture and lead to increasing wellbeing and decreasing poverty. Thus, agriculture, in particular, in the transition countries, needs well-functioning FIs. Most of the agricultural activities are spread over time, for example, implementation of a new technology requires investment in the current period with payoffs in the future. In addition, productive activities require inputs in advance of harvest and sales. Due to the high level of uncertainty and riskiness of agricultural production, formal financial markets are either completely missing or incomplete (Binswanger et al., 1989). Morduch (1995) emphasizes that credit, savings and insurance markets in the rural areas of transition and developing economies are generally non-existent, and of those that do, many work imperfectly. Therefore, access to rural credit is essential in poor rural household production, investment and consumption decisions (Eswaran and Kotwal, 1989).

Access to formal credit would allow rural households with no or few savings to cover their financial needs for agricultural inputs and productive investments. An ability to apply for formal credit could encourage rural households to adopt new technologies that raise levels and decrease riskiness of income (Rosenzweig and Binswanger, 1993). Feder et al. (1990) showed in their empirical research that one additional *Yuan* of credit would yield 0.235 *Yuan* of additional gross value of output in China. Diagne et al. (2000) also found positive relationship between credit access and households' welfare in developing economies. Guirkinger and Boucher (2007) showed that 27% loss of agricultural output is associated with credit constraints in rural Peru.

Credit cooperatives are considered to be FIs that fill a market niche and consist of entrepreneurs and producers with little or no collateral. In other words, cooperative FIs can be particularly suited to bring banking services to the otherwise "unbankable" (Emmons and Mueller, 1997). One of the most important advantages is that the community has the power to control the cooperative and ensure that its own objectives are being met. Local members of the community, who are also members of the cooperative, can impose social sanctions where necessary, an instrument which is not available to the commercial banks (Banerjee et al., 1994). Cooperative FIs effectively substitute "reputation capital" for traditional physical or financial capital (Emmons and Mueller, 1997). Second advantage lies in the organizational structure and management of cooperatives in comparison with the same things in the conventional banks. Cooperatives do not have to be concerned about generating high profit values for stockholders whereas commercial banks do. The objectives of cooperatives are set by their members and often focus on providing services rather than on maximizing overall profit for the business. The fundamental motivation of credit cooperatives is to provide members with the kind of financial

services that are at least as attractive in terms of price and non-price parameters, as those available from other formal credit institutions (Smith, 1984). Their main objective is, therefore, to provide an effective service for their members rather than to maximize overall profit.

The third advantage is concluded in the transaction costs, which are a burden of all participants of transactions, and the cost of creation and maintenance of financial relations. The typical transaction costs include the collecting and protection of information, reporting of transactions, and costs of decision making as well. Sometimes such costs can be higher than the credit itself. According to Adams and Nehman (1979) loan transaction costs may include charges collected by the financial institution beyond interest payments, such as application fees and forced purchase of other financial services. Additionally they emphasize that transaction costs include costs related to the negotiations with such agencies as extension staff, local officials, or co-signers. As a final point, these authors consider the travel and time expenses as being substantial in the rural areas, in particular times of planting or harvesting, and needy to be also included into transaction costs.

Since transaction costs are independent of the loan size (fixed costs), their percentage in the total loan volume is especially high for the small-size loans, which are demanded by the rural borrowers. Lenders also bring the burden of transaction costs, which concern the collection of information on clients, introduction of new technologies, and attracting new clients (VonPischke, 1999). In addition, transaction costs are not allocated in fixed proportion among applicants and as a result the high transaction costs lead to credit rationing of small –scale borrowers (Cuevas and Graham, 1986). The problems created by the lack of information on borrowers and their

activities are more severe in long-term lending arrangements. In order to assess long-term repayment ability of a borrower, a careful appraisal needs to be undertaken. Frequently the information required for such an assessment of repayment capacity is not available. Thus, term lenders resort to collateral requirements in order to address the information problem. Transaction costs have a place in the activities of all FIs. However, their share in the total cost of transaction is different and depends on the type of financial institution. The latter determine the level of accessibility, reliability, and cost of information on potential borrowers (Meyer and Nagarajan, 2000).

Staff of rural credit cooperatives is closer to their clients: in most cases, they are a part of the rural community, and they have greater knowledge of relevant agricultural activities. This can allow them to reduce the asymmetric information problems, and along with it, the adverse selection and moral hazard problems, thereby reducing rationing, and stimulating lending to agriculture (Swinnen and Gow, 1999). In addition, they have more opportunities to analyze a creditworthiness of client, estimate the profitability, and viability of proposed project using untraditional methods to enforce the contracts. These all allow cooperatives to reduce their transaction costs. Cooperatives have opportunities to apply for favorable state loans designed to support cooperative development. Such loans are available for agricultural cooperative in Kazakhstan and provide important sources of low cost start-up and operational funds for the newly established cooperative.

3. Crediting of Rural Households in Kazakhstan

A very high interest rate at the beginning of transition to a market economy affected farmers' credit demand and access to loans was hampered by lack of collateral. Additionally, some other discouraging factors appeared. The decrease in demand for agricultural products as an effect of

the liberalization of imports was the most important; bankruptcies of food enterprises and their insolvency were painful too (Daniłowska, 2004). Farmers' income was decreasing dramatically. In 1995, in a pick of economic crisis in Kazakhstan, an average rate of profitability was (-25) %, a number of unprofitable farms was four times as much as a number of profitable ones. In these circumstances, farmers borrowed less money from banks.

Moreover, at present, there is no well-established rural banking system in Kazakhstan. Only two of the thirty commercial banks have a network of branches in rural areas: Halyk bank and Kazpochta (Post bank). These banks provide access to formal financial services in rural areas of Kazakhstan. In most cases these services are used by rural populations for pension and utilities payments. Despite Halyk bank offers a limited range of financial services in rural areas, they appears to be underutilized. Kazpochta's total rural deposit base was about \$500,000 as of January 2002, while in Halyk bank an average deposit amount of a rural saver is about \$60, compared to \$343 in urban areas. It is a cultural norm that being able to pay for one's own funeral is an extremely important for both Russians and Kazakhs. Therefore, adult rural residents can reasonably be assumed to be hoarding several hundred dollars (Buyske and Lamberte, 2006). The government of Kazakhstan recognized problems existing in rural areas and in agricultural production and undertook a series of measures including an intervention into the agricultural credit supply system (Gaisina 2, 2011). During the transition period, three forms of intervention on the agricultural credit market were used in Kazakhstan: (i) preferential loans, (ii) state ownership of rural financial institutions, (iii) state support to institutions that grant loans to farmers.

(i) The system of preferential loans.

The package of market reforms, which was introduced in first years of the 90s gradually, abolished the duties of all banks to grant preferential loans to agricultural producers. This meant that preferential loans granted before reforms became market loans. However, later in the end of 90s facing severe economic and social problems in rural areas Kazakhstani government set up new agricultural preferential loans as tool of intervention. These loans could be used for the purchase of current means of production as fuel, seeds and spare parts. These loans were commonly called “spring and harvesting loans”. Except for these, some opportunities for preferential loans for the modernization of farms and usage of elite seed and animal breeding occurred in the period of the launch of Agricultural Food Program 2003-2005.

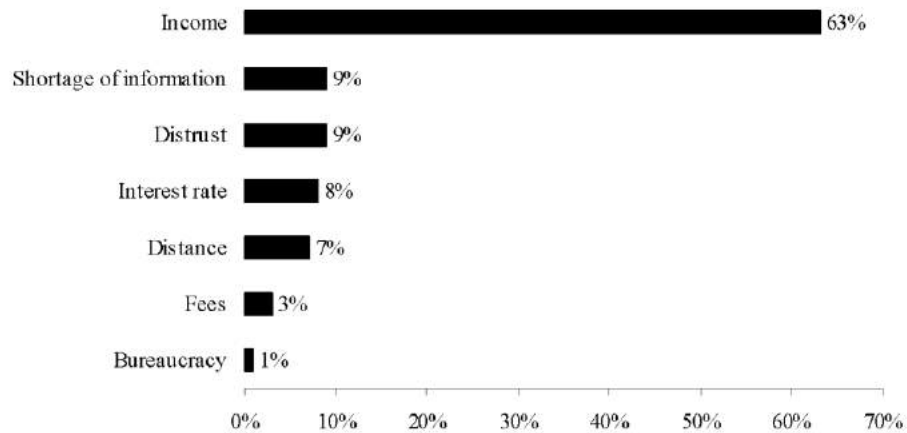
(ii) State ownership of rural financial institutions (RFI).

One of the forms of intervention in the rural/agricultural credit market is state ownership of rural financial institutions. A state owned RFI can directly realize agricultural policy. These RFIs can grant loans to borrowers who are not in the interest of commercial banks or in areas, which commercial banks do not operate in. In Kazakhstan, the RCPs are partly state owned financial institutions, which specialize in loans for the agricultural sector exclusively.

(iii) State support to institutions that give loans to farmers.

The indirect, specific form of support for some commercial banks providing loans to agricultural producers (mostly large-scale agricultural holdings) was their share of risk of default by means of guarantees. Additionally, some state programs supposing the granting of preferential agricultural loans were allocated through commercial banks. It is necessary to recognize the credit demand due to preferential loans was much larger than the credit demand without state support.

According to Petrick et al. (2014), only 7% of rural households took a loan in 2011 in Kazakhstan, among those rural households who did not like to take a loan, nine out of ten are considered as price rationed and three fourths risk rationed. Additionally, for about one half of the households high transaction costs are a main reason for not borrowing. According to our survey, out of 704 respondents 218 do not make any savings, it means one third either does not have enough income to save or their debts are too high to make any savings. 85.8% of respondents indicated not having a deposit account, in other words only every seventh rural inhabitant has an account in a commercial bank. Among reasons preventing Kazakhstani rural population from opening a bank account the most significant are low income, lack of information, and distrust (Figure 1). People from rural areas are less financial literate and have relatively low economic status; therefore, most of them simply are afraid of opening accounts in private commercial banks for fear of being cheated. In turn, being reluctant to deal with low income savers, commercial banks do not provide enough information in comprehensible form. Bank staff is not always sensitive to such specific clientele, and financially illiterate respondents are reluctant to visit banks because they do not get favorable responses. Commercial banks do not have specific rural-client-oriented products (Gaisina, 2014).



Source: Own survey, 2011 (Gaisina, 2014)

Figure 1. Reasons not to deal with commercial banks, share in percents

Despite a main reason of not to deal with formal FIs is still a low income level, other reasons are worthy to be considered by policy makers and bank officials. Nine per cent of respondents indicated that they do not trust formal institutions. We can cluster three reasons as information, bureaucracy, and distrust into one group characterizing financial illiteracy of rural population, every fifth respondent needs special treatment.

4. Data Sources, Description of Variables and Methodological Issues

The majority of the Kazakhstani rural population earns their living through non-legally registered small-scale business (SSHs). Due to the poorly developed micro-crediting in rural areas, regulatory restrictions to participate in RCP scheme, and the lack of commercial bank branches, the impact of formal FIs on SSHs' outcomes is still largely unknown and under-investigated. The main objective of this study was to explore the relationships that exist between the socio-economic characteristics of rural households and their borrowing behavior towards formal financial institutions.

4.1 Data Set

The target population of the study was defined and restricted to include rural households in Pavlodar region of Kazakhstan regardless of occupation, educational level and other socio-economic indicators. The data were collected from 38 villages in eight rural districts in Pavlodar region. The cross-sectional primary data relating to the socio-economic particulars of selected households and the other data relating to the borrowing behavior of the households has been collected by means of questionnaires and used in this study. The questionnaire consists of 32 questions aimed to clarify determinants of rural population to borrow from formal financial institutions. The sample size for the analysis is 704 respondents.

4.2 Regional Aspect of Agricultural Development

Pavlodar region geographically is situated in Northern-Central Kazakhstan and belongs to the region known as Siberia. Its territory is 124.8 thousand sq. km and accounts for 4.6% of total Kazakhstan territory. The population of the region consists of 99 nationalities and makes about 750 thousand people, 34% of total population in the region lives in rural areas. The climate could be characterized as having harsh conditions with long and cold winters with temperatures reaching -20°C and low precipitation in the range of 200-300 mm per year. These conditions make agriculture a difficult and risky business in this region. Historically, wheat yields have been reduced by drought in two out of every five crop seasons. The dry climate, however, contributes to the consistently high quality of Kazakhstan wheat. However, intensive cultivation during Soviet times led to high soil degradation and it became a serious impediment to agricultural production. Wheat farming lost profitability and after the collapse of the Soviet Union, the wheat production area significantly. Vast agricultural areas of northern Kazakhstan were abandoned. The problems with soil fertility, profitability of farming were aggravated by the

worn-out and obsolete stock of machinery, which all together led to the reduction in farmland. Newly privatized farmers and farming enterprises resulting from the previous state owned cooperatives found it difficult to keep the old machinery working or to invest in new equipment (Hickman, 2006).

The soils of north-central Kazakhstan are highly variable: deep and fertile in some locations and highly salty and unsuitable for agriculture in others. The land is flat, expansive, and lends itself to large-scale agriculture. Individual fields frequently measure over 400 hectares. Spring wheat comprises 95% of total wheat area in Kazakhstan and virtually all of the wheat in the three north-central regions. The crop is planted in the second half of May. Harvest begins in late August and is usually finished by early October (USDA, 2009). As of January 2009 in Pavlodar region, there were 158 corporate farms, 3644 individual farms, and about 88 thousand subsidiary households. Regional contribution to agricultural GDP accounts about 5%.

4.3 Sample Description

The survey provides evidence of an inverse U-shaped age profile of income level. Middle-aged adults report higher income than the younger and older cohorts (Figure 2). The initial increase of income with age may be related to accumulation of experience and greater efforts to keep a job, especially in civil services, where income is relatively high and the rotation level is very low. On the other hand, this appears to be a worldwide problem with the younger generation in rural areas: the young people are reluctant to work in agriculture because of low income, and the better-educated young people, who can potentially command higher income, prefer to work in urban areas (Gaisina, 2014).

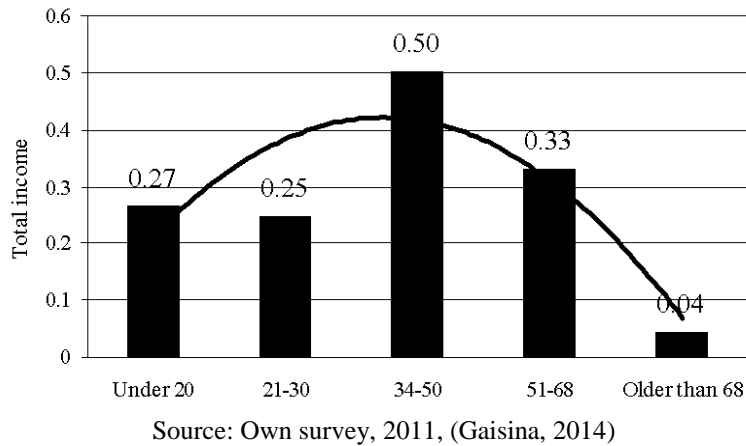


Figure 2: Average annual income by age group, million. KZT

Figure 3 shows a relationship between income levels and educational attainment. Basically, the higher the education level, the higher the income. However, post-graduates show lower income level, it could be explained by the fact that about 70% of those with post-graduate education are of age between 51 and 68. Majority of respondents of this age group get their income from operating SSHs, where level of income is the lowest in comparison with other groups of occupation (Figure 4)

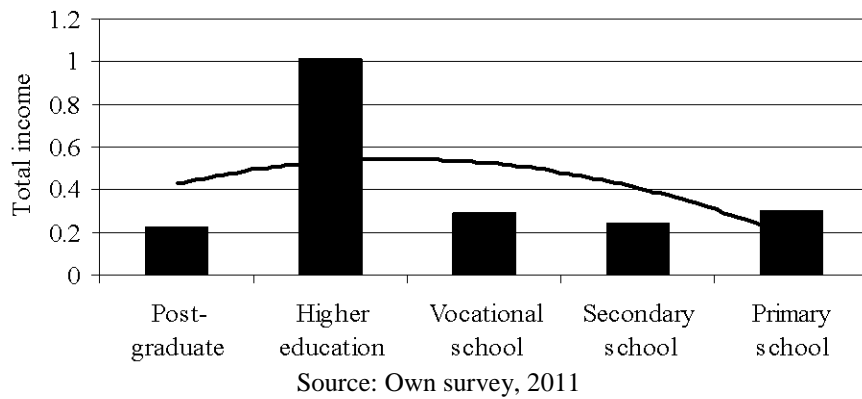


Figure 3: Average annual income by education group, mln. KZT

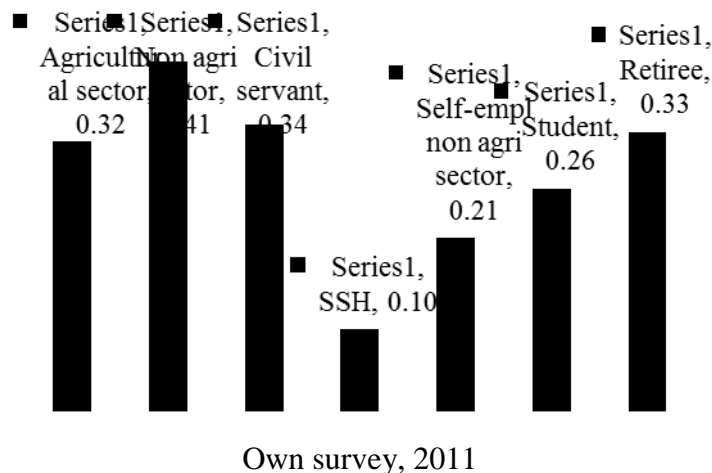


Figure 4: Average income by a type of employment unit along with income from SSH per annum, mln. KZT

Education can be defined as acquiring skills, which should help people to reach higher standards of living. Education is a process of getting new knowledge, acquiring specific desirable qualities, and ability to independently process information for making better decisions. Table 1 shows that respondents who grew up in Soviet time (the age group of 31-50 and older) had less opportunities to get higher education (about 15% of respondents), while rural population in the age group of 21-30, who grew up after the collapse of the Soviet Union, have had more opportunities to get higher education (about 34%). Kazakhstan's current education policy sets special state quotas and state grants for young people from rural areas, which facilitate their access to universities and colleges. Additionally, not only private institutions of higher learning, but also state institutions provide education on a commercial basis, thus increasing the available options.

Level of education	Age group				
	Under 20	21-30	31-50	51-68	Older than 68
Primary school	20.00	0.00	0.72	2.84	20.00
Secondary school	40.00	28.47	42.79	58.87	80.00
Vocational school	40.00	37.96	37.74	24.11	0.00

Higher education	0.00	33.58	18.51	12.77	0.00
Post-graduate	0.00	0.00	0.24	1.42	0.00
Total	100.00	100.00	100.00	100.00	100.00

Source: Own survey, 2011 (Gaisina, 2014)

Table 1: Composition of educational attainment by age group, percent

It should be expected that a higher education level would result into higher usage of Internet, in other words, digital literacy is higher among those who belongs to a group with higher level of education. For instance, despite almost identical income level for those with vocational school and primary school, the usage of Internet for former is 2.5 times as much.

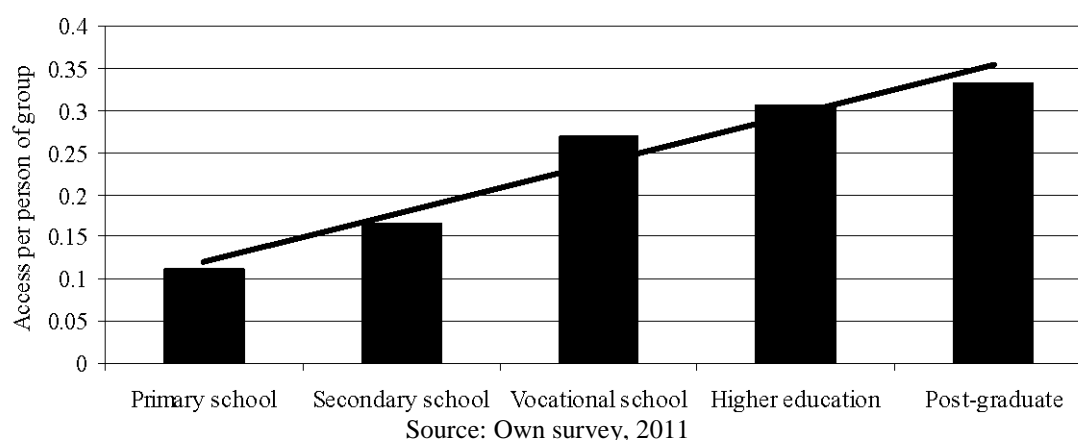


Figure 5: Usage of Internet per person per education group

There are no any obvious differences among education groups and a corresponding average family size; the size of family varies between three and four family members per group, which corresponds to average statistics for rural areas in Kazakhstan.

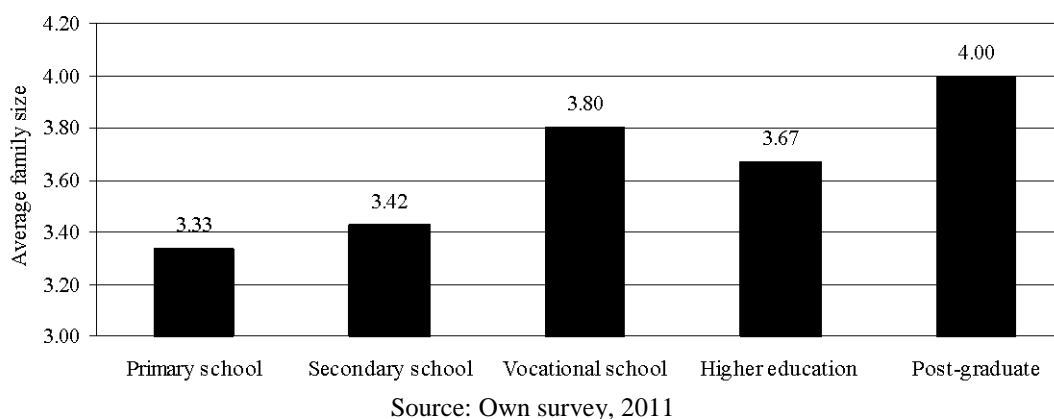


Figure 6: Average family size per education group, persons

4.4 Methodology

To examine the impact of individual/household characteristics on the demand for credit from formal financial institutions, we estimate a probit model for the decision to apply for formal credit. In the absence of special FIs for rural residents, only commercial banks provide rural population with very limited financial services. For the probit model, we assume an individual is faced with two alternatives, to take credit from the provider or not. The general model is presented as follows:

$$K = f(\text{DEPOSIT}, \text{ANIMAL}, \text{CAR}, \text{INTERNET}, \text{INCOME}, \text{GENDER}, \text{AGE}, \text{FAMILY}, \text{EDUCATION}),$$

where K is a dummy variable taking a value of 1 if the individual applies for credit and 0 otherwise. Explanatory variables are:

- DEPOSIT refers to a having or not a deposit account in commercial bank, a dummy variable (yes= 1, no = 0).
- ANIMAL refers to animal stock in a household, a dummy variable (yes= 1, no = 0)
- CAR refers to a car in private ownership, a dummy variable (having a car = 1, not having a car = 0).
- INTERNET refers to the usage of Internet by a respondent (yes= 1, no = 0)
- GENDER refers to a gender of the respondent, a dummy variable (female = 1, male= 0)
- INCOME measures total income of a respondent from all available sources, it is a continuous variable, mln. KZT.

The variables expressed in terms of money are indicated in Kazakhstani currency – KZT (1 \$US= 150 KZT in 2011).

- AGE - a dummy variable, clustered into five groups: under 20 years old, 21 to 30 years old, 31 to 50, 51-68, older than 68 years old.
- EDUCATION – a dummy variable, clustered into five groups: primary school =1, high school=2, secondary school=3, higher education=4, postgraduate education=5.
- FAMILY – a continuous variable refers to a family size indicating number of family members.

The estimated model is then stated as follows:

$$K = \alpha_0 + \alpha_1 DEPOSIT + \alpha_2 ANIMA + \alpha_3 CAR + \alpha_4 INTERNET + \alpha_5 INCOME + \alpha_6 GENDER + \alpha_7 AGE + \alpha_8 FAMILY + \alpha_9 EDUCATION + \varepsilon,$$

where K is the individual's revealed demand for credit, the explanatory variables are as defined before, and ε is the error term assumed to be normally distributed with constant variance. The model is estimated using the maximum likelihood estimation procedure.

4.5 General Analysis of Sample

As a first step of this study, a general analysis of the groups of respondents was carried out to compare them in terms of variables. The mean values of the all variables were calculated for the two groups of respondents, i.e. the two groups either applying or not applying for formal credit. Results are obtained using a t-test and are presented in Table 4.

Factors	Entire sample (N=704)	Apply for credit (N=435)	Not apply for credit (N=269)	t-test
DEPOSIT, dummy (have=1, do not have=0)	0.14	0.067***	0.188***	4.520
ANIMAL, dummy (have=1, do not have=0)	0.64	0.515***	0.711***	5.350
CAR, dummy (have=1, do not have=0)	0.24	0.243	0.236	0.190
INTERNET, dummy (use=1, do not use=0)	0.23	0.209	0.241	0.977
INCOME, (mln. KZT)	0.41	0.743*	0.211*	1.821

GENDER, dummy (female=1, male=0)	0.62	0.578*	0.644*	1.756
AGE, dummy (<20=1, 21-30=2, 31-50 =3, 51-68=4, <68 =5)	3.0	3.131***	2.929***	3.903
FAMILY, number of members	3.6	3.239***	3.830***	4.622
EDUCATION, dummy	2.7	2.668**	2.798**	2.101

Note: *** - significant at a level of 0.1%; ** - significant at a level of 1%; *- significant at a level of 5%;

Table 2. Comparison of two groups of respondents, applying and not applying for formal credit

The results showed that there are significant differences between two groups of respondents compared with respect to the variables DEPOSIT, ANIMAL, AGE, and FAMILY. Education level is less significant, in other words, one can find him/herself in any group regardless of what education he/she has. The least significant factors distinguishing groups are INCOME and GENDER. Variables CAR and INTERNET are not significant and it means that access to internet is not a crucial factor motivating people to apply for formal credit.

5. Estimations and Results

This model fits the data well ($\chi^2=104.4$, $p < 0.0000$), and tells us that our model as a whole is statistically significant, that is, it fits significantly better than a model with no predictors.

In Table 3 probit results of rural households borrowing from formal FIs are presented. Out of nine explanatory variables, four variables are insignificant; however, the signs by coefficients correspond to what was expected.

Demand for credit from formal FIs, 58.9%			
	Marginal Effect	Coefficient	Standard Error
DEPOSIT	0.176	0.453** (0.007)	0.168
ANIMAL	0.175	0.449*** (0.000)	0.111
CAR	0.022	0.057 (0.651)	0.125

INTERNET	0.066	0.170 (0.173) -0.814***	0.125
INCOME	-0.316	(0.000) 0.063	0.154
GENDER	0.025	(0.558) -0.235***	0.108
AGE	-0.091	(0.003) 0.081**	0.079
FAMILY	0.031	(0.010) 0.077	0.031
EDUCATION	0.030	(0.221) 0.325	0.063
<u>_cons</u>		(0.363)	0.357

Note: Figures in parentheses are corresponding p-values;

*** - significant at a level of 0.1 percent;

** - significant at a level of 1 percent

*- significant at a level of 5 percent

The marginal effects in Table 3 tells us that for a variable DEPOSIT, with average values of other variables, the predicted probability of a respondent applying for credit from a formal financial institution is 17.6% ($p < 0.007$) greater for an individual with a deposit account than for one who does not have the deposit. The same trend could be observed for respondents answered as having animal stock, the probability to apply for credit for these respondents increases by 17.5% ($p < 0.000$). Unexpectedly such variables as CAR and INTERNET turned out to be not significant, but both could positively affect the probability of applying for formal credit. This could be explained by the fact that rural people in comparison with urban population are less active Internet users due to a number of reasons (22.9%), one of the most important reasons is that rural people are less educated in this area and less familiar with Internet. Similarly, only few households have in own possession cars (25.8%), a main reason for that is a low income level of rural population in Kazakhstan in comparison with people living in cities and towns.

Income plays a significant role in the decision making process in borrowing and saving. However, the results of regression show that a 1 mln. KZT increase in income will decrease the probability of applying for formal credit by 31.6%. These controversial results are based on psychological barriers of rural people and their traditional skeptical attitude to all official and formal institutions. In other words, the necessity to deal with formal creditors will appear in a case of the borrower's lack of funds, once borrower's funds are available or even increase; rural people are reluctant to apply for formal credit. AGE and FAMILY are both significant; however, unexpectedly, the size of a family positively affects the probability of the respondent to apply for formal credit. An increase by one family member will increase the probability of applying for credit by 3.1% ($p < 0.01$). At the same time, as it was expected, the older the respondent is, the lower the probability to find himself among those applying for formal credit, and the probability decreases by 9% ($p < 0.003$). GENDER and EDUCATION are not significant, but have positive signs. Despite the lack of financial literacy among rural population in Kazakhstan, in general, rural population is well educated, and the level of literacy in rural areas among adults (older than 15) is 99.6%. Gender disparity in rural areas of Kazakhstan is obvious; in particular as for employment, type of occupation, and the remuneration, however, gender-related differences are less important for commercial banks. In general, the probability to apply for formal credit by rural population is high enough and equal to 58.9%.

6. Discussion and Conclusions

This paper dealt with the policy options for growth and development of rural FIs in Kazakhstan. Using a probit model the paper estimated the determinants of demand for formal credit among rural population in Kazakhstan. It showed that demand for credit is affected significantly by the level of income, but negatively. In addition, the demand is strongly influenced by existing

financial experience of households, availability of animal stock, age, and the family size. It was not observed that a gender plays a role and affect the ability to apply for credit. Education is not an important factor in demand for credit in the rural areas. Traditionally, wealth in rural areas of Kazakhstan still is estimated by animal stock and taking into account that households can use animals as collateral to secure loans, it was expected that this factor would significantly and positively affect demand for credit. Recent reforms and supporting programs aimed to increase productivity and efficiency of agricultural production in Kazakhstan as well as a number of state initiatives toward the improvement of the business environment in rural areas requires enabling or establishing formal FIs in rural area. Those FIs should be able to cater for increased incomes and as a result increased savings while serving the rural dwellers' demand for and access to credit.

One of the Kazakhstani government initiatives was the establishment of a network of rural credit partnerships (RCPs). These new FIs operate in rural areas. The goal of these RCPs was to increase access to short- and mid-term credit for rural agricultural producers. The Agricultural Credit Corporation (ACC), an entirely state-owned organization, is responsible for setting up RCPs and it retains the right to approve the membership of each new RCP. According to the regulatory law on RCPs, the latter are not allowed to take deposits. RCPs are partly state owned organizations: they feature about 30% of state participation in equity (although private RCPs are permitted, none exists) and over 50% of all credit is funded through the state budget at a relatively low interest rate. The RCP membership is restricted and depends greatly on the type of agricultural produce, the area of land, legal status, and, in most cases, good connections with local authorities (Gaisina, 2011). Since 2001, over 150 RCPs have been established in

Kazakhstan and about 6000 farms and corporate farms have become members of these partnerships (2.8% of the total number of all agricultural producers). Most RCPs are located in Kazakhstan's northern grain region and most of the members are middle- and large-scale corporate farms with, on average, about 1500 ha of arable land. In total, the members of RCPs operate about 7.9 million hectares of agricultural land (about 9% of the total agricultural land in Kazakhstan).

Despite RCPs steadily increase their influence in the agricultural financial market of Kazakhstan; they are still, in fact, used as channels for favorable state loans for agricultural producers, being heavily dependent on state funds. Thus, it is possible to highlight two significant shortcomings of RCPs which should be overcome. The first one is related to the restrictions to attract savings resulting to a very limited range of loan products. This is unfortunate as there would be obvious advantages if agricultural producers and rural inhabitants could place their savings in credit partnerships rather than in commercial banks (or other formal credit institutions) (Gaisina 2011). In successful years, even the smallest farms and SSHs are able to save significant amounts of money. The second problem is related to the membership policy. According to the law on RCPs, only legally-registered farms and enterprises can be members of the RCP. However, in Kazakhstan, so-called subsidiary households make up a significant part of the agricultural market, in particular livestock, dairy, and fruit and vegetable production which together account for 70-80% of the domestic markets. The size of some of these enterprises is comparable with that of a small farm. It is obvious that the RCP membership should be based rather on the profitability of a potential member and its capability to contribute a required sum into RCPs authorized funds. This condition would eliminate at least some corrupt practices in the process of

decision-making and would facilitate the expansion of the RCPs network. Currently existing RCPS serve exclusively legally registered farms, while SSHs do not have access to favorable credit lines provided by RCPs. Due to commercial banks remain the only sources of borrowed capital for rural residents; accessibility of this service is vital. An average SSH can afford comparatively less amount of investment loan and as a result, the commercial banks in Kazakhstan neglect small-scale borrowers due to fear of default and large screening expenses. Hence, commercial banks need to create special financial products for such borrowers; the repayment capacity of the rural households should be properly assessed, irrespective of the size. Adequate amounts of investment loan should be provided to SSHs which are a main source of income in rural areas of Kazakhstan.

7. References

1. Adams, D.W.,Nehman, G. I., 1979. Borrowing costs and the demand for rural credit. *Journal of Development Studies*,15, pp. 165-176.
2. Banerjee, A.V., Besley, T., Guinnane, T.W., 1994. The Neighbor's keeper: the design of a credit cooperative with theory and a test. *The Quarterly Journal of Economics*, 109 (2), pp. 491-515.
3. Barry, P. J., Robison, L. J., 2001. Agricultural finance: credit, credit constraints, and consequences. In: Gardner B.L, G.C. Rausser, Editors, 2001. *Handbook of agricultural economics*. Elsevier North-Holland, Volume 1, Part A, pp. 513–571.
4. Binswanger, H. P., Khandker, S. R., Rosenzweig, M.R., 1989. How infrastructure and financial institutions affect agricultural output and investment in India. Working Paper No. 163. World Bank. Retrieved from <http://www->

wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/1989/03/01/000009265_3960927171152/Rendered/PDF/multi_page.pdf.

5. Bloomstein, H.J., 1998. Establishing financial market institutions in transition economies – is there a role for sectoral credit institutions? In: Frohberg, K., Poganietz, W.-R., Editors, 1998, *The importance of institutions for the transition in central and eastern Europe*, IAMO: Wissenschaftsverlag Vauk Kiel Kg., pp. 85-97.
6. Buyske, S. G., Lamberte, M. B., 2006. Rural finance in Kazakhstan. In: Lamberte, M. B., Vogel, R. C., Moyes, R. T., Fernando, N. A., Editors, 2006, *Beyond microfinance: Building inclusive rural financial markets in Central Asia*, Asian Development Bank, pp. 126–139.
7. Csaki, C., Lerman, Z., 2001. Farm debt in the CIS: Multi-country study of major causes and proposed solutions. Proceedings of OECD Expert Meeting. *Agricultural finance and credit infrastructure in transitional economies. Focus on South Eastern Europe*. OECD, Portoroz, Slovenia.
8. Cuevas, C.E., Graham, D.H., 1986. Rationing agricultural credit in developing countries: The role and determinants of transaction costs for borrowers. In: Maunder, A., Renborg, U., Editors, 1986, *Agriculture in a turbulent world economy*. Proceedings of the 9th international conference of agricultural economists held in Malaga, Spain, 26 August - 4 September 1985. Gower, Oxford, 680-686.
9. Daniłowska, A., 2004. Agricultural credit market in Poland – experiences in the market economy. In: Petrick, M., Weingarten, P., 2004. *The role of agriculture in Central and Eastern European rural development: Engine of change or social buffer?* Studies on the Agricultural and Food Sector in Central & Eastern Europe, Vol. 25, Halle (Saale), IAMO, pp. 101-118.

10. Diagne, A., Zeller, M., Sharma, M., 2000. Empirical measurements of households access to credit and credit constraints in developing countries: Methodological issues and evidence. Discussion paper, No. 90. FCND. Retrieved from <http://www.ifpri.org/sites/default/files/pubs/divs/fcnd/dp/papers/fcndp90.pdf>.
11. Emmons, W.R., Mueller, W., 1997. Conflict of interests between borrowers and lenders in credit cooperatives: the case of German Cooperative Banks. Working paper 1997-009A. Retrieved from <http://research.stlouisfed.org/wp/1997/97-009.pdf>
12. Eswaran, M., Kotwal, A., 1989. Implications of credit constraints for risk Behavior in less developed economies. Oxford Economic Papers N.-S. 42 (2), pp. 473–482.
13. Feder, G., Lau, L. J., Lin, J.Y., Luo, X., 1990. The relationship between credit and productivity in Chinese agriculture: a microeconomic model of disequilibrium. American Journal of Agricultural Economics 72 (5), pp. 1151-1157. Retrieved from <http://ehis.ebscohost.com/ehost/detail?sid=267fb480-4719-485b-a5c6-b22d5154f9be%40sessionmgr15&vid=1&hid=16&bdata=JnNpdGU9ZWWhvc3QtbGl2ZQ%3d%3d#db=bsh&AN=9605212720>.
14. Gabrisch, H., Hölscher, J., 2006. Success and failures of economic transition: the European experience. Palgrave Macmillan.
15. Gaisina, Sh., 2011. Credit through Rural Credit Partnerships for agricultural producers in Kazakhstan. Journal of Rural Cooperation, 39/2, pp. 114-130
16. Gaisina, Sh. (2), 2011. Credit policies for Kazakhstani agriculture. Central Asian Survey, Vol. 30, No. 2, pp. 257–274
17. Gaisina, Sh., 2014, Rural Household Saving Determinants in Kazakhstan. Journal of Rural Cooperation, 42(1), pp. 60–79

18. Gonzalez-Vega, C., 1982. Credit-rationing behavior of agricultural lenders: The iron law of interest restrictions. Discussion Paper No. 9. Colloquium on Rural Finance. Economic Development Institute, World Bank, Washington, D.C. September 1-3, 1981. Retrieved from http://pdf.usaid.gov/pdf_docs/PNAAN113.pdf
19. Guirkinger, C., Boucher, S., 2007. Credit constraints and productivity in Peruvian agriculture. Working Paper No. 07-005. Department of Agricultural and Resource Economics at the University of California – Davis. Retrieved from http://arelibrary.ucdavis.edu/working_papers/files/07-005.pdf
20. Hickman, S., 2006. Conservation agriculture in northern Kazakhstan and Mongolia. FAO. Retrieved from http://www.fao.org/tc/tcp/kazakhstan_en.asp.
21. Hoff, K., Stiglitz, J. E., 1990. Imperfect information and rural credit markets, puzzles and policy perspectives. In Hoff, K., Braverman, A. & Stiglitz, J. E. (Eds.), *The Economics of rural organisation. Theory, practice, and policy*. Oxford University Press for the World Bank.: pp. 33-52
22. Kaufman, G. G., 1992. *The US financial system. Money, market, and institutions*. 5 ed., Engelwood Cliffs: Prentice hall, New Jersey
23. Levine, R., 1997. Financial development and economic growth: views and agenda. *Journal of economic literature* 35, pp. 688-726
24. Long, M., 1983. A note on financial theory and economic development. In: Von Pischke J., Adams D. W., Donald G., Editors. *Rural financial markets in developing countries. Their use and abuse*. London: The Johns Hopkins University Press
25. McKinnon, R. I., 1973. *Money and Capital in Economic Development*. Washington DC: Brookings Institution

26. Meyer, R., Nagarajan, G., 2000. Rural financial markets in Asia: policies, paradigms, and performance. New York: OxfordUniversity Press
27. Morduch, J., 1995. Income smoothing and consumption smoothing. *Journal of Economic Perspectives* 9 (3), pp. 103-114
28. Mpuga, P., 2008. Constraints in Access to and Demand for Rural Credit: Evidence from Uganda. African Economic Conference (AEC). African Development Bank, Tunis-Tunisia. Retrieved from <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/30753249-FR-122-MPUGA-ACCESS-AND-DEMAND-FOR-RURAL-CREDIT-ADB-CONF.PDF>
29. Nguyen, C. H., 2007. Access to credit and borrowing behavior of rural households in a transition. International Conference on Rural finance research: Moving results into policies and practice, FAO Headquarters Rome, Italy 19-21 March 2007. Retrieved from http://www.fao.org/ag/rurfinconference/docs/papers_theme_1/access_credit.pdf.
30. Pederson, G. D., Pyle, W., 2004. Finance and credit. Introduction to part II. In: Macey D.A. J., Pyle, W., Wegren, S. K., Editors. *Building market institutions in post-communist agriculture: land, credit, and assistance*. Lexington Books, USA.
31. Petrick M., Oshakbaev D., and Wandel J., 2014. Kazakhstan's wheat, beef and dairy sectors: An assessment of their development constraints and recent policy responses. "Kazakhstan's Economic Strategy: Halfway to 2030" organized by the Association for Comparative Economic Studies (ACES) in the frame-work of the 2014 meetings of the Allied Social Sciences Association (ASSA), 4 January 2014, Philadelphia, PA, USA, Retrieved from <https://www.google.kz/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&uact=8&ved=0CCcQFjAB&url=https%3A%2F%2Fwww.aeaweb.org%2Faea%2F2014conference%2Fprogra>

[m%2Fretrieve.php%3Fpdfid%3D279&ei=bBYQVMa4Eib5yQPa5oH4BA&usg=AFQjCNHoYiJhZxGIbheVQnxeJjSpDU90BQ](#)

32. Rosenzweig, M.R, Binswanger, H. P., 1993. Wealth, weather risk and the composition and profitability of agricultural investments. *Economic Journal* 103, pp. 56-78.
33. Smith, J. D., 1984. A theoretic framework for analysis of credit union decision making. *The journal of finance*, XXXIX (4), pp.1155-1168.
34. Stiglitz, J. E., 1994. The role of the state in financial markets. In Bruno M. & Pleskovič, B. (Eds.), *Proceedings of the World Bank Annual Conference on Development Economics*. WashingtonDC, pp. 19-61.
35. Swinnen, J. F. M., Gow, H. R., 1999. Agricultural credit problems and policies during the transition to a market economy in Central and Eastern Europe. *Food Policy* 24 (1),pp. 21-47.
36. USDA, 2009. Kazakhstan: Wheat production prospects and trip report. Retrieved from http://www.pecad.fas.usda.gov/highlights/2009/08/kaz_05aug2009/.
37. Von Pischke, J.D., 1999. Preconditions for sustainable agricultural finance and credit system. *Agricultural finance and credit infrastructure in transition economies*. OECD proceedings. Expert meeting, Moscow, February 1999, OECD: 38-53.
38. Zeller, M., Schrieder, G., von Brau, J. N., Heidhues, F., 1997. Rural finance for food security for the poor: implications for research and policy. *Food Policy Review* 4. International Food Policy Research Institute, WashingtonDC.

Some Implications of Covered Interest Parity for Short-Terming Financing The Case of Three Kazakh Tenge Exchange Rates

Razzaque H Bhatti
Professor
Bang College of Business
KIMEP University

Extended Abstract

This paper examines some testable implications of covered interest parity for short-term financing between Kazakhstan and three major industrial countries: Japan, Switzerland and the United States. It is shown that if CIP holds then borrowers in these countries would become indifferent between borrowing short-term funds in domestic or foreign currencies because the effective cost of financing in the foreign currency will be equal to the cost of financing in the domestic currency. The empirical testing of the CIP implications for short-term financing are based on a sample of quarterly data, obtained from Bloomberg, covering the period 2005:04-2014:01. The sample involves three spot exchange rates and 3-month forward exchange rates of the Kazakh tenge vis-à-vis the Japanese yen, the Swiss franc and the U.S. dollar, 3-month LIBOR rates on the Swiss franc, the Japanese yen and the U.S. dollar as well 3-month KIBOR rate on the Kazakh tenge. Each of the three major currencies assumes the role of the base currency, x , and that of the currency in which financing is denominated, y .

Two hypotheses are tested regarding the CIP implications for short-terming financing. The first hypothesis is that if CIP holds between the base currency and another currency, then the effective

rate of financing in the other currency is equal to the interest rate on the base currency¹, and as such the first hypothesis involves six permutations. Thus, for CIP to hold well, the null hypothesis of the equality of the effective financing rate and the interest rate on the base currency cannot be rejected. The second hypothesis is that (i) if CIP holds between the base currency and another currency, and (ii) the nominal interest rates on the two currencies are equal, then the effective rates of financing will be equal when the roles of the currencies are reversed.

The Two hypotheses are tested based on the equality of the two sample means of the underlying variables using the t-ratios. The results, as presented in Table 1 and Table 2, show that the t-statistics are highly significant in all cases, implying the rejection of the both hypotheses that the mean values of $e(x/y)$ and i_x as well as $e(x/y)$ and $e(y/x)$ are equal. These results also imply that CIP does not hold between Kazakhstan and the three major countries.

Table 1: Testing the Difference between the Means of Effective Financing Rate and the

Interest Rate on the Base Currency						
X	Y	i_x Mean	i_x SD	$e(x/y)$ Mean	$e(x/y)$ SD	T
KZT	USD	6.26	3.579	1.934	2.14	-8.43
USD	KZT	1.93	2.142	6.214	3.535	8.49
KZT	CHF	6.26	3.579	1.910	1.107	-8.43
CHF	KZT	0.89	1.09	1.281	1.137	14.49
KZT	JPY	6.255	3.579	0.409	0.312	-10.16
JPY	KZT	0.395	0.302	7.174	3.506	12.07

Table 2: Testing the Difference between the Means of the Effective Financing Rates when the Roles of the Currencies are Reversed

X	y	$e(x/y)$ Mean	$e(y/x)$ SD	$e(y/x)$ Mean	$e(y/x)$ SD	T
KZT	USD	1.934	2.139	6.214	3.535	-8.52
KZT	CHF	1.910	1.107	1.281	1.137	23.62

¹ The effective rate of financing is calculated using each of the four underlying currencies as the base currency and it is then compared with the interest rate on each currency.

KZT	JPY	0.409	0.312	7.174	3.506	-12.01

Financial Literacy and Retirement Planning in Kazakhstan

Sang H. Lee, Ph. D.
Bang College of Business, KIMEP University

Abstract: Previous studies show that financial literacy level positively influences on financial decision making, especially on retirement planning decision. Given the trend toward emphasizing individual responsibility in retirement planning in many countries improving financial literacy levels of citizens becomes an important government policy for shaping the retirement policy and welfare improvement of retirees. The results from a survey conducted in March 2014 across different cities and villages of Kazakhstan show that the financial literacy level of Kazakhstan is considerably low compared to the cases reported on other countries. In case the literacy level influence the retirement planning decision, the 2013 pension reform and further developments of pension system in Kazakhstan require acceptable level of financial literacy for its citizen. This paper finds that the literacy level and retirement planning are jointly determined in Kazakhstan, and provides additional evidence that government efforts to improve financial literacy of its citizen through business education would promote better retirement planning for its retirees and save substantial amount of retirement-related fiscal spending for the government.

Introduction

Previous studies report that financial literacy level in general public is alarmingly low, and this result is a common observation internationally (Lusardi and Mitchell, 2014). More importantly,

the low level of financial literacy is linked to poor financial decision-making and retirement planning in these studies [for example, Rooij, et. al. (2011) for Netherlands, Bucher-Koenen and Lusardi (2011) for Germany, Lusardi and Mitchell (2011) for U.S., Klapper and Panos (2011) for Russia, Agnew et. al. (2013) for Australia, Johansson, et. al. (2014) for Sweden, Clark, et. al. (2014) for U.S., and Boisclair, et. al. (2014) for Canada]. Majority of studies linking the financial literacy to retirement planning, however, focus on the developed countries where financial market and investment instruments are well developed and reasonable levels of social safety nets are available for the most vulnerable groups. On the other hand, this issue has not been investigated rigorously for transition economies such as Kazakhstan where the economy has been more volatile through the restructuring of industrial sector after independence and retirement risks are higher due to lack of sufficient development of financial market. In addition, a new pension reform is enacted recently in Kazakhstan to assure scheduled payments to the retirees and emphasize more individual responsibility for retirement planning. In this regard, this study assesses the level of financial literacy for Kazakhstan using surveys and compares the results with those of other countries reported in the previous studies. In addition, the study attempts to find the causality between financial literacy and retirement planning in Kazakhstan so that appropriate policy measures can be implemented for the improvement of retirement system in the nation. The following section briefly reviews previous literature on the relationship between retirement planning and financial literacy. Then, a summary of survey results is presented followed by an analysis on the causality issue between financial literacy and retirement planning. The study will conclude with policy recommendation on the retirement planning.

Literature Review

Lusardi and Mitchell (2005) initially use the three basic questions on interest rate, inflation, and risk diversification in their financial literacy survey among 50 years and older age group in the U.S., and find that 67 percent of respondents answered correct on the interest question whereas 75 and 52 percent correct on the inflation and risk diversification questions, respectively. Only 34 percent answered correct for all three questions, and they conclude that financial illiteracy is widespread among Americans. More importantly, they find financial literacy is strongly and positively associated with retirement planning. In a similar study by Lusardi and Mitchell (2011), the authors find the similar results acquired among the older people. About 65 and 64 percent of respondents answered correctly on the interest and inflation questions, respectively, and only 52 percent of the sample can answer correctly on the risk diversification question. Using the number of years in state mandated high school financial education as an Instrument Variable, they also find that the instrumented financial literacy variable significantly and positively affects the retirement planning. Van Rooij et al. (2011) find a better performance on the basic literacy questions in Netherlands compared to the results in the U.S. About 75 percent and more than 80 percent of respondents answered correct on the interest and inflation questions, respectively. On the risk question, the performance is somewhat lower than the results of the U.S. showing less than half of the respondents answered correct. Using information on economics education acquired in school as an Instrumental Variable, they show that the nexus of causality goes from financial literacy to planning rather than the other way around. Bucher-Koenen and Lusardi (2011) compare the financial literacy levels of East and West Germany, and find that the level in Germany is similar to the results of Netherlands and higher than the U.S., showing 82.4 percent of respondents answered correct on the interest question whereas 78.4 percent and 61.8 percent answered correct on the inflation and risk diversification questions. More importantly, they find

that the financial literacy has an important positive effect on individual's planning for retirement, but not the other way around. Klapper and Panos (2011) analyze the national survey on the financial literacy for 1,400 Russian individuals. They find that only 36 percent of the respondents understand the workings of compound interest and about half of the sample can answer correctly on the inflation question. The general respondents perform the worst in answering the risk diversification question showing only 12.8 percent correct. They find that the literacy level is significantly lower than other countries and significantly and positively related to retirement planning. Agnew et al. (2013) analyze the relationship between financial literacy and retirement planning in Australia. They find about 83 percent answered correct on the interest question while 69 percent correct on the inflation question. On the risk diversification question, the correct answers take about 55 percent of the full sample. They find that financial literacy has been shown to relate to important financial behaviors such as retirement planning. Boisclair et al. (2014) find consistent evidences among Canadians on the literacy level which can be found in other countries, and rank Canada better than America, but worse than Germany. The proportions of correct answers on the interest and inflation questions are 78 percent and 66 percent, respectively. The performance on the risk diversification question results somewhat higher level compared to other countries except Germany, showing more than 59 percent. Also, they conclude that the retirement planning is strongly associated with financial literacy and present evidences that those who answered correct on basic literacy questions show significantly higher probability of having retirement savings. Overall, majority of previous studies indicate that there is a positive relationship between financial knowledge and retirement planning. A person with higher level of financial knowledge is most likely prepared better for his or her retirement.

Summary of Survey Results

The survey asks three basic financial/economic questions that are considered as the minimum necessary knowledge to make prudent financial decisions: The questions ask respondents' understanding of interest rate, inflation, and risk diversification. These three questions have been used in many other international studies, and internationally comparable results are produced thereafter. The questions are initially developed by Lusardi and Mitchell (2005) in their survey study of 2004 Health and Retirement Study (HRS), and the exact wording of questions is as follows:

- (1) Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? Answer to choose from More than \$102, Exactly \$102, and Less than \$102.*
- (2) Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, would you be able to buy more than, exactly the same as, or less than today with the money in this account?*
- (3) Do you think that the following statement is true or false? "Buying a single company's stock usually provides a safer return than a stock mutual fund."*

The surveys in Kazakhstan were conducted in March 2014, and a total of 830 answers are collected after eliminating incomplete answers. The summary result shows a highly consistent pattern observed in other countries, but the performance on the basic questions are substantially lower than the results of other countries. The percent of correct answers on these three basic questions are 59 percent, 55 percent, and 39 percent for interest, inflation, and risk diversification questions, respectively. Twenty percent of total sample responded correct on all three questions,

and 18 percent of respondents were unable to answer correctly for all three questions.

Table 1: International Comparisons on the Financial Literacy
(The Percent of Correct Answers on the Basic Literacy Questions)

Country	(1) Interest	(2) Inflation	(3) Risk	All 3 Correct**	None Correct**
U.S.A.					
All sample	65%	64%	52%	35%	10%
Older than 50 Yrs	67%	75%	52%	34%	10%
Employees in Financial Co.	76%	92%	88%		
Germany					
All sample	82%	78%	62%	53%	10%
West Germany*	85%	82%	66%	58%	
East Germany*	78%	70%	54%	45%	
Netherlands	75%	80%	48%	46%	11%
Australia	83%	69%	55%	43%	9%
Canada	78%	66%	59%	42%	10%
Russia	36%	51%	13%	3%	28%
Kazakhstan	59%	55%	39%	20%	18%

* Simple average of four different age groups in Table 3 of Bucher-Koenen et al. (2011)

** Excluding Kazakhstan, the data are adopted from Lusardi and Mitchell (2014)

The comparisons indicate that the level of financial literacy in Kazakhstan is considerably lower than other countries (6 – 25 percentage points underperformance) except Russia (4 – 26 percentage points better performance). The probability of answering correctly on all three questions is 20 percent which is 15 to 33 percentage points lower than western countries but 17 percentage points higher than Russia. The probability of “None correct” is 18 percent in Kazakhstan which is 7 – 9 percentage points higher than western countries but 10 percentage points lower than Russia. Focusing on the Kazakhstan results, the following table shows percentage of correct answers on these basic questions given different profiles of the respondents. The number in “Count for class” represents total number of responses for each class, and the number in parenthesis represents total number of correct answers or none correct on all three questions. The last two columns provide the difference in mean scores on all three questions between or among classes within a profile group. The differences are estimated using

dummy variable approach, and therefore, they represent partial significance level holding all other variables constant.

In the following table, variables representing Gender, Business Education, Income, and Retirement Planning status show significant differences among different classes. Gender difference in financial knowledge was significant in most of previous studies. The result is similar in Kazakhstan when no other profile factors are considered. Compared to female, male respondents have higher probabilities of providing correct answers on interest, inflation, and all three questions and marginally lower probability for correct answers in risk diversification question. In addition, male respondents show lower probability of “None Correct” to all three questions compared to female. The mean scores are 1.454 and 1.594 out of total 3 points for female and male, respectively, and the difference is significant at 5 percent level.

Table 2: Distribution of Correct Responses to Basic Literacy Questions and Statistical Difference between Classes

(Percent out of headcount of class)

Distribution of Correct Responses to Basic Literacy Questions and Statistical Difference between Classes

(Percent within its own class)

Profiles	Class	Count for Class	Interest Rate (486)	Inflation (458)	Risk (321)	All 3 Correct (166)	None Correct (152)	Mean Score	Difference between Class	Difference between Class (p-Value)
Gender	Female	414	56.28%	50.00%	39.13%	19.08%	21.01%	1.454		0.000 ***
	Male	416	60.82%	60.34%	38.22%	20.91%	15.63%	1.594	0.140	0.046 **
Ethnic Group	Kazakh	502	56.57%	53.59%	40.64%	18.92%	17.53%	1.508		0.000 ***
	Russian	150	62.00%	57.33%	34.00%	23.33%	22.00%	1.533	0.025	0.787
	Others	178	61.24%	57.87%	37.08%	20.22%	17.42%	1.562	0.054	0.541
Hometown	Villages	510	57.06%	54.71%	36.27%	19.41%	20.39%	1.480		0.000 ***
	Cities	320	60.94%	55.94%	42.50%	20.94%	15.00%	1.593	0.113	0.115
Marital Status	Single	412	53.88%	55.10%	38.11%	19.42%	19.66%	1.471		0.000 ***
	Non-Single	418	63.16%	55.26%	39.23%	20.57%	16.99%	1.577	0.106	0.131
Business Education	None	265	44.15%	49.43%	23.77%	9.06%	26.04%	1.174		0.000 ***
	Less than 1 yr	165	53.33%	50.91%	34.55%	11.52%	20.00%	1.388	0.214	0.026 **
	Less than 2 yr	175	66.86%	53.71%	49.71%	24.57%	14.86%	1.703	0.529	0.000 ***
	More than 2 yr	225	72.89%	66.22%	50.67%	35.56%	10.67%	1.898	0.724	0.000 ***
Income	None	246	52.85%	50.00%	32.93%	15.04%	23.17%	1.358		0.000 ***
	Less than \$25K	410	60.73%	52.20%	38.29%	19.02%	18.54%	1.512	0.154	0.055 *
	More than \$25K	174	61.49%	69.54%	47.70%	29.31%	10.92%	1.788	0.430	0.000 ***
Retirement Planning	No Plan	256	47.66%	48.44%	32.81%	14.84%	25.39%	1.289		0.000 ***
	Will Plan	241	63.49%	58.51%	44.40%	21.99%	16.18%	1.664	0.375	0.000 ***
	Already Planned	333	63.36%	57.96%	39.04%	22.52%	14.41%	1.604	0.315	0.000 ***

The significance levels are represented as * for 10%, ** for 5%, and *** for 1% levels

Factors such as differences in ethnicity, hometown, and marital status are not shown significant relationship with financial literacy level although they are reported as important variables in other studies. The amount of business education, however, seems to have significant positive impact on the financial literacy. The performance gap between the group with no business education and more than two years of education is 0.72 point (i.e. education improves almost 62 percentage points higher score). The highest gap between these two groups can be found in the interest question, showing less than 50 percent correct in the former and more than 70 percent correct in the latter class. In addition, only nine percent answered all three correct and about 26 percent could not provide any correct answers in the no business education class. The “More than 2 years” class shows opposite figures, 36 and 11 percents, for “All 3 Correct” and “None Correct”, respectively. It implies the importance of business education in understanding the basic financial issues and promoting the financial literacy level. For the financial industry and financial intermediaries in Kazakhstan, it is very important to disclose fully in plain language about the risk and expected return, implications of interest rate compounding, inflation and purchasing power erosion, and risk diversification resulted from portfolio on the financial products and services that they are marketing to their clients.

In this survey, income earners perform significantly better than no-income earners. The income may have positive influence on the financial literacy, possibly due to more frequent consultations and discussions on the money and finance issues by high income earners. It may also be possible that those who are knowledgeable on the financial matters make more income. This means that income and financial literacy may be determined jointly as other studies suggested [Jappelli and Padula (2013) for example]. The retirement planning status also shows significant positive

relationship with financial literacy level. The “Will plan” and “Already planned” groups show similar levels of correct answers and are significantly better performed compared to “No plan” group which shows lowest level of correct answers and highest level for the “None correct”. It indicates that those who already planned and thinking about retirement plan probably learn more about financial issues and perform better in the literacy survey. In previous studies, however, the direction of causality is opposite, showing that financial literacy positively affects the retirement planning, not the other way around.

THE CAUSALITY BETWEEN RETIREMENT PLANNING AND FINANCIAL LITERACY

Many previous studies presented evidences of joint determination in the relationships between literacy level and retirement planning. If these two variables are jointly determined, then instrumental variables are required in the estimation procedure to acquire unbiased estimates for the relationships. To determine what predetermined variables are useful as instruments, Ordinary Least Square estimations are performed for the following two equations:

$$RP = \beta_0 + \beta_1 \cdot LS + \sum_{i=2}^6 \beta_i \cdot X_i + \varepsilon \dots\dots\dots(1)$$

$$LS = \gamma_0 + \gamma_1 \cdot RP + \sum_{i=2}^6 \gamma_i \cdot X_i + \omega \dots\dots\dots(2)$$

where RP is retirement planning status ranging 0 – 2 (0 for “No plan,” 1 for “Will plan,” and 2 for “Already planned”),

LS is the basic literacy score ranging 0 – 3,

X is a vector of predetermined variables such as gender (0 for female and 1 for mail), ethnicity (0 for Kazakh and 1 for non-Kazakh), hometown (0 for village and 1 for city), marital status (0 for single and 1 for non-single), business education (0 for no or less

than half year of education and 1 for more than 1 year of education), and income (0 for no-income earner and 1 for income earner),

β and γ are parameters to be estimated,

ε and ω are error terms assumed i.i.d.

As in most of previous studies, the financial literacy affects the retirement planning positively in Kazakhstan, showing the coefficient of 0.068 (5% significance level in the Table 3. In addition, being male, being non-single, and making income are important factors influencing positively on the retirement planning status. It may be possible under Kazakhstani culture that male are more responsible for retirement planning of his and his spouse. Also, being married (and being adult) may provide more opportunity for him or her to consider retirement planning compared to being single (and possibly young). Income shows the most significant influence on the retirement planning, showing the largest impact and highest t-value among all variables included in the estimation. However, the ethnicity, hometown, and business education do not affect the retirement planning. The business education may have multi-collinearity problem with the literacy score as seen in the estimate of its coefficient in the Literacy Score equation.

Table 3: OLS Estimations of Literacy Score and Retirement Planning Status

	Dependent Variable	
	Retirement	Literacy
Constant	0.435 ***	0.924 ***
t-Stat	5.960	10.396
Literacy Score	0.068 **	
t-Stat	2.481	
Retirement Plan		0.109 **
t-Stat		2.481
Gender	0.105 *	0.034
t-Stat	1.955	0.501
Ethnicity	-0.073	0.018
t-Stat	-1.358	0.260
Hometown	-0.065	0.094
t-Stat	-1.187	1.352
Marital Status	0.305 ****	0.054
t-Stat	5.627	0.774
Business Education	-0.020	0.556 ****
t-Stat	-0.367	8.257
Income	0.585 ****	0.178 **
t-Stat	9.822	2.241

When the dependent variable is Literacy Score, the retirement plan, business education, and income have positive impacts, with the business education showing the largest coefficient and highest t-value among all variables except the constant. These three variables have all positive impacts on the literacy score while gender, ethnicity, hometown, and marital status have no significant impact on the literacy level. In addition, the result indicates that the retirement planning and literacy level are jointly determined in Kazakhstan. To focus more on the causality issue, therefore, the following two equations are estimated in the Three Stage Least Square (3SLS) framework using the predetermined profile factors such as gender, marital status, business education, and income as instruments for both literacy score and retirement planning status.

$$RP = \alpha + \beta \cdot LS + \varepsilon \dots\dots\dots(3)$$

$$LS = \gamma + \delta \cdot RP + \omega \dots\dots\dots(4)$$

The results shown in the following table confirm that both the literacy level and retirement planning are jointly determined in Kazakhstan. Those who have higher score on the literacy level

will most likely be “Already planned” or “Will plan” group. When the respondent answers correctly at least two questions, the estimated value for the retirement planning status becomes 1.5 which indicates at least “Will plan” status and in the middle toward “Already planned” status. On the other hand, those who answered none correct are most likely belonged to “No plan” group. Since the new reform on the pension system and retirement operation in Kazakhstan emphasizes more on individual responsibility, individual planning of retirement in early stage is important, and understanding the workings of basic financial operations are critical for individuals to make appropriate financial decisions. Although it is insignificant, the intercept in the Retirement Plan equation is negative. Clearly, it is a violation against the possible values that the retirement planning status can have (0, 1, or 2). This means that the 3SLS estimation cannot guarantee the non-negative intercept in the estimation.

Table 4: 3SLS Estimation Results on Equation (3) and (4)

	Dependent Variables		
	Retirement Plan		Literacy Score
Constant	-0.134		0.582 ***
t-Stat	-1.051		6.263
Retirement Planning			0.862 ***
t-Stat			10.947
Literacy Level	0.805 ***		
t-Stat	9.896		

In the literacy score equation, those who are planning or already planned their retirement perform better than non-planners (0.86 points and 1.74 points better for “Will plan” and “Already planned” groups, respectively). Those who are non-planner, their average literacy score is 0.58 out of the maximum 3 points, indicating significantly weaker literacy level. Planning retirement might have helped people to understand better on the basic financial issues and perform better in the survey.

CONCLUSION

Previous studies provide evidences that financial literacy has positive influence on good financial decision-making, including retirement planning. The financial literacy survey conducted in March 2014 across various cities and villages of Kazakhstan provides an internationally compatible result, and shows an alarmingly low literacy level in Kazakhstan compared to other countries reported previously. In addition, the results indicate that the financial literacy and retirement planning are jointly determined. This result implies that the financial literacy level is important in planning the retirement early on and accumulating sufficient assets to receive acceptable retirement income. In addition, this survey identifies vulnerable groups such as female, single (and possibly young), and low-income groups who are behind in acceptable retirement planning. One way for the government to promote good retirement planning for these groups will be providing helps on improving financial literacy level since better knowledge in simple basic financial issues such as interest rate compounding, effects of inflation, and the benefit of risk diversification will substantially improve their retirement planning status. In addition, the government should vigorously enforce the disclosure policy of financial products, especially for the long-term investment for the retirement, and intermediating procedures of these products by the market professionals to protect those less-well informed financial consumers.

REFERENCES

Agnew, J., Bateman, H., and Thorp, S. (2013). Financial literacy and retirement planning in Australia. *Numeracy*, 6-2, Article 7, 1-25.

Alexander, G., Jones, J., and Nigro, P. (1997). Investor self-selection: Evidence from a mutual fund survey, *Managerial and Decision Economics*, 18, 719-729.

Beckmann, E. and Stix, H. (2014). Foreign currency borrowing and knowledge about exchange rate risk. Working Paper 188, Oesterreichische Nationalbank, 1-30.

Boisclair, D., Lusardi, A., and Michaud, P. (2014). Financial literacy and retirement planning in Canada, Working Paper 2014s-35, CIRANO, 1-29.

Bucher-Koenen, T. and Lusardi, A. (2011). Financial literacy and retirement planning in Germany, Working Paper 17110, NBER, 1-26.

Clark, R., Lusardi, A., and Mitchell, O. (2014). Financial Knowledge and 401(K) Investment Performance, Working Paper 20137, NBER, 1-27.

Gustman, A., Steinmeier, T., and Tabatabai, N. (2010). Financial Knowledge and Financial Literacy at the Household Level, Working Paper 16500, NBER, 1-49.

Jappelli, T. and Padula, M. (2013). Investment in financial literacy and saving decisions, *Journal of Banking and Finance* 37, 2779-2792

Klapper, L. and Panos, G. (2011). Financial literacy and retirement planning: The Russian case, Policy Research Working Paper 5827, The World Bank, 1-22.

Lusardi, A. and Mitchell, O., (2014). The Economic Importance of Financial Literacy: Theory and Evidence, *Journal of Economic Literature*, 52, 5-44.

Lusardi, A. and Mitchell, O. (2011). Financial literacy and retirement planning in the United States, Working Paper 17108, NBER, 1-27.

van Rooij, M., Lusardi, A., and Alessie, R. (2011). Financial Literacy and retirement planning in the Netherlands, *Journal of Economic Psychology*, 32, 593-608.

van Rooij, M., Lusardi, A., and Alessie, R. (2011). Financial literacy and stock market

participation, *Journal of Financial Economics*, 101, 449-472.

Oil and Gas Company and Business Value Estimation in Kazakhstan

Keun Jung Lee
Bang College of Business, KIMEP University
&
Baiken Askar
Bang College of Business, KIMEP University

Abstract: In this paper different valuation approaches and techniques for business value estimation are investigated and applied to the selected case companies, subsidiaries of the Sovereign Wealth Fund “Samruk-Kazyna”. Computing the business values of subjected companies under the discounted cash flow (DCF) model, valuation using multiples, as well as book values a valuable practical exercise that revealed interesting insights in the “creative” valuation process aspects. This thesis examines aspects associated with the business value creation and maximization. The purpose of this study is to determine what factors have more significant influence than others on equity value. Consequently, the sensitivity analysis and regression analysis results are illustrated and discussed. The selected companies’ values dependencies are examined in order to find the relationship between key value drivers and their equity value. Furthermore, the value of the company is affected by both financial and non-financial factors, being more sensitive to changes in discount factors as WACC, followed by changes in Cost of Sales, Capital Expenditures, Volumes of product sold, and Prices. It is concluded that the equity value for the Fund is KZT 3,126,942 million with the share price of KZT, which represents its reasonable investment value.

Keywords: valuation, approaches and techniques, sovereign wealth fund, value dependencies, drivers, “Samruk-Kazyna”

The Issue of Asymmetric Information in the Financial Industry of Kazakhstan

Maya Katenova
Bang College of Business, KIMEP University

Abstract: The issue of asymmetric information and its consequences were previously discussed by many researchers from different countries in the world. Both adverse selection and moral hazard issues are discussed in Kazakhstani financial industry. This paper evaluates the utility of moral hazard theory and adverse selection problems in Kazakhstan. The literature on capital market imperfections, and their effects on corporate investment, has during recent years grown rapidly. Such authors as Berger and Udell (1998), Hubbard (1998) and Stein (2003) discussed this issue in their papers. As shown by these roadmaps, there is no unified theory of capital market imperfections. The major prediction of these various theories is the fact that in the presence of capital market imperfections in general and adverse selection and/or moral hazard in particular.

Mathieson et.al., (1995) mentioned that in industrial countries, as well as in many developing countries, indirect monetary instruments encompassing discount window operations, advances, repurchase agreements, and open market operations are employed to alter the stock of central bank credit in the financial system. In market-based financial systems with solvent financial institutions that are subject to appropriate prudential supervision and market discipline, these indirect instruments provide a mechanism that both ensures an efficient distribution of credit and minimizes the credit risks that the central bank incurs. A key issue for countries making the transition from centrally planned to market economies is whether such techniques can be effective in financial systems dominated by insolvent financial and nonfinancial institutions.

Ruachhaus (2009) mentioned that whereas moral hazards occur when an insured party has an opportunity to take hidden action once a contract is in effect, adverse selection is the result of asymmetric information prior to entering into a contract. Failing to distinguish between these two types of principal-agent problems may lead to policy advice that is irrelevant or potentially harmful.

How Do Firm-Specific Characteristics Affect Firms' Financing Decisions of Debt vs. Equity? Some Evidence from Kazakhstan

Assel Seitenova (MBA)
ATF Bank, Head of Corporate development department
&
Olga Pak (MBA, PRM)
Bang College of Business, KIMEP University

Abstract: This paper analyzes which firm-specific characteristics define Kazakhstani firms' financing pattern in selecting specific financial instruments, debt or equity. The sample includes 38 corporate firms listed at Kazakhstan Stock Exchange for the period of 2010-2012. Six variables including four relevant to financial profile (size, profitability, leverage, tangibility) and two to qualitative investment profile of a firm (transparency and timeliness of financial information and perfection of corporate governance) are employed to test and measure private corporate preparedness for debt or equity and aspects shaping their trend to debt raising.

The results obtained from the logistic regression model demonstrate that firm size and leverage positively impact the firms' decision to attract debt; whereas, profitability and asset tangibility have significant influence on firm's decision to issue equity. Two qualitative characteristics, audit and corporate governance, have substantial effect on firms' financing decisions shaping debt or equity pattern. Audit quality results in investors' interest in lending to

the firm through debt, whereas corporate governance standards of a firm are more important in equity investments.

Specific Determinants of Bank Capital in Kazakhstan

Olga Pak
Bang College of Business, KIMEP University
&
Gavin Kretzschmar
PwC Chair of Accounting, KIMEP University

Abstract This paper examines bank-specific characteristics which may impact the level of bank leverage in Kazakhstan. The primary objective is to determine whether the leverage across 26 Kazakhstani banks for the period 2007-2013 is affected by the same bank-specific variables as for banks in developed economies. For the purpose of this paper, we use bank specific characteristics which include, but not limited to: bank size, business model choices, financing decisions and, finally, ownership structure and characteristics. Results enable us to make two distinct contributions. Firstly, based on our raw data Kazakhstani banks demonstrate leverage drivers which are directionally consistent with prior US and EU banking studies. Secondly, the further investigation of bank-specific attributes suggest that it is the state ownership that drives the difference between the full sample and privately - owned sample of Kazakhstani banks. In particular, the private Kazakh banks' leverage is found to not be sensitive to bank risk and profitability which is a significant departure from the prior US and EU banking studies. However, the presence of the state in the ownership structure is positively related to the level of Kazakh banks' capital. Our results clearly suggest that state-owned banks either through regulatory or state fungibility have incentives to overstate capital. We are able to test our ex ante expectations that in early 2009 the three largest Kazakhstani banks were nationalized and in 2014 the second wave of banking crisis took place in Kazakhstan. We suggest that bank capital and

capital ratios of Kazakhstani banks have been systemically overestimated and have not reflected bank risks properly.

3D Printing: New Business Opportunities for the XXI Century.

Oleg Vlasov
Bang College of Business, KIMEP University

Abstract: As soon as people can turn a computer file into a useful solid object, those computer files will be product. People with CAD skills/3D scanners - will make them, people with printers will buy them. 3D printing has numerous areas of application: engineering, architecture, arts/sculpture, medical/dental, chemistry, archaeology and other.

Raw Materials Used for 3D Printing:

- Plastics
- PLA/ABS/Acrylic
- Metals
- Stainless steel/Sterling silver
- Glass
- Ceramics
- Sandstone
- Rubber
- Biomaterials

If you can slice an object you can glue the slices back together. 3D printing builds 3D objects layer by layer, 100-200 layers per inch.

Limitations of 3D Printing:

- Slow

- Expensive
- Pixelly/voxelly

Accounting Information Systems for SMEs in Kazakhstan

Oleg Vlasov
Bang College of Business,
KIMEP University, Kazakhstan

Abstract: Reliable information about someone's own business - it's not just exact facts and figures. This is also a guarantee of correctness of every decision and opportunity to objectively assess the prospects for development. These are conditions to establish and strengthen competitive advantage. And, of course, the basis of confidence in the future. Management unavoidably experience difficulties with proper accounting of day-to-day business operations. It has to spend tons of paper for each transaction made, and organize the entire flow of paper-based information as a whole. The need to automate such routine operations arises due to increasing complexity of accounting work and general trend towards computerization of society, aimed to improve personal productivity in processing large volumes of accounting information. Automation of administrative, accounting and tax accounting operations provide opportunity to receive reliable information on company's status at the right time. Such rapid and complete "diagnosis" of business challenges not only commercial or industrial giants, but also a large army of SMEs. According to statistics the most popular systems for automated accounting on the national market are:

- 1C: Enterprise (65%)
- BEST-OFFICE (7%)
- Info-Accountant (6%)
- PARUS-Enterprise (3%)

- Turbo Accountant (3%)
- Other systems (16%)

Cyber Weapon: Threats and Challenges of a New Millennium.

Oleg Vlasov
Bang College of Business,
KIMEP University, Kazakhstan

Abstract: Our nation is increasingly vulnerable to cyber-attacks that could have catastrophic effects on critical infrastructure as well as severely damage the country's economy. Whether the attack is focused on stealing our business and technology secrets, disrupting our financial systems or worse, the threat is real. Countries, terrorists and extremists around the world are developing and implementing cyber warfare doctrine, strategies and weapons. Cyber weapon - IT-based system that is designed to damage the structure or operations of some other information technology based system(s).

Types of Cyber Attacks:

- Denial of Service (DoS)
- Distributed Denial of Service (DDoS)
- Web defacement
- Infecting systems with malware

Three-element architecture of cyber weapons demonstrates how advanced and sophisticated they are becoming. This architecture creates reusability and reconfiguration of all three components. As one software or system vulnerability is discovered, reported and patched, that component can be removed and replaced while the other two components are still viable. This not only creates flexibility but also significantly increase the productivity of the cyber weapons developers.

Keywords: cyber weapon, cyber incident, cyber-attack, cyber espionage, cyber conflict, cyber

war.

Emerging Information Technologies: A Way of Sustaining Competitive Advantage in Business

Oleg Vlasov,
Bang College of Business,
KIMEP University, Kazakhstan
&
Dana Baizyldayeva,
Bang College of Business,
KIMEP University, Kazakhstan

Abstract: This research aims to analyze emerging IT/Telecom technologies in terms of their beneficial use by business community/end users. Author have reviewed some of available technologies and made his recommendations for selecting/using them for maximizing potential benefits. Some of technologies under review include:

- 4g/5g Cellular Communication
- Augmented Reality (AR)
- 3D Displays
- M-collaboration
- 3D Printing
- 4g Optical Disks
- Quantum Computing/Cryptography
- Machine Translation

4G/LTE Mobile Networks

First commercial LTE networks deployed in Sweden December 2009; candidate systems LTE-advanced and IEEE 802.16m (Mobile WiMAX Release 2) in development. Mobile LTE (4G)

network has been in commercial operation in Almaty and Astana since December 2012. In Quarter 4, 2013 LTE was expanded to Almaty satellites: Esik, Kaskelen, Kapshagay, Talgar, Shamalgan, and more than 30 other settlements of Almaty region. Active network construction continues. 4G LTE network allows max data transfer rate up to 100 MBit/s, and 5G expected to reach 10 GBit/s (after 2020), which allows introduction of completely new services. Possible future applications: m-broadband, m-TV, Interactive TV, 3D-TV, holographic cameras.

Table 1: Benefits of 4g/5g Mobile Networks

Business	Individual Users	Government
<ul style="list-style-type: none"> • HQ/HD video-conferencing on large displays with remote/mobile participants 	<ul style="list-style-type: none"> • Participation in massively multiplayer online games • Uploading multimedia content on a large scale within few seconds • 3D/HD/UHD-TV on demand 	<ul style="list-style-type: none"> • e-Gov • e-learning • healthcare projects

Keywords: 4g/5g cellular communication, augmented reality (AR), m-collaboration, quantum computing.

Improving performance of Supply Chain management in Kazakhstan by the adoption of RFID

Yevgeinya Kim
Bang College of Business, KIMEP University

Abstract: The growth of Kazakhstani economy hinges to a large extent on the ability of the industry to operate more efficiency and effectively in the global supply chain system. Kazakhstani production companies should adopt better technologies to provide better services. Radio Frequency Identification (RFID) systems is a method of identifying unique items using radio waves that communicate between RFID tags and readers without line-of-sight readability. Although RFID is not a new technology, we can see an increasing interest in this technology by companies in Kazakhstan. The use of RFID in supply chain management is an emerging technological trend that has attracted a lot of attention in the U.S., Europe, and Asia. This is largely driven by the potential benefits that RFID technology is perceived to deliver in the supply chain, particularly, supply chain visibility. Major retailers and leading corporations around the globe are already testing and implementing RFID, and claiming to have achieved competitive advantages and return on their investments.

Although there has been a growing interest in studying RFID in various application areas, little research has been undertaken to address applications in developing countries. It is, therefore, important to understand the adoption of RFID in Kazakhstani supply chains, so that appropriate actions can be taken to ensure that Kazakhstani companies are not lagging behind. The purpose of this research study is to identify the impact of RFID in the adoption of the technology by the logistics industry in Kazakhstan. It examines the strategic perspective of the organization in adopting RFID and to understand how the companies are making the transition to RFID.

The Impact of Computerization on the Labor Market of Kazakhstan.

Oleg Vlasov
Bang College of Business,
KIMEP University, Kazakhstan

Abstract: Automation and more complex computer systems results in increased demand for both highly educated and low-skilled workers around the world, but the demand for work for mid-level falls. At the same time, only highly specialized professionals benefit in terms of wage growth. Employees of medium and low qualifications face reductions in salaries. This is partly due to the fact that because of recession job offers for mid-level decreased and employees were forced to accept more low-skilled jobs, increasing competition and, consequently, reduced the level of wages.

Professions under risk:

- Notary
- Tour agent
- Librarian
- Copyrighter
- System Administrator
- Bank clerk
- Analyst

Keywords: Labor Market, automation, computerization.

The Role of Technology in Operations: Enterprise Resource Planning – ERP Systems & Cloud Based ERP.

Uldana B. Baizyldayeva, PhD, MSCS,
Bang College of Business, KIMEP University
&
Nadezhda Y.Fidirko, MSCS
Bang College of Business, KIMEP University

Introduction

Technology plays a key role in today's business environment. Many companies greatly rely on computers and software to provide accurate information to effectively manage their business. It is becoming increasingly necessary for all businesses to incorporate information technology solutions to operate successfully. In today's competitive environment, enterprises need to be reformed to get competitive advantages. The fastest and most effective way to achieve this goal is to introduce a new information system (IS) to carry out the reform. One of the systems is enterprise resources planning (ERP), which ensures all operational systems of the company are fully integrated. By providing real-time access to operational and financial data, ERP system allows companies to streamline their management structure and create more flexible, more democratic and flatter organizations

Enterprise resource planning (ERP) is a cross-functional enterprise system driven by an integrated suite of software modules that supports the basic internal business processes of a company. ERP gives a company an integrated real-time view of its core business processes such as production, order processing, and inventory management, tied together by ERP applications software and a common database maintained by a database management system. ERP systems track business resources (such as cash, raw materials, and production capacity) and the status of commitments made by the business (such as customer orders, purchase orders, and employee

payroll), no matter which department (manufacturing, purchasing, sales, accounting, and so on) has entered the data into the system. ERP facilitates information flow between all business functions inside the organization, and manages connections to outside stakeholders [1].

ERP system common functional areas

In the KIMEP course of “OPM 3131 Introduction to Operation Management” there is the topic “The Role of Technology in Operations (ERP)”. As the real ERP systems are rather giant and multi-functional, to install ERP in study halls is not an easy procedure. So, we’ve decided to use in educational process the free cloud-based ERP system of Google company - ERPAG. An ERP system covers the following common functional areas. In many ERP systems these are called and grouped together as ERP modules:

- Financial accounting: General ledger, fixed asset, payables including vouchering, matching and payment, receivables cash application and collections, cash management, financial consolidation
- Management accounting: Budgeting, costing, cost management, activity based costing
- Human resources: Recruiting, training, payroll, benefits, 401K, diversity management, retirement, separation
- Manufacturing: Engineering, bill of materials, work orders, scheduling, capacity, workflow management, quality control, manufacturing process, manufacturing projects, manufacturing flow, product life cycle management
- Order Processing: Order to cash, order entry, credit checking, pricing, available to promise, inventory, shipping, sales analysis and reporting, sales commissioning.

- Supply chain management: Supply chain planning, supplier scheduling, product configurator, order to cash, purchasing, inventory, claim processing, warehousing (receiving, put away, picking and packing).
- Project management: Project planning, resource planning, project costing, work breakdown structure, billing, time and expense, performance units, activity management
- Customer relationship management: Sales and marketing, commissions, service, customer contact, call center support - CRM systems are not always considered part of ERP systems but rather Business Support systems (BSS).
- Data services : Various "self-service" interfaces for customers, suppliers and/or employees [1]

ERP system components

- Transactional database
- Management portal
- Business intelligence system
- Customizable reporting
- Resource planning and scheduling
- Analyzing the product
- External access via technology such as web services
- Search
- Document management
- Messaging/chat
- Workflow management

Benefits of ERP system

- ERP can improve quality and efficiency of the business. By keeping a company's internal business processes running smoothly, ERP can lead to better outputs that may benefit the company, such as in customer service and manufacturing.
- ERP supports upper level management by providing information for decision making.
- ERP creates a more agile company that adapts better to change. ERP makes a company more flexible and less rigidly structured so organization components operate more cohesively, enhancing the business—internally and externally.
- ERP can improve data security. A common control system, such as the kind offered by ERP systems, allows organizations the ability to more easily ensure key company data is not compromised.
- ERP provides increased opportunities for collaboration. Data takes many forms in the modern enterprise. Documents, files, forms, audio and video, emails. Often, each data medium has its own mechanism for allowing collaboration. ERP provides a collaborative platform that lets employees spend more time collaborating on content rather than mastering the learning curve of communicating in various formats across distributed systems [1].

Disadvantages of ERP system

- Customization can be problematic. Compared to the best-of-breed approach, ERP can be seen as meeting an organization's lowest common denominator needs, forcing the organization to find workarounds to meet unique demands.
- Re-engineering business processes to fit the ERP system may damage competitiveness or divert focus from other critical activities.

- ERP can cost more than less integrated or less comprehensive solutions.
- High ERP switching costs can increase the ERP vendor's negotiating power, which can increase support, maintenance, and upgrade expenses.
- Overcoming resistance to sharing sensitive information between departments can divert management attention.
- Integration of truly independent businesses can create unnecessary dependencies.
- Extensive training requirements take resources from daily operations.
- Due to ERP's architecture (OLTP, On-Line Transaction Processing) ERP systems are not well suited for production planning and supply chain management (SCM).
- Harmonization of ERP systems can be a task (especially for big companies) requiring a lot of time, planning, and money [1].

Modern free and open-source ERP

As ERP systems are rather expensive we've decided to consider free releases of ERP systems listed in Figure 1.

	Name	Platform	Softwarelicense
1	Adaxa Suite	Java	GPL
2	Adempiere	Java	GPL
3	Apache OFBiz	Apache HTTP Server	Apache License 2.0
4	Compiere	Java	GPL/Commercial
5	Dolibarr	JavaScript, PHP, MySQL	GPLv3
6	Epesi	PHP, MySQL	MIT license
7	ERP5	Python, Zope, MySQL	GPL
8	ERPNEXT	Python, JavaScript, MySQL	GPL
9	Fedena	Ruby, MySQL	Apache License
10	FrontAccounting	PHP, MySQL	GPLv3
11	GNU Enterprise	Python	GPLv3
12	HeliumV	Java	AGPL
13	iDempiere	Java	GPLv2
14	JFire	Java	LGPL
15	LedgerSMB	Perl, PostgreSQL	GPL
16	Openbravo	Perl, PostgreSQL	OBPL1
17	Odoo	Python, JavaScript, MySQL	AGPLv3
18	Phreedom	PHP, MySQL	GPLv3
19	Postbooks	C++, JavaScript, PostgreS...	CPAL
20	SQL-Ledger	Perl, PostgreSQL	GPL
21	Tryton	Python, GTK+	GPLv3
22	WebERP	PHP, MySQL	GPLv2

Figure 1. Free and open-source ERP software list

Labeling ERP systems by platforms (see Figure 2), we'll obtain data frequencies chart (see Figure 3)

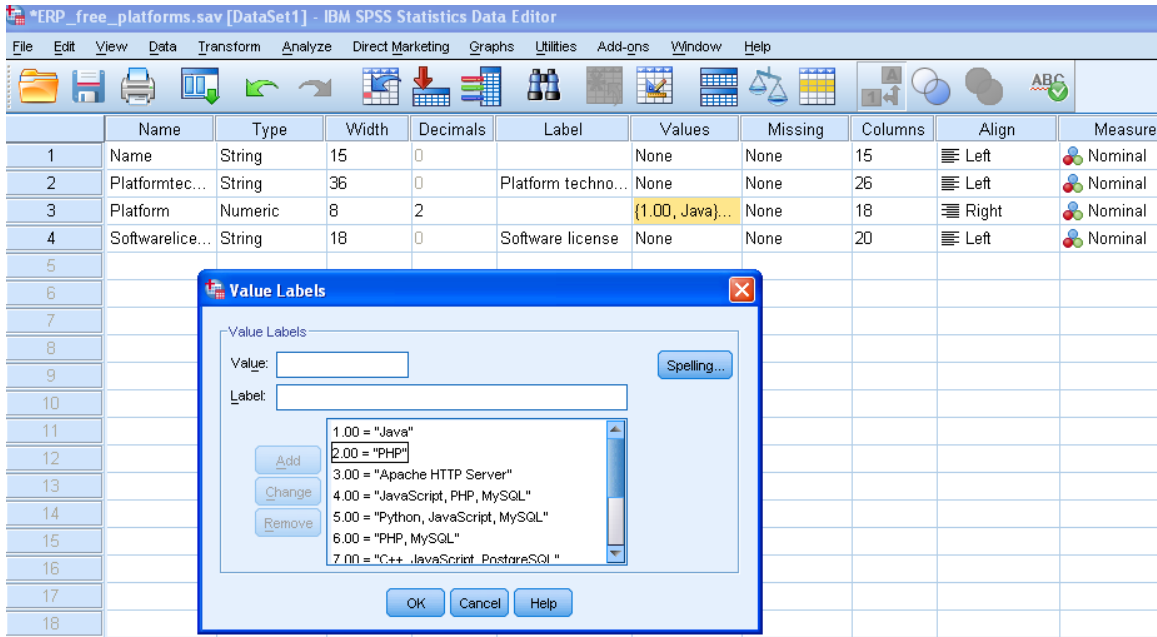


Figure 2. Free and open-source ERP software list labeled on platform

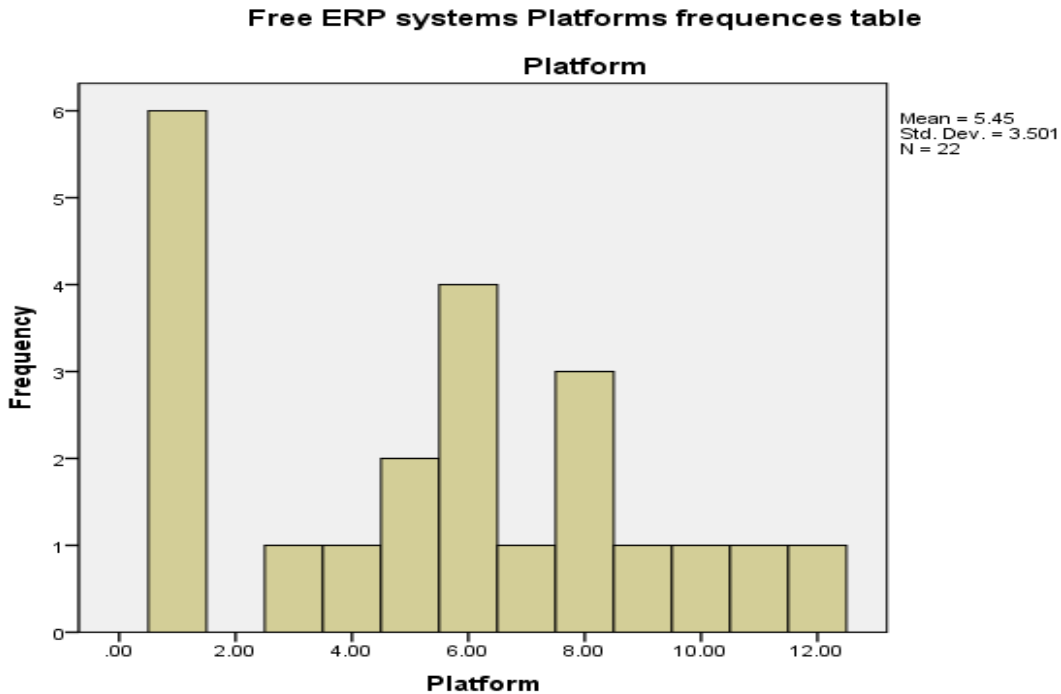


Figure 3. Free and open-source ERP software frequencies on platform

Most of today's free ERP systems are based on Java, PHP, Perl platforms (see Figure 3)

The Role of Cloud Based ERP

- A growing number of manufacturing companies are discovering that cloud based ERP software can help their core functions become more efficient and cost-effective - ultimately driving greater revenue.
- Enterprise resource planning systems, especially ERP manufacturing software, help companies by providing visibility into every function across many departments.
- The advent of cloud computing has made ERP for manufacturing even more mission-critical. The cloud provides centralized data storage, the sharing of data-processing tasks and internet-based access to services and resources.
- The flexibility of the cloud and the speed of deployment make manufacturing systems particularly well suited to cloud based ERP solutions.
- Cloud based solutions make it possible for companies to manage manufacturing, distribution and supply chain operations anywhere and in real time.

ERPAG - ERP from Google

In September 2011, Google succeeded in creating a cloud ERP solution that is now suitable for various hardware platforms and devices. Currently, ERPAG covers Sales and Customer Relationship Management, Purchasing and Supplier Management, Production, Warehouse and Inventory Control, Finance and Accounting, Point of Sale and Business Intelligence .



Figure 4. Google ERPAG view

This work of ERP systems utilizing is in process now, and will be fulfilled with data on the system features and tools analyzed in our further works.

References:

1. https://en.wikipedia.org/wiki/Enterprise_resource_planning
2. <http://www.investopedia.com/terms/d/double-entry.asp>
3. SHAUL, L. AND TAUBER, D. 2012. CSFs along ERP life-cycle in SMEs: a field study. *Industrial Management & Data Systems*, 112(3), 360-384.

Media/PR Executives Demand Internships

Smagulova Almas Agibaykyzy,
KIMEP University, Kazakhstan

Abstract: Demand uncertainty is the most challenging issue, supply chain management faces in the current economic instability. Devaluation, cross-border ship, governmental restrictions, tariffs, companies' price competitions influence consumption behavior in a way, which makes demand forecasting much more difficult than before. There are many approaches and methods, which are used to reduce uncertainty and thus help to improve forecasting techniques. Intuitively, companies may choose benchmarking, by following the example of the successful companies in their field by taking a snapshot of their forecasting models, another may choose techniques regarding their implementation costs. By applying the proper technique, the companies will be able to minimize forecasting errors; increase overall profit and sales; reduce stock rate and implement JIT inventory management. In my paper, I investigate the distinct characteristics of the product and market conditions (devaluation, price increases), under which one or another technique can be implemented in order to minimize forecasting error and reduce the sum of the bullwhip effect. The models under consideration are: 1. Basic models (moving average; linear regression; adoptive forecasting model); 2. Statistical models (exponential smoothing and Holt-Winters double exponential smoothing). Optimal minimum squared error forecasting technique would be applied as a mean of evaluating the forecasting methods for validity. To improve the benefits of the article and support it by numerical investigations, proposed forecasting techniques were implemented on two local production companies.

Keywords: Forecasting techniques; linear regression; statistical approach; supply chain management.

A Comparison of Attitudes towards Mobile Advertising between Youth and Adults in Kazakhstan

Yerzhan Avelbayev,
Bang College of Business, KIMEP University, Kazakhstan
Liza Rybina,
Bang College of Business, KIMEP University, Kazakhstan
&
Alexander Ostrovsky,
Bang College of Business, KIMEP University, Kazakhstan

Abstract: The purpose of the present study is to examine the differences in attitudes towards mobile advertising between youth and adults in Kazakhstan. Rapid developments in mobile communication have brought new channels for marketers to reach their customers. The explosion of mobile means over the last years continues to have a significant impact on advertising with every type of mobile interaction being on the rise and consumers looking for new things to do with their new devices. However, the recent trends in mobile channels, such as the rise in smartphones, wide use of SMS and mobile social media, are not spread evenly among various demographic groups. Based on a sample of 180 respondents, this study uses t-test to identify the differences between youth and adults in their perceptions of mobile advertising Informativeness, Entertainments, Credibility and Irritation. The regression model is used to test the relationship between Attitudes towards mobile advertising and Intention to use mobile advertising for future buying behavior. The recommendations help marketers better understand the perceptions and behavior of consumers in regard to mobile advertising, and assist practitioners in developing strategies for creating and communicating more efficient mobile ads to the segmented by age consumers.

Keywords: Mobile Advertising

The Development of an International Marketing Strategy: the Case of an IT Company

Alina Y. Desyatnikova
National Research University
Higher School of Economics, Saint Petersburg

Abstract: The purpose of this research is to analyze the ways to design a successful international marketing strategy for an IT company. There is a number of models and methods to work out a marketing strategy, however they are not being widely used. This paper reviews some of the popular studies of marketing strategies. The research is focused on an America-based IT company – *Intermedia*. Currently, the company is considering the opportunity to expand the operations into new markets in Australia, China and some of the countries in Eastern Europe. Also, the top management is making the first attempts to enter new markets. However, the marketing strategy for the expansion is still not being announced, meaning that there are some difficulties in preparing the final expansion plan. The following methods such as the analysis of the marketing literature and IT industry reports, an interview with the experts, and the analysis of various marketing materials are used to outline the pros and cons of the current marketing strategy of *Intermedia*. The results of the research are supposed to consider the main obstacles on foreign markets and outline effective techniques that can be used to develop an international strategy of an IT company. Also, the plan of the development is to be proposed, which can support *Intermedia* on the new markets.

INTRODUCTION

The globalization process stimulates companies to change the regular marketing approach due to the rapid changes happening in the world economy (Lims, Sharkey & Kim, 2003). Nowadays, more companies are looking for an opportunity for international expansion; this turns marketing from a sales tool to the element of strategic planning required for any company, especially an international one (Lambin, 2007). It means that the role of a marketing strategy becomes dramatically important for being successful on different markets and expanding operations overseas (Bodimeade, 2003). Also, marketing strategy is a way of managing a competitive advantage (Cook, 2003). A marketing strategy is the key to success for companies which operate on a high technology markets (Bacon, Beckman, Wilson, 2007). One of the examples of such market is the IT market (Kodratiev & Kolesnikov, 2013). The experts suggest that IT companies sometimes do not care enough about their strategy. Thus, this attitude can be negative for the performance of the company. There are several cases of international companies entering new markets without special preparation and being unsuccessful on the new market for several years (IBM Center for Management research, 2006). The examples of *Google* and *IBM* expanding to the Chinese market highlight the importance of marketing strategy and planning.

The main purpose of the study is to develop improvements to an international marketing strategy of an IT company. The research is focused on *Intermedia*, an America-based IT company that has been present on the market since 1994. The main research question is: “What are the key success factors of an international marketing strategy of an IT company?” The object of study is a marketing strategy and the subject of study is an existing international marketing strategy of *Intermedia*. To meet the purpose of the research, several aims should be achieved, such as an analysis of the theoretical basic of a marketing strategy development, a comparative analysis of

the international marketing strategies of competitors of *Intermedia*, an interview with a marketing specialist from *Intermedia*. The author of the research proposal formulates a hypothesis that one of the key factors of a successful marketing strategy for international company is a cultural awareness and flexibility of a business model.

To achieve a goal of the research several steps are taken. First of all, the analysis of the marketing related literature and IT industry reviews is performed to understand the global trends of the IT market and to select models that are being used to design a marketing strategy. Secondly, the analysis of the marketing strategy of competitors is made. It helps to analyze the key characteristics of successful strategy. Finally, the interview with the experts is conducted. All the collected data is analyzed to find the bottlenecks of the existing marketing strategy of *Intermedia* and make a development plan, which can support company during expansion.

1. Literature review

1.1. Marketing strategy overview

According to Wind and Robertson (1983), a marketing strategy is a complex mechanism that consists of three main elements: market opportunities, synergy, and company objectives. The authors highlight the idea that marketing should not be an 'isolated discipline' and is supposed to generate some positive effect on the whole company, not only for a certain department (Myers, Greyser and Massy 1979). The authors think that nowadays marketing lack creativity, understanding of financial implications. Moreover, the authors define seven strategic limitations that should be considered as bottlenecks of the marketing science and that can lead to a poor company performance: short run orientation, interdisciplinary isolation, the failure to examine

synergy in the design of the marketing program, the lack of integration, a fixate on with the brand as the unit of analysis, and the lack of rigorous competitive analysis, the lack of international orientation. In addition, Wind and Robertson think that for international companies, it is virtually important to evaluate the marketing strategy from time to time to be able to make relevant marketing and management decisions. Also, the authors mention that the successful marketing strategy is supposed to match the mission of the company, and to be integrated with a business strategy. This way a business strategy can have a marketing perspective.

Smith, an American marketing specialist thinks that international marketing strategy is a behavioral focus of the company that is producing goods and services for more than one nation (McDonald, Smith, & Ward. 2006). Moreover, the author states that international marketing is a task for a company to adapt to different marketing structures. In this case, the author defines a marketing strategy as a tool that supports a company on different markets. The success of the company on foreign markets depends on a number of factors. However, Smith suggests that the most important point is the quality of management. In this case, the responsibility of the successful operations of the company depends only on management. Powers, another marketing specialist, states the idea that marketing strategy is the tool to manage the corporate finance (Powers, 1994). He proposes a comprehensive model that helps to maximize the value of the firm by integrating the marketing strategy with the financial indicators that help to maintain the cash flow and support that strategic planning. Powers as well as Wind and Robertson, supports the idea that the current marketing models do not consider the financial indicators in terms of marketing, thus without measuring the financial data it is possible to evaluate the overall impact of marketing model (Wind & Robertson, 1983). Also, the author thinks that if a marketing

strategy is integrated with the key financial indicators, it can help to manage the performance on a new market and can control the losses and prevent an ineffective marketing. The famous marketer Cook views a marketing strategy as an investment in the stable growth and development of a company. Also, he suggests that a well-designed marketing strategy can help a firm to gain a specific strategic objective (Cook, 2007). The ex-president of PepsiCo and the ex-CEO of Apple Sculley believe that a marketing strategy is an integrated action that leads to a competitive advantage. The companies that focus on the strategy and follow it are successful and their financial results are stable. It makes a positive environment for all stakeholders of the company (Srivastava, Shervani, & Fahey, 1999).

1.2. Models and methods of an international marketing

There are different models that help to create a marketing strategy. According to Kotler, the marketing strategy is a part of the corporate strategy, which defines how to use limited resources to achieve maximum sales rate and profitability in the long-term (Kotler, 2000). Moreover, the author has developed his own model of competitive strategies, which determines the behavior of the company depending on an occupied segment and a market role. The model defines 4 main strategies: create, build, take harvest, and stop investments. The model of competitive strategies corresponds to the BCG matrix, which offers more scenarios of a strategic behavior. Also, Kotler proposes a diamond model, which helps to measure the competitive advantage of the company. The diamond model has 4 main attributes: factor conditions, demand conditions, related & supported industries, and firm strategy, structure and rivalry. Grewal and Lilien state that

companies that are new for foreign markets can have difficulties with selection of a marketing model. This can be a result of a lack of expertise and knowledge of foreign market trends (Lilien, & Grewal, 2012). In this case the authors recommend to use flexible models that are not connected with some specific database. The example of such model is the BRANDAID model proposed by Lilien (1975). The elements of the model are: manufacturer, retailers, consumers, and general environment. However, there is one strategic limitation of the BRANDAID model – it is addressed for already existing goods, it is not appropriate for new products and innovations. Wind and Lilien recommend to use the PIMS model (profit impact of marketing strategy), which was developed by *GE* company. This approach is based on the successful and unsuccessful experience of businesses in the related sphere. Using the PIMS model a company can evaluate ROI (return on investment) to analyze the relevance for investing in a new market and calculate predicted ROS (return on sales).

1.3. Major trends of an IT market

Hills and Sarin (2003) suggest that marketing strategy is an important tool for all markets. However, the authors highlight the idea that it is essential for high technology industries. According to Kondratiev and Kolesnikov, the IT market is an example of the most fast growing markets. The IT sphere has a big potential for the future development, especially in the following areas: mobile technologies and applications, software development, online analytics, electronic medicine, and cloud computing. The authors admit that during the last 10 years the Asian IT market is showing rapid growth and evolution. The analysis of the market dynamics indicates that in the next 5 years Asian market could become the most appealing for international companies and global IT providers (Kondratiev & Kolesnikov, 2013). Global trends show that the expenditures for the IT products and services have sharply increased during last 7 years. The

Corporate Software is the one with the largest expenditures, which show 6,8% of growth in 2014 (see Fig. 1).

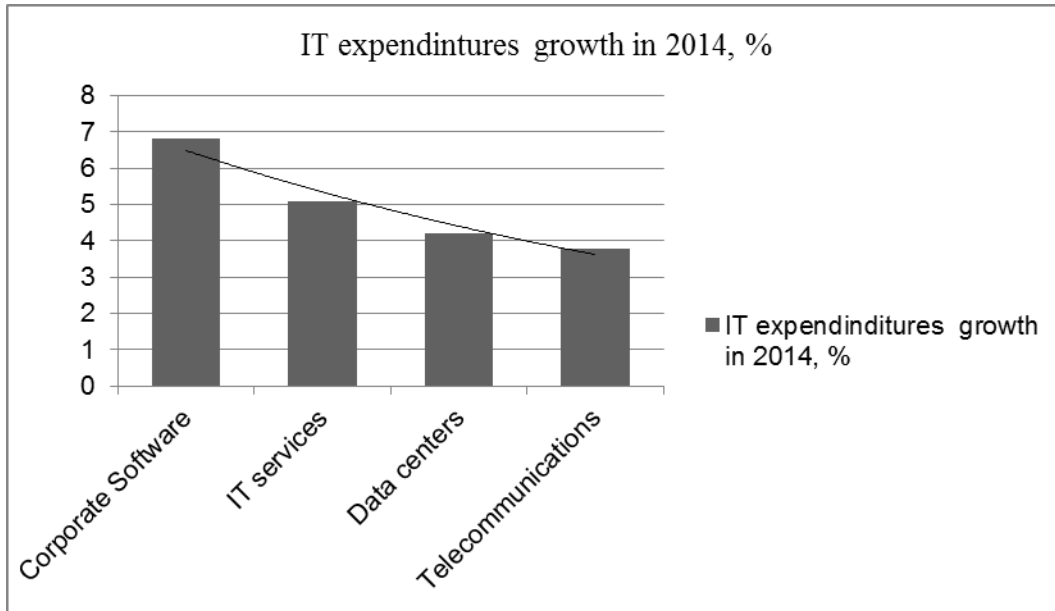


Figure 1. IT expenditures growth in 2014

During 2010 – 2012 most of expenditures were on spent on telecommunications. However, in 2013 – 2014 the IT market showed dramatic development. Due to that the consumption behavior is changing and corporate software is becoming the most one of the appealing products for the companies. As a result, telecommunications is still the largest niche of the IT market. However, the forecasts indicate a sharp elimination of expenditures for this niche. As developing countries show positive dynamics and fast development in economics and technology, the center of IT operations is moving from the US and Western Europe to the BRICS countries. This means that the IT markets of Brazil, Russia, China, India, and South Africa are becoming of the largest interest for international IT companies and IT providers who want to expand to new markets (Zou, Andrus, & Wayne, 1997).

Haratashvilli admits that in 2012 and 2013 the Russian IT market also showed some positive trends. The author highlights the fact that international companies that operate on the Russian market are currently focused on hardware and software production. However, global IT providers are looking for the opportunities to expand their operations in such fields as corporate software, applications, and cloud computing. Though, currently, these attempts are not being successful as the Russian law has not yet fixed some regulations concerning the IT market. Although, it is expected that the new regulations might constrain the IT market and eliminate the opportunities for global providers to deliver their services to the Russian customers. The *IBM center for Management Research* warns large IT providers, who are making attempts to enter the markets of the developing countries, as the business models that proved to be successful in one country most probably can fail or partly fail in another. Several studies performed by *IBM center for Management research* (2006) indicate that China turns out to be a difficult country to enter for companies such as *Google* and *IBM*. The business models, sales approach, and marketing strategy, which proved itself on the market of the US and Europe, are completely inappropriate for the Chinese market. Only after several years of adapting to a new culture, studying differences of the Asian market, and consumer behavior, *Google* and *IBM* could recreate the marketing strategy and recover the sales rates.

2. Methodology

2.1. Data collection and analysis methods

The main aim of the research is to develop an international marketing strategy that can be used at an international IT company. A number of methods are used to collect and analyze the research data. First of all, the review of literature on marketing studies related to the strategic planning is performed. Several modern theories and approaches are selected for the analysis of the future

results of the research. Also, factor analysis is used to establish the key success factors of an international marketing. These dimensions can be used to evaluate the pros and the bottlenecks of the existing marketing strategy of *Intermedia*. The next step is the review of the global IT market and specifically in Russia. The review is based on the existing marketing reports, analytical reports, and articles. This helps to define the major trends and to forecast the future development of the companies in the IT industry, as well as to outline the key success indicators of an international marketing strategy. With the third step, the review of the commercial offers from *Intermedia* and other IT providers is performed. The collected information is analyzed using the method of cluster analysis. It helps to define the major differences and similarities between the services of *Intermedia* from services of other providers. Later, the interview with the marketing expert from *Intermedia* is performed. The interview is supposed to get the valuable information from a specialist regarding the marketing strategy. A special questionnaire is created. It includes the questions about the current state of the company, the expansion plans, and business model of *Intermedia*. The data is analyzed using both the correlation and the hypothesis analysis. Moreover, forecasting can be implemented to outline the future marketing trends for *Intermedia* on the international markets. The last step is to consider the practical implementation of the result with the development program for *Intermedia* (see Fig. 2).

Data collection and data analysis methods

Data collection method	Data analysis method
Literature review	Factor analysis
Review of IT market	Definition of the major trends and forecasting
Review of the commercial offers from opponents	Cluster analysis

Interview with the experts and customers from <i>Intermedia</i>	Hypothesis analysis ,correlation analysis and forecasting
---	---

However, the proposed data collection and analysis methods have some limitations. First of all, it should be mentioned that some of the marketing models do not correlate with important financial indicators as ROI, ROS, profit gross, net profit, and profitability. It means that there is no way to measure the impact of this kind of models on the performance of the company, such as diamond of Kotler, the BRANDAID (Wind & Robertson, 1983). Also, it should be highlighted that competitors of *Intermedia* use different marketing strategies and different marketing models. These models need to be studied as well in order to make a deep factor analysis. Thus, the business model is not a focus of the current research. Moreover, there is a possibility that the interview with the expert might not fully cover the goals of the research, as the interviewee can hide some information due to the security policy of *Intermedia*. Considering the discussed limitations, an accurate research program is designed to eliminate the risk that the aim of the research might not be achieved.

2.2. Data access

The author of the research proposal is currently being employed at *Intermedia* and has access to the internal data such as commercial offers, trainings, and marketing materials. This allows a high availability of data and supports other research methods such as an interview with the experts. Besides, some of the materials such as industry reports and commercial offers from the competitors of *Intermedia* are obtained from the electronic resource library of *Higher School of Economics* as well as from various websites of IT providers. The author of the research proposal retrieves the information from the electronic resources such as *Scopus*, *Web of Science*, *JSTOR*;

from the journals as *Marketing Science*, *Marketing theory and International Journal of Marketing Studies*; from the web sites of *VW ware*, *Microsoft*, *Bluelock*, *Saleforce.com*, *Rack Space*.

3. Expected and preliminary findings

It is supposed that any company entering new markets can face the obstacles connected with the local culture, customs, laws, and competition. These factors indicate that an accurate planning is required before a company starts its operations in a new country. Also, it means that a marketing strategy is very important. However, the cases of *Google* and *Dell* expanding to China show that the proved strategies can fail and that each new country requires a new strategy and a new sales approach (*IBM Center of Management research*, 2006). Due to that, the company should perform a deep analysis to create a successful strategy and understand the trends of a new market, opportunities, and threats. According to Kotler, there are a lot of tools that help to understand the real place of a company. Wind and Robertson recommend to measure the internal and external factors using McKenzey matrix and Porter's analysis of 5 forces. This method helps to analyze the pros and cons of the current state of the company. Also, it helps to develop the plan of how to eliminate the weaknesses and create a balanced pricing policy and budgeting (Wind & Robertson, 1983). Smith advices to establish a partnership with some of the local representatives in order to adapt to a new business culture. This way a company can get some consultancy about a new market and to get a better understanding of consumption patterns and some business customs (1973). The reviewed models help to analyze the existing marketing strategy and make some of the changes that are required for the expansion. What is more, the integrated approach to the marketing in the company is preferred. If marketing is isolated, the company might lose a lot of time and money to become accustomed to a new market and to

survive in the competition with some local companies (Wind & Robertson, 1983). The author of the research proposal believes that the discussed approaches and models proposed by Kotler, Lilien, Wind, and Robertson are very important for the research. Also, these models are used to design a developed international marketing strategy for *Intermedia*.

Intermedia is a company which has capacities for future growth and development. With over 20 years of presence on the US market, *Intermedia* has earned good reputation. The business model that the company runs in the US has given the opportunity for the top management to open a company branch in the UK. Currently, the company has a plan to expand operations to three different locations: Eastern Europe (including Russia), Asia (China, India, Malaysia, Indonesia), and Australia. These countries have different market dynamics, show different growth and development. According to Kondratiev and Kolesnikov, the Asian IT market becomes one of the most appealing markets for international providers. This fact can cause a dramatic growth of the competition in this region (Hills & Sarin, 2003). It means that if *Intermedia* does not change the business model and does not develop a new marketing strategy for each of the new target locations, the existing business model can fail or partly fail on the new markets (*IBM Center for Management research*, 2006). Also, careless attitude towards the marketing strategy can lead to the weak competitive advantage of *Intermedia* on the new markets, especially the Asian one (Cook, 2003). Due to that, to prevent the failure the company should perform careful planning before entering new locations.

CONSLUSION

To conclude, it must be said that a marketing strategy is an important part of business planning. Also, in the globalization framework of the economy, it is becoming more and more important to focus on marketing. During the last 20 years the attitude towards a marketing strategy has changed dramatically, that is crucial on the high technology market (Cook, 2003). Currently, there is a number of models of marketing strategy design. The research proposal gives an overview of some common models. It should be admitted that each of these approaches are made and tested by famous marketers and can have a positive impact on a company performance on new markets (Ricart, Enright, Ghemawat, Hart, & Khanna, 2004). The model proposed by Kotler, focuses on strategic scenarios and is appropriate for each growth phase of a company. Moreover, the BRANDAID model proposed by Lilien (1975), that consists of manufacturer, retailers, consumers, and general environment is supposed to support a company with the analysis of the needs of a new market. Wind and Lilien recommend new companies, which do not have an international experience, to use the PIMS model (profit impact of marketing strategy). Also, the experts mention that high technology market is the one that implies more attention for marketing (Bodimeade, 2003), due to high competition and fast changes. The global trends indicate that the IT market is the one which is fast developing and growing rapidly (Kondratiev & Kolesnikov, 2003). The example of *Google* and *IBM* entering the Chinese market indicates that IT companies do not pay enough attention at marketing strategy and tend to use their own business models entering new markets. Thus, it can cause a poor performance and lack of competitive advantage (*IBM Center for Management research*, 2006). The above research methods help to make the development plan for *Intermedia*. The author of the research paper believes that the proposed changes can be useful and can be introduced to the top management of

the company to increase the opportunity of successful performance on the new markets and eliminate losses.

REFERENCES

1. Bacon G., Beckman, S., Mowery, D. C., & Wilson, E. (1994). Managing product definition in high-technology industries: a pilot study. *California Management Review*, 36, 32-32.
2. Bodimeade M. (2003). Global Information Technology Market. London: UK.
3. Cook Jr, V. J. (1983). Marketing strategy and differential advantage. *The Journal of Marketing*, 68-75.
4. Haratashvili D. (2008). Russian IT market: current state an perspectives.
5. Hills, S. B., & Sarin, S. (2003). From market driven to market driving: an alternate paradigm for marketing in high technology industries. *Journal of Marketing Theory and Practice*, 13-24.
6. IBM Center for Management research. (2006). Dell's problems in China. *Case Catalogue, Business Strategy*, 1-18.
7. IBM Center for Management research. (2006). Google's Problems in China. *Case Catalogue, Business Strategy*, 18-36.
8. Kondratiev K.A., & Kolesnikov A.M. (2012). Trends and problems of development of the global IT market. *Journal of Economics and Law*, 136-142.
9. Kotler, P. (2000). *Marketing management: The millennium edition* (pp. 87-103). Upper Saddle River, NJ: Prentice-Hall.
10. Lambin, J. J. (2007). *Market-driven management*. Palgrave Macmillan.
11. Lilien, G. L., & Grewal, R. (Eds.). (2012). *Handbook on business to business marketing*. Edward Elgar Publishing.
12. Lim, J. S., Sharkey, T. W., & Kim, K. I. (1993). Determinants of international marketing strategy. *MIR: Management International Review*, 103-120.
13. McDonald, M., Smith, B. D., & Ward, K. (2006). *Marketing due diligence: reconnecting strategy to share price*. Butterworth-Heinemann.

14. Powers, T. L., & Leal, R. P. (1994). Financially Integrated Marketing Strategy: A Proposed Model. *Journal of Marketing Theory and Practice*, 70-76.
15. Ricart, J. E., Enright, M. J., Ghemawat, P., Hart, S. L., & Khanna, T. (2004). New frontiers in international strategy. *Journal of International Business Studies*, 35(3), 175-200.
16. Srivastava, R. K., Shervani, T. A., & Fahey, L. (1999). Marketing, business processes, and shareholder value: An organizationally embedded view of marketing activities and the discipline of marketing. *The Journal of Marketing*, 168-179.
17. Wind, Y., Robertson, T. S. (1983). Marketing strategy: New directions for theory and research. *The Journal of Marketing*, 12-25.
18. Zou, S., Andrus, D. M., & Wayne Norvell, D. (1997). Standardization of international marketing strategy by firms from a developing country. *International Marketing Review*, 14(2), 107-123.

The Chess and Marketing: Use of Metaphor in Learning Marketing and Marketing Career

Elmira Bogoviyeva, Ph.D.

Bang College of Business, KIMEP University

Abstract

The use of metaphors is prevalent in marketing. Current presentation aims on presenting the approach in introducing marketing career path development to undergraduate students using chess game as a metaphor.

Key words: chess, marketing, marketing career, education

Introduction

“... A metaphor describes one thing in terms of another, frequently providing a better picture than can a straight literal description” (McWilliam and Dumas 1997, p. 271). Metaphors and analogies are considered to be best approaches for explanation of new and unfamiliar concepts. There are numerous metaphors used in marketing area as main concepts: product life cycle and relevant strategies, military analogous strategies, etc. Undergraduate students need to be introduced to marketing career development and understanding of the main professions in marketing area. This article presents an approach in explaining marketing career development for marketing professional using metaphors from chess game.

Theoretical Background

The word “metaphor” comes from Greek “metapherein”, which means to carry over or to transfer (Menon and Hunt, 1995). Metaphor is central to cognition as it has high power of representing and explaining one thing by another (Zaltman, 1996). Marketing is a business discipline where one can find biggest number of metaphors used for explanation of concepts and strategies. When presenting segmentation, targeting and positioning strategies, professors refer to military activities. Product life cycle is derived from life cycle concept. “Problem child” or “question mark”, “rising star”, “cash cow” and “dog” are metaphors used as titles of different stages, and “grow”, “harvest”, “divest” as strategies in Boston Consulting Group Matrix. These are just few but examples demonstrating how many metaphors are employed in this educational field.

Chess game can be used as a metaphor for explaining career development for undergraduate students. Graduates with bachelor degree usually start their career path from positions like an assistant brand manager, marketing specialist. Their role in a company is similar to the one of a “pawn”. If “pawns” are hard working or do something really outstanding to get noticed, they manage to become a “queen” as a “promotion”. There always an option for students to choose a chessboard (an industry), a kingdom (company they would like to work) or build their own kingdom (start their own business).

Conclusion

There various teaching methodologies used for improving learning experience of students. Current article proposed an approach for explaining marketing career progress. This method is based on using the chess game and its figures and rules as metaphors for presentation of ideas. Metaphorical approach is expected to enhance learning process for undergraduate students.

References

Menon, Anil and Shelby DHunt, (1995), “Metaphors and competitive advantage: evaluating the use of metaphors in theories of competitive strategy”, *Journal of Business Research*, 33:81–90.

Lakoff, George and Mark Johnsson (1980), *Metaphor We Live By*, Chicago, IL: University of Chicago Press.

McWilliam, Gil and Angela Dumas (1997), “Using Metaphors in New Brand Design,” *Journal of Marketing Management*, 13, 265-284

Zaltman, Gerald (1996), "Metaphorically Speaking", *Marketing Research*, 8, 2 (summer)

The Influence of Temporal Orientation on Travelling Preferences

Elmira Bogoviyeva, Ph.D.

Bang College of Business, KIMEP University

Abstract: Although the perception of time is considered to be one of the most influential individual traits, limited research has been done to investigate how time perception affects consumer behavior in regard to tourism. Authors explore the interplay between individual temporal orientation and travelling and preferences. Furthermore, the scholars examine the influence of temporal perception on tourism. Results of pilot study confirm that temporal

orientation is one of the antecedents in travelling decisions and shed light on underlying motives for various forms of tourism.

1. Introduction

Marketing scholars explored interplay of time and consumer behavior for more than thirty years. In the area of consumer behavior Graham (1981) was among the first to raise the importance of time as a concept. He distinguished different cultural temporal systems like “linear-separable”, “circular-traditional” and “procedural-traditional”. Scholar related time patterns to shopping styles. While Graham (1981) emphasized different time perception systems and their impact on individuals’ behavior, majority of marketing studies are grounded in North-American “linear-separable” system.

There was a limited number of studies reported on the interplay between temporal orientation and travelling and tourism. Bergadaa (1990) explored present and future orientation and how individual dominance of present or future influences planning style and consumer behavior towards banking and vacation products. Loda and Amos (2014) reported that people with present orientation take more vacation trips per year but warned that their study was an exploratory in nature. The extent to which temporal orientation is an important issue in travelling is a theoretical and managerial issue that demands further attention. In sum, this study investigates the following research questions about temporal orientation and travelling behaviour: a) *do different types of temporal orientation influence travel behaviour;* b) *how individual temporal orientations influence delegation of vacation planning to travel agency?*

2. Theoretical Background

Time perspective was defined by Lewin (1951) as “the totality of the individual’s views of his psychological future and psychological past existing at a given time” (p.75). Zimbardo (1999) was among first scholars to propose the idea that individual can be framed in past with positive or negative valence, present fatalistic or present self-indulgent, and future. The development of certain temporal zone is assumed to be influenced by social and cultural background, or change later in the life due to some external environmental factors like stress, accident, abuse, war and ethnic conflict (Beizer, 1987; Zimbardo and Boyd 1999; Holman and Silver, 2005). Studies with ZTPI were conducted in different countries for adaptation to different languages and in connection to other psychological measures and behavior patterns (Apostolidis and Fieulaine , 2004, D’Alessio *et al.* 2003, Diaz-Morales, 2006; Kairys and Liniauskaite, 2008; Sirkova *et al.*, 2007).

Perception of time was reported to influence many events in individual life like scholarly achievements, risk-taking, sexual behavior and drug abuse (Keough, Zimbardo and Boyd, 1999; Zimbardo and Boyd, 1999). Future perspective received the highest attention among scholars (D’Alessio *et al.* 2003), followed by present perspective, while past orientation was least studied (Boniwell *et al.* 2010, D’Alessio *et al.* 2003).

3. Method

3.1. Sample

A survey was conducted among students of large University. Students participated in a study on a voluntary basis. Students majoring mostly in economics and business have been involved. Students are limited on income, they also might be placed in one or two scales of their personal income, but in case of travelling with their relatives, they can hope for a better vacation than

they could afford themselves. At the same time students have the biggest amount of time available and thus can exhibit various travelling and tourism activities than other groups. Due to limitation of income, they may be better in terms of planning their vacation ahead. The project involving students, also was used to test quality of psychometric measures, specifically shortened version of ZTPI from study by Van Ittersum (2012).

3.2. The Measures

The questionnaire was developed for investigating the relationship between temporal orientations and travelling behavior. The instrument included items from ZTPI developed by Zimbardo (1999). The original ZTPI instrument includes fifty six items for five different types of temporal orientation. Due to time limitations in conducting a survey, short version of ZTPI (Zimbardo 1999) selected by Van Ittersum (2012) was selected. This version has fifteen questions. Van Ittersum reported items having Cronbach's alpha from 0.77 to 0.90 for items across two studies. For investigating the link between temporality and travelling behavior, author included questions about purpose of travelling, traveling frequency and distance for traveling preferred. Questions about touristic behavior, such as destination type, organization of vacation, attitudes to tour package and accommodation preferences were included. Demographical characteristics of respondents enclosed age, gender, marital status, , family size, area and country of residence, gross income, occupation. Pretest of questionnaire for understanding of questions and time required for the completion was undertaken with a sample of thirty students.

Levels of Marketing Strategies: When Strategies and Tactics Coincide

Elmira Bogoviyeva, Ph.D.

Bang College of Business, KIMEP University

Abstract: Strategies and tactics are considered to be main concepts on marketing education. Current article presents author's approach in explanation of types and levels of marketing strategies. The typology is expected to provide better understanding as an outcome an application of concepts to practice.

Introduction

Undergraduate students due to their lack of business experience need a structured and logical presentation of main concepts. This paper presents an approach in explaining marketing strategies and tactics and their hierarchy.

Marketing Strategies and Tactics

Explanation of strategies is one of the main aspects of marketing education. Authors of most introductory and strategic marketing textbooks discuss strategies and tactics. Segmentation, targeting and positioning, and military analogous strategies are traditionally presented as main strategies. Marketing mix program decisions are described as tactical decisions. Author suggests that such approach creates confusion in the minds of students as there are many advertising, media, pricing, promotion, product life cycle and distribution strategies at the level of marketing mix. An alternative presentation of marketing decisions suggests three levels of marketing strategies which are undertaken by companies.

Conclusion

There are various teaching methodologies used for improving learning experience of students. Current article proposed an approach for explaining marketing concepts. This method is based on presenting three different levels of marketing strategies. The uniqueness of author's approach is to explain traditionally considered marketing tactics as strategic decisions of three levels.

Motives for Selecting Major to Study at University

Elmira Bogoviyeva, Ph.D.

Bang College of Business, KIMEP University

Abstract: Choice of profession for adolescents finishing high school is very challenging decisions. Some of freshmen quit study at university during first or second year after comprehending that they were mistaken in their underlying motives for selecting a major. Current paper proposes a study for investigating motives for university and major selection. The results of the study are expected to help admission offices of universities in advising high school graduates on their career choice and development of promotional materials with specific motives accentuated.

Introduction

Children graduating from high school face one of the most challenging decisions in their life – which university and major to pursue. Some of them may want to go and study with their friends, some may be forced to choose a major by parents and others get attracted by future job prospects and salary. This paper proposes a study to be conducted at KIMEP University for exploring main motives in major study selection.

Method

A survey was conducted among participants of Open House Days at KIMEP University. Participants were offered to fill two page questionnaire that included questions about demographics, motives for major selection and family educational background. The instrument also included fifteen questions on the perception of time.

Conclusion

Identification of motives for selection of specific program of study at university is one of the key success elements in developing successful marketing and advertising campaigns targeting appropriate candidates. The results of the study are expected to benefit the development of tailored marketing campaign for University.

University Marketing and Consumer Preferences of University Selection Criteria in Kazakhstan

Daniyar Makhkambayev,
Bang College of Business, KIMEP University, Kazakhstan
Liza Rybina,
Bang College of Business, KIMEP University, Kazakhstan
&
Alexander Ostrovsky,
Bang College of Business, KIMEP University, Kazakhstan
aostrovs@kimep.kz

Abstract: The market for high education services in Kazakhstan has changed dramatically over the last decade with number of school graduates falling from 120 000 in 2007 to 70 000 in 2013, number of universities decreasing from 144 to 129 due to Ministry of Education regulations, and increasing gap between consumer income and tuition fees. Thus, competitive environment has lead universities for more aggressive recruitment campaigns and be more effective in marketing. Intense competition in the higher education sector in Kazakhstan and abroad has forced many universities to become ‘entrepreneurs’ and implement marketing strategies in recruiting students. This paper compares the pre-choice behavior of Kazakhstani students in relation to university selection, specifically focusing on the factors influencing university choice, sources of information used and the influence of other people on their decision. The study uses sequential mixed methods research design with qualitative study acting as a precursor to the development of the instruments for quantitative research. 230 completed surveys were used to examine the factors influencing the university choice. The findings provide insights in understanding how potential students are making decision about education, thus recommendations are given as to build effective recruitment campaign for university.

Keywords: high education, university marketing

The Role of Marketing in the Promotion of National Culture

Nurzhanova Sharipa Syzdykovna
Abai Saduakasov
&
Mukanova G.K
KazNU named after al-Farabi
Almaty, Kazakhstan

This article focuses on the promotion of Kazakh national culture through marketing. With the help of marketing it is necessary to promote Kazakh handicrafts and jewelry to foreign tourists. Our generation lives in a society of information technology. 21st Century-century of science and technology, innovative technology, it is correct that this age is called the age of globalization of information technology.

The globalization of information technology for some of the nation is not completely secure. For example: high civilizations as Maya states of the invasion of the conquistadors Spanish invaders completely disappeared, and the development of the state of the Pharaohs is a clear example of this. Through an aggressive attack on another state its influence deprives native language, religion, national characteristics thereby causes great harm to another country and unwittingly becomes part of the state and is no longer effective as a separate state.

Then come to the aid foundations of marketing, the study which studies the culture and especially the culture of the Kazakh people on the basis of the market. The term "marketing" in economic circles began to be used in the 19th and 20th centuries. The word "marketing" in English the word "market" the word "market" means business activities in the market [1.9]. The purpose of marketing is to attract attention and create interest. This science has appeared in our

lives because of the need for people, because the products were produced in large quantities and it was easy to sell to the consumers. And in our country, this science began to emerge after the collapse of the Soviet Union and the country became independent. When we moved to this stage of market economy we broke all economic relations, the country was forced to move to other relationships as before anything was planned and it was necessary to examine the demand of consumers and the market.

To study the market economy means to study the demand segment, capacity, according to the principle produce the goods, products and services. Each country has its own brand of manufactured goods. For example: Switzerland is famous for its clock accuracy time Japan- their vehicles and computer technology, the Arab countries with its oil. Kazakhstan different national culture, traditions, art and hence the outgoing manufactured goods. Based on historical data of 16-17 g of the Kazakh people since long ago developed its own: architectural construction, blacksmith and jewelry craftsmanship, weaving, shoe business and other national industry began to develop. Kazakh land is very rich for non-ferrous metal periodic table.

Kazakhs, to protect their land from foreign enemies, did not forget to arm the best of his warriors with their own personal weapons and armor to give their enemies "infinite punishment." The people were famous masters, blacksmiths, and they held a certain authority among the population. Skilled blacksmiths, items made of iron in addition to military armor and items of agricultural trade. In connection with the development of trade smiths, jewelers, artisans began to sell their products in the market [2.354]. In the old days there were signs of the basics of marketing in our land. Jewelers Kazakh people of precious metals, gold, silver made earrings,

rings, bracelets and other jewelry for women with the highest subtlety framed with precious stones. These national ornaments have not lost demand among consumers, on the contrary estimated several thousand dollars. In densely populated areas of Kazakhstan There I a lot of wood and from wood made a lot of national things: cart, bed, chest, ladle, spoon, wooden cups (tostagan) and others.

Since long ago the wealth of nomadic people were wool, hides, fur and various valuable animals. From sheep, wool warm clothes, made from animal skins, sewed fur coats, coats, valuable furs from animals prepared hats and coats, from the skins of cattle, stitched boots, boxes, buckets, bridles, whips. Any woman could do Kazakh craft from sheep wool: wool doing all sorts of carpets, rugs, rug, Arch, a thread for all sorts of household items. To decorate your home, hearth people used all their skill and craftsmanship in creating household items - felt mat for, carpets, rugs. They decorated their homes with national ornaments. This is an invaluable contribution to the culture of nomads. In addition, the Kazakh women embroidering, knitting needles with all sorts of figures, reflecting national features of Kazakhs. Turning to some aspects of the national art, wanted to show the benefits of the people. At this time, a number of questions:

- 1) In the current age of information technology, we should promote the national features of Kazakhs in the first duty of his people, then all turk peoples.
- 2) In the age of globalization, avoiding the influence of the West, we must give foreigners the term "Kazakh" and present the history of the Kazakh people and the best aspects and thereby demonstrate our national attributes and offer to buy.

3) Promote national art in the field of view of foreigners, thus promote the image in the international arena the Republic of Kazakhstan (state banners).

4) Support from the government and local government folk art, creativity and arts and crafts.

For the implementation of the aforementioned ideas we must apply the following communication promotion:

1. Advertising;
2. special sales;
3. motivate sales;
4. PR.

Advertising sales promotion means all data. First, we must promote the video and audio commercials. Starting from the airport to the hotel, in all the museums, theaters, supermarkets and stadiums, such as "Medea", "Chimbulak", "Kok-Tobe" and national parks. Second, prepare brochures, billboards, light boxes with elements of national people where many people gather. Third, employees of the theater, airport, museums, and concert halls are to be equipped in the national shade. The following method of marketing is public relations (PR). About the company, about the company to create a good opinion about products company. PR is the way a relationship of trust with the company - a combination of all communication technologies. Marketing companies advertising national art should carry out deliberately, systematically in the media in the Kazakh, Russian and English, the publication of PR-materials, to hold a conference, an exhibition on the national theme. Organize and view historical feature films that reflect national traditions of Kazakhs in foreign languages to publish books about the Kazakhs - thus

reflect the art, the history of the people. Produce brochures, magazines, high technology, and in the workshops of craftsmen to undertake activities and workshops. This work is not done in a single day. Do everything systematically and do not forget a marketing event - held in all embassies and foreign countries. If all of these marketing activities are undertaken on time and well, the national art will evolve. Moreover, that will develop and bring income to the state treasury and is a source of wealth.

References:

- Nysanbaev S.N., Sadykhanova G.A. Marketing :-Almaty: “Kazakh university”, 2002,page 200.
- Su Bihai The Hisotory of Culture of Kazakhs.-Almaty,2001.-p 552.
- Asylov U.,Nuskabauly Zh. Ethics - Almaty: "School" , 2001.- p228.
- Kazakhs custom and culture -Almaty: "Rauan" , 1993.-p 220.

Impact of Individual Characteristics on Global Consumption Orientation of Consumers in Kazakhstan

Liza Rybina,
Bang Collage of Business, KIMEP University, Kazakhstan

Abstract: The purpose of the present study is to examine the impact of individual characteristics on consumer attitudes towards marketplace globalization in Kazakhstan. The Global Consumption Orientation (GCO) scale was used to measure consumer attitudes towards lifestyle, entertainment, furnishings, and clothing. For each domain, respondents indicated individual's preference for consumption alternatives along a global-hybrid-local continuum. A global alternative is one that is not strongly associated with any one country, but is in demand in many countries around the world. A local alternative is one that is traditional to one's own country, and a hybrid alternative represents a mix of global and local alternatives. The relationships between global consumption orientation and individual characteristics, including age, gender, income, ethnic group, experience of travelling and living in foreign countries were examined on a sample of 860 consumers. The findings provide insights into drivers of global consumption orientation. The recommendations help researchers better understand the effects of globalization on consumers in Kazakhstan, and assist practitioners in developing strategies for creating, communicating and delivering value to the segment of globally oriented consumers.

Keywords: Globalization, Global Consumption Orientation

Development of Congress Tourism in Kazakhstan

Bulent Dumlupinar, PhD.
&
Elmira Kerimbayeva
BCB KIMEP Univeristy

Extended Abstract

Congress tourism is one of the fastest developing tourism sectors around the world. This is proved by immense investments in congress infrastructure. In accordance with the statistics of the World Tourism Organization (WTO), the proportion of congress tourism shows 10-12% of the total number of business trips. Based on the research on behalf of the Meetings and Conventions Magazine 2003, congress tourism is formed 16 billion dollars engaging 12.5 million participants (Silerova, 2013). In fact, 11,685 steady occurring association meetings which alternate between at least three countries were identified by ICCA members in 2013. According to “A modern history of international association meetings 1963-2012” report, published in September 2013, regularly-occurring and internationally turning round meetings have been increasing since 1960 by 100 percent every 10 years (ICCA statistics report 2013). In accordance with the World Tourism Organization, tourists with high income will go to Asia-Pacific region for exotic, golf tourism and congress tourism. The preference of tourists with high income will not be Europe. (Seylov, 2011) In Kazakhstan it also can be further developed with a strong support of government. Congress tourism creates higher revenues comparing to other tourism activities. This paper outlines current situation and analyzes the ways of further development of congress tourism in Kazakhstan. It will be identified whether the developed congress tourism will attract tourists for business purposes to Kazakhstan, also which steps can be accomplished in order to further develop the congress tourism in Kazakhstan.

Congress tourism is considered as one of the most vulnerable industries all over the world. The development of congress tourism has high contribution to local economies. Nevertheless congress tourism can be affected by economic crisis, terrorism, political crisis between countries, natural disasters such as earthquake which is common for Almaty city. Moreover, it can be affected by wars in neighboring countries which occurs now. Kazakhstan has a huge potential to overcome such obstacles as infrastructure, traffic, the lack of knowledgeable workforce, authority, bureaucracy with the help of Kazakhstan government. Quality factors are also important while increasing the number of congress participants. In order to be new and interesting congress destination, Kazakhstan should have positive image. If all needed steps for further development of congress tourism will be taken, threats will be reclassified as opportunities, meanwhile weaknesses will be considered as strengths. Much more attention should be provided to congress tourism by Government, thus it can create higher revenues for the economy of the Kazakhstan.

References:

1. ICCA statistics report
2. Seylov,G (2012) *Congress tourism: An application of Destination Benchmarking to Strategy Development*.6th World Conference for Graduate Research in Tourism, Hospitality and Leisure. Turkey. pp.1320-1327
3. Maneva, S and Silerova, E and Hřebejková, J (2013)*The Importance of Congress Tourism for Regional Development* AGRIS on-line Papers in Economics and Informatics>Volume 5, Number 3, September 2013 Retrieved from <http://purl.umh.edu/157587>

Is There a Partnership Between Profit and Non-profit Organizations in Kazakhstan?

Bakhytnur Otarbayeva, Ph.D,

ALMA University

This paper attempts to find answers to the several critical questions as they relate to Kazakhstan today: 1) is business in Kazakhstan socially oriented? 2) Does business and NGO partnership relations take place in Kazakhstan? 3) Is CSR only an effective PR opportunity to companies to promote their enterprise in the market? 4) What NGO is looking for in partner relationship with business? 6) What is purpose of business and NGO partnership?

Government of Kazakhstan pays much attention to issues of social partnership and CSR. In December 1994, the President of the Republic Kazakhstan signed a decree on the establishment of the republican tripartite commission on social partnership between the state authorities, associations of employers, and trade unions in the field of socio-economic and labor relations. In 2000, the Law of the Republic of Kazakhstan "On Social Partnership in the Republic of Kazakhstan was adopted. In 2008, at the Republican Business Forum on Social Responsibility president called for the promotion of the principles of the UN Global Compact in the field of social and labor relations. The government established the annual "Paryz" CSR competition to intensify business involvement in addressing the most pressing social problems.

Among the factors favoring the development of CSR in Kazakhstan, we can underline the followings:

- Developed business environment, the availability of competitive corporate structures with the necessary resources for social investment;

- Involvement of the country's economy in the process of globalization, which is under the influence of the institutionalization of CSR for the standards of the international practice;
- Presence of a certain legal framework regulating the obligation of business structures to stakeholders.

Moreover, today many companies understand that sustainable business development is impossible without the sustainable development of society, where it operates. Companies involvement in solving of social problems has diversified practice, including corporate-NGO partnership.

Key Words: CSR, business, NGO, civil society, state, Kazakhstan, partnership

Basic Human Values of Students at KIMEP University, Kazakhstan

Carolyn Erdener, Ph. D.
 Bang College of Business, KIMEP University
 &
 Vladimir Garkavenko, Ph. D.
 Bang College of Business, KIMEP University

Abstract: Basic universal human values are explored in a statistical analysis of data from approximately 60 undergraduate students at KIMEP University located in Almaty, Kazakhstan. The sample includes students from other parts of Central Asia as well as other countries including Europe and the US. In terms of socio-economic background they represent a cross section of society. Data collected in Spring and Fall 2014 at KIMEP University are analyzed by age, gender, ethno cultural affiliation, and location of residence. The survey questionnaire is designed around ten basic values identified by Schwartz (1987, 1990):

achievement—“*personal success through demonstrating competence according to social standards*”;

benevolence (“*preserving and enhancing the welfare of those with whom one is in frequent personal contact*”);

conformity (“*restraint of actions, inclinations and impulses likely to upset or harm others and violate social expectations or norms*”);

hedonism (“*pleasure and sensuous gratification for oneself*”);

power (“*social status and prestige, control or dominance over people and resources*”);

security (“*safety, harmony and stability of society, of relationships, and of self*”); self-

direction (“*independent thought and action; choosing, creating, exploring*”);

stimulation (“*excitement, novelty, and challenge in life*”);

tradition (“*respect, commitment acceptance of the customs and ideas that traditional culture or religion provide the self*”);

universalism. (“*understanding, appreciation, tolerance and protection for the welfare of all people and for nature*”).

References:

Schwartz, S.H. & Bilsky, Wolfgang (1987) Toward a Universal Psychological Structure of Human Values, *Journal of Personality and Social Psychology*, vol. 53.3.

Schwartz, S.H. & Bilsky, Wolfgang (1990) Toward a Theory of the Universal Content and Structure of Values: Extensions and Cross-Cultural Replications”, **Journal of Personality and Social Psychology** , vol. 58.5 .

An Updated View of Cultural Frictions and Transaction Costs

Carolyn Erdener, Ph. D.
Bang College of Business, KIMEP University

This paper presents an updated perspective on the role of cultural differences in creating frictions and synergies for business across national and regional borders. The theoretical basis for the analysis is transaction cost economics, linking the stresses and strains that are sometimes generated by differences in cultural dimensions to the theoretical constructs of opportunism, information impactedness and asset specificity put forth by Oliver Williamson in his classic work on transaction costs (Williamson, 1975). This is the centerpiece of his total intellectual output (e.g. Williamson, 1975, 1979, 1985, 1996), for which he was a co-recipient of the Nobel Prize in Economics in 2009.

The paper presents an overview of relevant published research and demonstrates how the logic of organizational governance based on transaction costs applies to current issues in international management. Especially appropriate areas for future research in this area include innovation strategy (Erdener, 1990), international staffing (Erdener and Torbiörn, 1999), and supply chain management (Williamson, 2008).

References:

Erdener, C. (1990) *A Transaction Cost Analysis of the Relationship between Strategy, Structure and Innovation*, Indiana University PhD thesis in Strategic Management.

Erdener, C. and Torbiörn, I. (1999) A transaction costs perspective on international staffing patterns: implications for firm performance, *Management International Review*, Supplementary Special Issue 3/99, v. 39: 89-106.

Williamson, Oliver E. (1975) *Markets and Hierarchies: Analysis and Antitrust Implications*,
The Free Press, New York, NY.

----- (1985) *The Economic Institutions of Capitalism: Firms, Markets, Relational Contracting*, The Free Press, New York, 1985

----- (1996) *The Mechanisms of Governance*, Oxford University Press, Oxford, UK.

----- (1979) Transaction Cost Economics: The Governance of Contractual Relations,
Journal of Law and Economics, v. 22: 233-261.

----- (1991) Comparative Economic Organization: The Analysis of Discrete Structural Alternatives,” *Administrative Science Quarterly*, June, v. 36: 269-296.

----- (2008) Outsourcing: Transaction cost economics and supply chain management,
Journal of Supply Chain Management, v. 44/2: 5-16.

What Job Will Bring Satisfaction for Young People in Developed Economy with Individualistic Culture and in Developing Economy with Collectivistic Culture? An Exploratory Comparative Analysis

Yuliya Frolova, DBA
BCB, KIMEP University, Kazakhstan

Abstract: The objectives of this paper are (1) to understand what elements will mostly contribute to future job satisfaction of young people studying at a business college in a country with developed economy and individualistic culture and (2) to compare them to those elements that will mostly contribute to future job satisfaction of young people studying at a business college in a country with developing economy and collectivistic culture. Young people were asked to rate the importance of 21 elements for their future job satisfaction. The results of the comparative analysis indicate that young people in Kazakhstan – a country with developing economy and collectivistic culture – are more demanding in terms of their requirements for a satisfying job than young people in the USA – a country with developed economy and individualistic culture in terms of not only extrinsic elements (as previous research studies conducted by other scholars propose), but also in terms of intrinsic elements. The results of this research can be interesting to potential employers (mainly international companies seeking to enhance their global competitiveness through diversified workforce) who need to know what elements will mostly contribute to job satisfaction of those who will start working for them soon in different parts of the world, and thus developing of which elements in which regions they need to emphasize.

Key words: Job satisfaction, youth, Kazakhstan, USA

1. Introduction

Job satisfaction is “a pleasurable or positive emotional state resulting from the appraisal of one’s job and job experiences” (Locke, 1978, p. 1304). It is one of the most important job attitudes measured by employers. Only those employees who are satisfied with their jobs are truly productive (see for example de Menezes, 2012; Hsu and Wang, 2008; Mangione and Quinn, 1975). They are also less likely to quit their organizations (Lo and Ramayah, 2011; Raddaha *et al*, 2012; see also Akerlof *et al*, 1988; McEvoy and Cascio, 1985; Weiss, 1984; Freeman, 1978), be absent (see for example de Menezes, 2012; Hausknecht *et al*, 2008; Clegg, 1983), unionize and still (Robbins and Judge, 2011). Job satisfaction leads to high job performance (Judge *et al*, 2001; Ostroff, 1992; Ryan *et al*, 1996; Harter *et al*, 2002; see also Boxall and Purcell, 2003; Wright *et al*, 2003; Becker and Huselid, 1998; Pfeffer, 1994). Satisfied employees who work directly with customers increase customer satisfaction and loyalty (Gounaris and Boukis, 2013; Pantouvakis and Bouranta, 2013). Employees who are satisfied with their jobs are more committed to their organizations (de Menezes, 2012; Crow *et al*, 2012; Anari, 2012) and retire later (Kautonen *et al*, 2012).

The best way of determining whether an employee is satisfied with their job or not is to ask a single direct question. In this case, however, it will not be clear what elements contributed to job satisfaction or dissatisfaction. A manager will not know what elements that could theoretically contribute to job satisfaction should be emphasized or what has to be changed. Therefore, researchers, scholars, and practitioners working in the field of management ask not one but several questions aimed to determine elements that mostly contribute to job satisfaction in a

particular cultural environment. Culture plays an important role in employee job satisfaction (Eskildsen, 2010; see also Spector, 2008; Huang and Van de Vliert, 2004; Diener *et al*, 2003; Vecernik, 2003; Kirkman and Shapiro, 2001). For instance, according to Abdulla (2011), employees in western individualistic cultures with developed economies have higher job satisfaction from intrinsic job elements related to the nature of work itself; while in eastern collectivistic cultures with developing economies, both intrinsic and extrinsic elements can be a source of job satisfaction.

The purpose of this research paper is two-fold. The first is to understand what elements will mostly contribute to future job satisfaction of young people studying at a business college in a country with developed economy and individualistic culture. The second is to compare them to those elements that will mostly contribute to future job satisfaction of young people studying at a business college in a country with developing economy and collectivistic culture. In today's global environment – where companies are not limited by state borders of any particular country, where many businesses are looking for growth opportunities outside of their countries, where more and more businesses depend on exports as significant part of their revenues – chances are good that young people will join international companies or work abroad after the graduation (Thill and Bovee, 2013). Therefore, the results of this research can be interesting to potential employers who might want to learn what elements will mostly contribute to job satisfaction of those who will start working for them soon, and thus developing of which elements they need to emphasize (Frolova, 2014).

The comparison is done by taking the USA as an example of a country with developed economy and individualistic culture and Kazakhstan – as an example of a country with developing economy and collectivistic culture. Thus, this research paper is built upon and serves as a continuation of the research paper published in Eurasian Journal of Business and Management (Frolova, 2014). In that paper, the analysis of elements contributing to future job satisfaction of young people studying at a business college in Kazakhstan was provided. The analysis was very detailed and involved 154 respondents. Data was collected, sorted, and analyzed by gender and major.

2. Methodology

Data collection process for this research paper was conducted at a business college in the USA. Forty two students (like previously their counterparts in Kazakhstan for EJBM research paper) were asked to complete a questionnaire on anonymous basis during class time. The questionnaire served as part of an exercise aimed toward better understanding of the concept of job satisfaction. The questionnaire used for data collection was taken from *Organizational Behavior* (Robbins and Judge, 2011). It was based on study conducted by Society for Human Resource Management in 2005. The questionnaire contained 21 elements contributing to job satisfaction. Young people were asked to rate the importance of each element for their job satisfaction in future using the following Likert-type scale: 5 = very important, 4 = important, 3 = moderately important, 2 = of little importance, 1 = not important.

3. Findings and Discussion

The detailed analysis of the results collected in Kazakhstan was originally published in Eurasian Journal of Business and Management (Frolova, 2014). In this paper, only summary tables (which

did not appear in EJBM) are provided for comparative purposes. The analysis of the results collected in the USA are presented and published here (at KIMEP International Research Conference 2015) for the first time.

Table 1: Percentage of young people from Kazakhstani sample who marked the elements from the questionnaire as “very important” for their future job satisfaction (presented in descending order):

1. Career advancement opportunities – 90% (m=4.88, SD=0.36)
2. Career development opportunities – 82% (m=4.81, SD=0.41)
3. Meaningfulness of job – 58% (m=4.49, SD=0.68)
4. The work itself – 56% (m=4.43, SD=0.75)
5. Compensation/pay – 55% (m=4.50, SD=0.61)
6. Opportunities to use skills/abilities – 52% (m=4.37, SD=0.76)
7. Management recognition of employee job performance – 49% (m=4.44, SD=0.60)
8. Job security – 49% (m=4.39, SD=0.69)
9. Feeling safe in the work environment – 49% (m=4.36, SD=0.73)
10. Communication between employees and management – 47% (m=4.38, SD=0.68)
11. Flexibility to balance life and work issues – 47% (m=4.34, SD=0.71)
12. Contribution of work to organization’s business goals – 41% (m=4.33, SD=0.68)
13. Relationship with immediate supervisor – 38% (m=4.29, SD=0.64)
14. Benefits – 34% (m=4.21, SD=0.67)
15. The variety of work – 34% (m=4.08, SD=0.89)
16. Organization’s commitment to professional development – 32% (m=4.21, SD=0.64)

- 17. Relationship with coworkers – 31% (m=4.14, SD=0.74)
- 18. Job-specific training – 31% (m=4.13, SD=0.72)
- 19. Networking – 31% (m=4.10, SD=0.74)
- 20. Overall corporate culture – 24% (m=4.07, SD=0.66)
- 21. Autonomy and independence – 22% (m=4.01, SD=0.72)

Table 2: Percentage of young people from U.S. sample who marked the elements from the questionnaire as “very important” for their future job satisfaction (presented in descending order):

- 1. Career advancement opportunities – 57% (m=4.50, SD=0.63)
- 2. Career development opportunities – 55% (m=4.45, SD=0.67)
- 3. Flexibility to balance life and work issues – 50% (m=4.21, SD=1.00)
- 4. Job security – 43% (4.29, SD=0.81)
- 5. Communication between employees and management – 40% (m=4.29, SD=0.67)
- 6. Compensation/pay – 40% (m=4.26, SD=0.73)
- 7. The work itself – 38% (m=4.14, SD=0.87)
- 8. Feeling safe in the work environment – 36% (m=4.07, SD=0.89)
- 9. Benefits – 31% (m=4.12, SD=0.77)
- 10. Relationship with coworkers – 29% (m=3.93, SD=0.89)
- 11. Relationship with immediate supervisor – 26% (m=4.07, SD=0.71)
- 12. Autonomy and independence – 26% (m=4.02, SD=0.78)
- 13. Opportunities to use skills/abilities – 24% (m=4.00, SD=0.73)
- 14. Organization’s commitment to professional development – 24% (m=3.95, SD=0.73)

15. Management recognition of employee job performance – 24% (m=3.81, SD=0.89)
16. Meaningfulness of job – 21% (m=3.90, SD=0.88)
17. Overall corporate culture – 21% (m=3.86, SD=0.84)
18. The variety of work – 21% (m=3.79, SD=0.87)
19. Contribution of work to organization's business goals – 21% (m=3.76, SD=0.93)
20. Job-specific training – 19% (m=3.83, SD=0.93)
21. Networking – 17% (m=3.48, SD=1.04)

Table 3: Percentage of young people from Kazakhstani sample who marked the elements from the questionnaire as “of little importance” or “not important” for their future job satisfaction:

1. The variety of work – 5%
2. Autonomy and independence – 3%
3. Feeling safe in the work environment – 3%
4. Communication between employees and management – 2%
5. Job security – 2%
6. Job-specific training – 2%
7. Meaningfulness of job – 2%
8. Networking – 2%
9. Opportunities to use skills/abilities – 2%
10. Relationship with co-workers – 2%
11. The work itself – 2%
12. Benefits – 1%
13. Compensation/pay – 1%

14. Contribution of work to organization's business goals – 1%
15. Flexibility to balance life and work issues – 1%
16. Management recognition of employee job performance – 1%
17. Organization's commitment to professional development – 1%
18. Overall corporate culture – 1%
19. Relationship with immediate supervisor – 1%

Table 4: Percentage of young people from U.S. sample who marked the elements from the questionnaire as “of little importance” or “not important” for their future job satisfaction:

1. Networking – 19%
2. Contribution of work to organization's business goals – 7%
3. Feeling safe in the work environment – 7%
4. Flexibility to balance life and work issues – 7%
5. Job-specific training – 7%
6. Management recognition of employee job performance – 7%
7. Meaningfulness of job – 7%
8. Overall corporate culture – 7%
9. Relationship with coworkers – 7%
10. The variety of work – 7%
11. Autonomy and independence – 5%
12. Benefits – 5%
13. Compensation/pay – 2%
14. Job security – 2%

15. Opportunities to use skills/abilities – 2%
16. Relationship with immediate supervisor – 2%
17. The work itself – 2%

Further research analysis reveals that:

- “Career advancement opportunities” and “career development opportunities” are the most important elements contributing to job satisfaction of young people in Kazakhstan and the USA. These elements were marked as “very important” for job satisfaction by the highest percentage of respondents in both countries (“Career advancement opportunities” were marked as “very important” by 90% of respondents in Kazakhstan and 57% in the USA. “Career development opportunities” were marked as “very important” by 82% of respondents in Kazakhstan and 55% in the USA.)
- The majority (50%) of young respondents in the USA also marked “flexibility to balance life and work issues” as “very important” for their future job satisfaction. The majority of young people in Kazakhstan – who took part in the survey – did not, however, mark this element as “very important”. Instead, they marked four other items as “very important” – i.e. “meaningfulness of job (58%), “the work itself” (56%), “compensation/pay” (55%), and “opportunities to use skills/abilities” (52%).
- Young people in Kazakhstan are more demanding in terms of their desirable requirements for a satisfying job than their counterparts in the USA. Only one element was marked by more than 5% of respondents in Kazakhstan as being “of little importance” or “not important” – that is “the variety of work”. In comparison, there were twelve elements marked as being “of little importance” or “not important” by more than

5% of respondents in the USA. They are “autonomy and independence” – 5%; “the variety of work”, “relationship with coworkers”, “overall corporate culture”, “meaningfulness of job”, “management recognition of employee job performance”, “job-specific training”, “flexibility to balance life and work issues”, “feeling safe in the work environment”, “contribution of work to organization’s business goals” – 7%; and “networking” – 19%.

4. Conclusion

The results of this exploratory research that compared elements contributing to job satisfaction of young people in Kazakhstan and in the USA partially confirmed the results of previous studies conducted by other scholars. For instance, according to Abdulla (2011), in developed individualistic cultures, job satisfaction is mainly derived from intrinsic elements alone; while in developing collectivistic cultures, both intrinsic and extrinsic factors can be a source of job satisfaction (see also Diener *et al*, 2005; Huang and Van de Vliert, 2004; Hui and Yee, 1999; Adigun and Stephenson, 1992). Extrinsic job satisfaction is derived from the rewards given to an individual by the organization, peers, or superiors that can include compensation and job security; while intrinsic satisfaction refers to actually performing the work and experiencing feelings of accomplishment and self-actualization (Noordin and Jusoff, 2010). The results of the current research revealed that young people in Kazakhstan – a country with developing economy and collectivistic culture – are indeed more demanding than young people in the USA – a country with developed economy and individualistic culture – in terms of their requirements for a satisfying job.

55% percent of young people in Kazakhstan (compared to only 40% of young people in the USA) marked “compensation/pay” as “very important”. “Job security” is also more important for young people in Kazakhstan (49% marked it as “very important”) than for young people in the USA (43% marked it as “very important”). This implies that extrinsic elements are more important for young people in Kazakhstan for their future job satisfaction than for young people in the USA. Moreover, the conclusion is consistent with the results of previous studies.

The results of the current research also revealed that intrinsic elements contributing to job satisfaction are more important for young people in Kazakhstan than for their counterparts in the USA. For instance, the following intrinsic elements referring to actually performing the work were marked as “very important”: “meaningfulness of job” – 58% of respondents in Kazakhstan and 21% in the USA; “the work itself” – 56% in Kazakhstan and 38% in the USA; “opportunities to use skills/abilities” – 52% in Kazakhstan and 24% in the USA; “the variety of work” – 34% in Kazakhstan and 21% in the USA. And the following intrinsic elements referring to the feeling of accomplishment were marked as “very important”: “management recognition of employee job performance” – 49% in Kazakhstan and 24% in the USA; “contribution of work to organization’s business goals” – 41% in Kazakhstan and 21% in the USA.

The results of previous studies conducted by other scholars, however, does not show that intrinsic elements are more important for representatives of countries with developing economies or collectivistic cultures than for representatives of developed economies or individualistic cultures. This implies that scholars should continue to study the topic of job satisfaction in the context of Kazakhstan in order to understand what elements should be emphasized or changed when employing Kazakhstanis.

5. References

1. Abdulla, J., Djebarni, R., and Mellahi, K. (2011), "Determinants of Job Satisfaction in the UAE", *Personnel Review*, 40 (1): 126 – 146.
2. Adigun, I.O. and Stephenson, G.M. (1992), "Sources of Job Motivation and Satisfaction among British and Nigerian Employees", *Journal of Social Psychology*, 132: 369-76.
3. Akerlof, G.A., Rose, A.K. and Yellen, J.L. (1988), "Job Switching and Job Satisfaction in the US Labor Market", *Brookings Papers on Economic Activity*, 2: 495-582.
4. Anari, N.N. (2012), "Teachers: Emotional Intelligence, Job Satisfaction, and Organizational Commitment", *Journal of Workplace Learning*, 24 (4): 256 – 269.
5. Becker, B.E. and Huselid, M.A. (1998), "High Performance Work Systems and Firm Performance: A Synthesis of Research and Managerial Implications", in Ferris, G.R. (Ed.), *Research in Personnel and Human Resources*, Vol. 16, JAI Press, Stamford, CT: 53-101.
6. Boxall, P. and Purcell, J. (2003), *Strategy and Human Resource Management*, Palgrave Macmillan, Basingstoke.
7. Clegg, C.W. (1983), "Psychology of Employee Lateness, Absence and Turnover: A Methodological Critique and an Empirical Study", *Journal of Applied Psychology*, 68: 88-101.
8. Crow, M.S., Lee, C.B., and Joo, J.J. (2012), "Organizational Justice and Organizational Commitment among South Korean Police Officers", *Policing: An International Journal of Police Strategies & Management*, 35 (2): 402 – 423.

9. Diener, E., Oishi, S. and Lucas, R.E. (2003), "Personality, Culture, and Subjective Well-Being: Emotional and Cognitive Evaluations of Life", *Annual Review of Psychology*, 54: 403-425.
10. Diener, E., Diener, M. and Diener, C. (1995), "Factors Predicting the Subjective Well-Being of Nations", *Journal of Personality and Social Psychology*, 69: 851-64.
11. Eskildsen, J., Kristensen, K., and Antvor, H.G., (2010), "The Relationship between Job Satisfaction and National Culture", *The TQM Journal*, 22 (4): 369 – 378.
12. Freeman, R.B. (1978), "Job Satisfaction as an Economic Variable", *The American Economic Review*, 68 (2): 135-41.
13. Frolova, Y. (2014), "What Job Will Bring Satisfaction? An Analysis Based on Responses of Students Studying Business in Kazakhstan", *Eurasian Journal of Business and Management*, 2(2): 25-49.
14. Gounaris, S. and Boukis, A. (2013), "The Role of Employee Job Satisfaction in Strengthening Customer Repurchase Intentions", *Journal of Services Marketing*, 27 (4): 322 – 333.
15. Judge, T.A., Thoresen, C.J., Bono, J.E., and Patton, G.K. (2001), "The Job Satisfaction – Job Performance Relationship: A Qualitative and Quantitative Review", *Psychological Bulletin*, 127 (3): 376-407.
16. Harter, J.K., Schmidt, F.L., and Hayes, T.L. (2002), "Business-Unit Level Relationship between Employee Satisfaction, Employee Engagement, and Business Outcomes: A Meta-Analysis", *Journal of Applied Psychology*, 87 (2): 268-279.

17. Hausknecht, J.P., Hiller, N.J., and Vance, R.J. (2008), "Work-Unit Absenteeism: Effects of Satisfaction, Commitment, Labor Market Conditions, and Time", *Academy of Management Journal*, 51 (6): 1123-1245.
18. Hsu, S. and Wang, Y. (2008), "The Development and Empirical Validation of the Employee Satisfaction Index Model", *Total Quality Management*, 19 (4): 353-366.
19. Huang, X. and Van de Vliert, E. (2004), "Job Level and National Culture as Joint Roots of Job Satisfaction", *Applied Psychology*, 53: 329-48.
20. Hui, C.H. and Yee, C. (1999), "The Impact of Psychological Collectivism and Workgroup Atmosphere on Chinese Employees' Job Satisfaction", *Applied Psychology*, 48: 175-85.
21. Kautonen, T., Hytti, U., Bögenhold, D., and Heinonen, J. (2012), "Job Satisfaction and Retirement Age Intentions in Finland", *International Journal of Manpower*, 33 (4): 424 – 440.
22. Kirkman, B. and Shapiro, D.L. (2001), "The Impact of Cultural Values on Job Satisfaction and Organizational Commitment in Self-Managing Work Teams: the Mediating Role of Employee Resistance", *Academy of Management Journal*, 44: 557-69.
23. Lo, M.C. and Ramayah, T. (2011), "Mentoring and Job Satisfaction in Malaysian SMEs", *Journal of Management Development*, 30 (4): 427 – 440.
24. Locke, E.A. (1976), "The Nature and Causes of Job Satisfaction", in Dunnette, M.D. (Ed.), *Handbook of Industrial and Organizational Psychology*, Rand McNally, Chicago, IL: 1297-1349.
25. Mangione, T.W. and Quinn, R.P. (1975), "Job Satisfaction Counter-Productive Behavior and Drug Use at Work", *Journal of Applied Psychology*, 60: 114-116.

26. McEvoy, G.M. and Cascio, W.F. (1985), "Strategies for Reducing Employee Turnover: a Meta-Analysis", *Journal of Applied Psychology*, 70: 342-353.
27. de Menezes, L.M. (2012), "Job Satisfaction and Quality Management: an Empirical Analysis", *International Journal of Operations & Production Management*, 32 (3): 308 – 328.
28. Noordin, F. and Jusoff, K. (2010), "Individualism-Collectivism and Job Satisfaction between Malaysia and Australia", *International Journal of Educational Management*, 24 (2): 159 – 174.
29. Ostroff, C. (1992), "The Relationship between Satisfaction, Attitudes, and Performance: an Organizational Level Analysis", *Journal of Applied Psychology*: 963-974.
30. Pantouvakis, A. and Bouranta, N. (2013), "The Interrelationship between Service Features, Job Satisfaction and Customer Satisfaction", *The TQM Journal*, 25 (2): 186 – 201.
31. Pfeffer, J. (1994), *Competitive Advantage through People: Unleashing the Power of the Workforce*, Harvard Business School Press, Boston, MA.
32. Raddaha, A. H. A, Alasad, J., Albikawi, Z.F., Batarseh, K.S., Realat, E.A., Saleh, A.A., and Froelicher, E.S. (2012), "Jordanian Nurses' Job Satisfaction and Intention to Quit", *Leadership in Health Services*, 25 (3): 216 – 231.
33. Ryan, A.M., Schmit, M.J., and Johnson, R. (1996), *Attitudes and Effectiveness: Examining Relations at an Organizational Level*", *Personnel Psychology*: 853-882.
34. Robbins, S.P. and Judge, T.A. (2011), "Organizational Behavior", Pearson, England: 105 – 131.

35. Society for Human Resource Management (2005) "Job Satisfaction Survey Report", Alexandria, VA.
36. Spector, P. (2008), *Industrial and Organizational Psychology: Research and Practice*, 5th ed., John Wiley & Sons, New York, NY.
37. Thill, J.V. and Bovee, C.L. (2013), "Excellence in Business Communication", Pearson, England: 106 – 132.
38. Vecernik, J. (2003), "Skating on Thin Ice: A Comparison of Work Values and Job Satisfaction in CEE and EU Countries", *International Journal of Comparative Sociology*, 44: 444-471.
39. Weiss, A. (1984), "Determinants of Quit Behavior", *Journal of Labor Economics*, 2 (3): 371-87.
40. Wright, P.M., Gardner, T.M. and Moynihan, L.M. (2003), "The Impact of HR Practices on the Performance of Business Units", *Human Resource Management Journal*, 13: 21-36

Corporate Governance in Kazakhstan: Current Scenario and Future Challenges

Monowar Mahmood, Ph. D.
&
Nurlan Orazalin, MA, CIMA
Bang College of Business
KIMEP University

Abstract: Corporate governance (CG) practices in Kazakhstan are still in an infant level. Transition from a socialist command economy to a capitalist free market economy, lack of acceptance standards, limited enforcement capability, distorted or inaccurate stock markets information, lack of qualified CG professionals, etc. could be as reasons for such governance condition. However, the country needs to improve CG practices to ensure corporate transparency and accountability as well as to attract foreign direct investment. Considering the above factors, this paper aims to assess the current scenario of CG practices and evaluate their effectiveness to ensure transparency and accountability of the corporate sector of Kazakhstan.

A qualitative method is used in the study. Data and information were collected mainly from the secondary sources, such as government reports, published reports of the local and international organizations, news paper reports, and as well as websites of government and non-governmental organizations.

Based on our critical analysis, we proposed a few recommendations to improve the corporate governance practices in Kazakhstan.

1. Rather than following one code of CG practice, the government of Kazakhstan should develop different code of practices tailored to meet need of different sectors and industries.
2. The government of Kazakhstan still focuses more on compliance based governance practice. It may be effective during this transition time of the economy.
3. The government could make it mandatory to prepare and publish a corporate governance report on a yearly basis. It should disclose and explain all the issues related to good governance practices and should follow some specific templates as prescribed by the government or law enforcing agency.
4. There should some provision of rewards and punishments of compliance and non-compliance with the CG code and principles and other stipulated legal measures. Such measures could be financial penalty or charge on the top managerial executives personally, delisting the company from the KASE, close observation on the management for a given period to improve or implement certain practices, and reducing financial flexibility of the company.

Key words: Code of corporate governance; transition economy; Kazakhstan.